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Department of the Navy Budget Guidance Manual

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1 April 1999

Introduction

The Department of the Navy (DON) Budget Guidance Manual is the authoritative source of information with respect to budget formulation and presentation of the DON budget. The primary purpose of the manual is to provide detailed guidance to budget submitting organizations for the preparation and submission of budget estimates and preparation of requests for reconsideration in response to budget adjustments made by higher authority. Additionally, the manual contains general information about the Federal budget process, the Department of Defense (DOD) Planning, Programming, and Budgeting System (PPBS), and budgeting within the DON. This information is intended to convey an understanding of how the process works so that those involved in budgeting can better perform their functions.

The manual is organized to permit ready access to guidance and procedures associated with specific budget calendar events. The Table of Contents provided at the beginning of the manual is designed to facilitate easy and quick reference to desired information. The manual is arranged into four parts plus appendices. Part I provides general information including an overview of the process, organizational responsibilities, detailed description of how the budget process works for the DON, Office of the Secretary of Defense (OSD)/Office of Management and Budget (OMB) and the President's Budget submissions, and general guidance applicable to all submissions such as issuance of controls, pricing, and general budget exhibit preparation and submission requirements.

Parts II, III and IV of the manual outline budget preparation guidance associated with the DON, OSD/OMB and the President's Budget submissions, respectively. Each Part also contains submission requirements tables and specific guidance for the preparation of budget estimates for each appropriation, the Navy Working Capital Fund (NWCF), trust and special funds, civilian personnel and special interest areas. These tables are cross-referenced to the DOD 7000.14-R, Financial Management Regulation, Volume 2A and Volume 2B of July 1998, or this manual's appendices, as applicable, to permit rapid access to exhibit preparation instructions and formats. Guidance on supplemental and amended appropriation requests and procedures for appealing Congressional actions is also contained in Part IV. The appendices to this manual contain formats and instructions for DON unique budget exhibits and guidelines for price estimating.

The DON Budget Guidance Manual replaces NAVCOMPTINST 7102.2C of 1 May 1995; Subj: Guidance for the Preparation, Submission and Review of the Department of the Navy (DON) Budget Estimates (DON Budget Guidance Manual) and contains

guidance promulgated by DOD 7000.14-R, Financial Management Regulation, Volume 2A and Volume 2B of July 1998.

The standard guidance and procedures contained in this manual will be supplemented by Budget Guidance Memoranda for each budget submission to provide specific submission and review dates and other information which varies from year to year. Formal changes to this manual will be issued by FMB.

This manual is available on the Navy Headquarters Budgeting Systems (NHBS) web site: (HTTP://NAVWEB.SECNAV.NAVY.MIL/NHBS). It is intended primarily for use electronically by Budget Submitting Offices, Appropriation Sponsors and Resource Sponsors. Questions concerning the content of this manual should be referred to the Office of Budget, Budget Systems Branch FMB32 on 703-695-6762 commercial or DSN 225-6762.

/s/ A. T. Church, III
Rear Admiral, U.S. Navy
Director, Office of Budget

PART I

General Guidance and Policies

CHAPTER 1

Overview of the Process

A budget is defined as a document which expresses in financial terms the plan for accomplishing an organization's objectives for a specified period of time. It is an instrument of planning, performance measurement, decision-making, and management control, as well as a statement of priorities. Such a definition is descriptive of the Department of the Navy (DON) budget. Obviously the DON budget is too large and complex to be captured in all its detail in a single document. It is not the budget of a single organization, but rather, the compilation of budgets of many organizations within the Department. The DON budget is a subset of the Department of Defense's (DoD) budget, the President's budget, and the United States Government budget (ultimately enacted by appropriations). Nevertheless, the budget of the DON does express in financial terms the plan for accomplishing objectives identified in DON and DoD strategic planning documents. This chapter describes the budget process in the DON in the context of this definition for appropriated funds. It also describes the Federal budget process and the Defense Planning, Programming, and Budgeting System (PPBS), the two processes within which the DON budget process functions. It concludes with general guidance for all submissions.

1. The Budget Process in the DON.

The budget process consists of four phases. The first is the submission of budget estimates to the Office of Budget (FMB) by budget submitting offices throughout the Department for review and final approval by the Secretary of the Navy. The second phase is the submission of budget estimates by the DON to the Office of the Secretary of Defense and the Office of Management and Budget for review and final approval by the Secretary of Defense and the President. The third phase is the submission of budget estimates by the President to the Congress for its review and approval. The final phase is the enactment of appropriations by the Congress and execution of these appropriations by the DON. A DON budget is developed for the first three phases, but the organizational responsibilities and control vary with each phase. Embodied in every phase, however, is the Department's basic policy that the offices which are responsible for executing budgets participate in developing budget estimates, subject to the guidance and decisions of higher authority.

a. The Budget Submission to the Office of Budget and the Department of the Navy Review

(1) Within the goals and objectives, policy, programmatic, and budgetary guidance provided by higher authority, the budget submission to FMB provides the opportunity for each office to state its objectives and priorities for resources in the context of an executable budget. Procedures have been developed to allow these offices to resolve conflicts between programmatic guidance and the of programs.

(2) The DON budget review is the process of transforming the individual budgets of the various offices within the Department into a balanced Departmental budget. It provides the Secretary of the Navy and senior advisors an opportunity for decision-making and control of the financial resources of the Department.

(3) Chapter 3 of Part I, as well as all of Part II of this manual, contain guidance for the budget submission to FMB.

b. *The Budget Submission to OSD/OMB and Its Review*

(1) Although the budget must conform to the goals and objectives, policy, programmatic, and budgetary guidance of the Secretary of Defense, it is a statement of the DON priorities and contains the financial plan for achieving the Department's objectives. The transmittal of this budget to the Secretary of Defense is the major opportunity the Secretary of the Navy has to present the Departmental budget plan that best fulfills SECNAV priorities for the allocation of resources for the DON.

(2) The joint budget review conducted by the Office of the Secretary of Defense and the Office of Management and Budget transforms the DON budget into part of (first) the Secretary of Defense's budget and (second) the President's budget. This review provides the final control and decision-making opportunities for both the Secretary of Defense and the President prior to submission of the Defense budget to Congress. While the DON participates in this review, it is controlled by the OSD and OMB.

(3) Consistent with the philosophy of decentralization of budgeting in the DON, offices and commands participate in the submission of the budget estimates to OSD/OMB as well as in the decision-making process.

(4) Chapter 4 of Part I, as well as all of Part III of this manual, contain guidance for the budget submission to OSD/OMB.

c. *Submission of the President's Budget and the Congressional Review*

(1) The President's Budget Message which transmits the budget to the Congress is a major policy statement. It provides a statement of national priorities while the accompanying budget documentation sets forth the President's financial plan for achieving those priorities. The DON's budget is part of the DoD portion of the President's budget and must be supported within the policy stated by the President and the Secretary of Defense.

(2) Control of the budget process shifts to the Congress as the legislative branch conducts hearings and marks up the budget. While the President, the DoD, and the DON all participate, the Congressional review is the process by which the legislative branch makes decisions concerning the allocation of resources.

(3) Consistent with the policy of decentralization of budgeting in the DON, offices and commands also participate in the preparation of justification material and justifying the budget before the Congress.

(4) Chapter 5 of Part I, as well as all of Part IV of this manual, contains guidance for the budget submission to the Congress and the Congressional review.

d. The Enactment of Appropriations by the Congress and Execution of the Budget

(1) The final phase in the DON budget process is the enactment of appropriations and the subsequent execution of these appropriations within the Department. The appropriations approved by Congress, which become law, reflect the resource allocation decisions of that body. Through the language of an appropriations act and the supporting committee reports, hearing testimony and floor debate, the Congress provides direction and control for execution of the appropriations.

(2) Appropriations are apportioned to the DON by the Office of Management and Budget and allocated to administering offices for execution. These are the same offices which provided the initial budget estimates to the Office of Budget at the beginning of the budget cycle. While execution of appropriations is primarily the responsibility of administering offices, it is carried out within the legal and administrative limitations of the appropriations act. It is further subject to oversight and control by the Secretary of the Navy, the Secretary of Defense, the Office of Management and Budget, and the Congressional oversight committees. Major changes to programs required during execution must be approved by four Congressional committees: the House and Senate Armed Services Committees and the House and Senate Appropriations Committees. These approvals are accomplished through reprogramming and supplemental budget request procedures. In addition, the entire budget is subject to two reviews subsequent to the enactment of appropriations: once as the current year column of the next year's budget and then as the prior year (or actual year) column of the succeeding year's budget.

e. Summary.

The Department's budget process supports resource allocation decisions made in turn by budget submitting offices, the Secretary of the Navy, the Secretary of Defense, the President, and the Congress. At each phase of the budget cycle, the budget reflects the priorities and the financial plan for achieving the objectives of the decision-maker responsible for that phase. As finally enacted in appropriations, the DON budget serves as a control mechanism to ensure that financial resources are applied to the activities that were approved by the decision-makers in the process. The DON's policy of having budget submitting offices participate in each phase is intended to produce better decisions and to provide those offices with a better understanding of the decisions so that they can better execute the budget.

2. The Federal Budget Process.

This manual describes and provides guidance on the DON budget process, which operates within the Federal budget process. To understand one requires understanding the other.

a. Introduction.

While the DON budget process is generally described in terms of four phases, the Federal process has three major phases: Executive formulation and transmittal, Congressional justification, and budget execution and control. The Constitution gives the Congress the power of enacting appropriations and provides the President the responsibility for executing these appropriations. The Budget and Accounting Act of 1921 legislated the requirement for the President to submit annually a budget to the Congress, with the President and Executive Branch responsible for formulation, transmittal to the Congress, and execution of the budget. The Congress is responsible for approving the budget request by passage of appropriations. While the Department of Defense has been required by law to submit a biennial budget commencing with Fiscal Years 1988/1989, Congress continues to appropriate annually. The net result is that the Department of Defense has annually dealt with the submission of a budget or budget amendment.

b. Executive Formulation and Transmittal.

(1) The formulation phase is an Executive Branch function and encompasses all that occurs prior to submission of the President's budget to Congress. It is in this phase that systems such as PPBS operate. The product of formulation is the President's budget, which is required by law to be transmitted to the Congress on the first Monday in February.

(2) Formulation begins in the Spring, a year and a half before the fiscal year begins. Working with the Executive Branches, OMB identifies program and policy issues and prepares budgetary projections for six years. The Department of the Treasury prepares projections of receipts and OMB, the Treasury, and the Council of Economic Advisors jointly prepare projections of the economic outlook. Following a review of these projections, the President establishes general budget and fiscal policy guidelines. OMB then issues general policy directions and fiscal targets to each agency for submission of detailed budget estimates in September. The DON does not participate in the Spring review; OMB provides guidance and fiscal targets at the DOD level.

(3) In the Fall, OMB conducts detailed reviews of budget requests and makes determinations on these estimates. These reviews are conducted jointly with OSD for the DOD component budget requests. Fiscal policy issues related to total budget receipts and outlays are also re-examined. Final Presidential decisions are then made on both specific programs and fiscal policy issues. Thus, the budget formulation process involves the simultaneous consideration of resource needs of individual programs and the government-wide outlays and receipts that are appropriate in relation to current and prospective economic conditions.

(4) Formulation of budget estimates includes both prior year and current year data as well as projections for the outyears. Actual results from the prior and current year as well as Congressional action on the current year provide important information in the decision-making process for budget years' estimates. The effect of decisions on budget year estimates are also explicitly taken into account in revising outyear estimates.

c. Congressional Action

(1) The Congress controls this phase of the process (sometimes referred to as the justification phase), but the Executive Branch is also intensively involved. The Congress can approve, modify or disapprove the President's budget. It can change funding levels and eliminate or add programs. It can also enact legislation affecting taxes and other sources of receipts. At the same time, the Executive Branch provides testimony and other information supporting the President's budget and the President has the power to veto appropriations.

(2) Prior to recommending appropriations, the Congress first enacts legislation that authorizes an agency to carry out a program and in some cases places a limit on the amount that can be appropriated for the program. Some programs are authorized indefinitely, some for many years, and others (including most defense authorizations) for one year. The authorization process is separate from the budget resolution and subsequent appropriation process discussed in detail below.

(3) Appropriation bills contain budget authority which allows the government to incur financial obligations. This budget authority is only made available as part of **annual** appropriation acts which is why it is called discretionary budget authority. However, in some cases the Congress has established permanent budget authority which becomes available annually with no further action by the Congress. The DON Trust Funds are one example of the use of permanent or mandatory budget authority.

(4) Congressional review of the budget begins after the President transmits the budget request on or before the first Monday in February of each year. Under procedures first set forth in the Congressional Budget and Impoundment Control Act of 1974, the Congress considers government-wide budget totals before completing action on individual appropriations. The Budget Act, which has been amended several times since 1974, requires the Congressional Budget Office to submit a fiscal policy report to the Budget Committees by 15 February and each standing committee to report on budget estimates by 25 February. The Senate Budget Committee reports a concurrent budget resolution on the budget by 1 April (Senate Budget Committee action usually follows passage of a budget resolution by the House). By 15 April, Congress completes action on the budget resolution which will serve as a guide in their subsequent consideration of appropriations and revenue measures. The resolution sets aggregate ceilings for receipts as well as aggregate and functional budget authority and outlays. The budget resolution's assumptions for total discretionary budget authority and outlays must match the ceilings which have been provided in advance through amendments to the Budget Act. Currently, the Budget Enforcement Act of 1997 (Public Law 105-33) contains discretionary ceilings through FY 2002.

(5) Following approval of the budget resolution by the House and Senate, the Budget Committees allocate to the appropriations committees the budget authority and outlays available to them under the discretionary ceilings. The appropriations committees must then officially report their planned subdivision of the totals to appropriation subcommittees. When an appropriation bill is reported by an appropriations committee, it cannot exceed the subcommittee allocations of discretionary budget authority and outlays. Toward the end of the appropriations

process, usually in the Fall, the subdivisions for the appropriation bills are usually adjusted for House/Senate conference agreements. However, the aggregate discretionary amounts must remain within the discretionary ceilings for budget authority and outlays.

(6) Throughout the year, OMB keeps a budget scorecard on the appropriations bills to ensure that discretionary caps are not exceeded. Should the sum of appropriation bills exceed the ceilings, an automatic across-the-board reduction in appropriations occurs through a process called sequestration. Designation of "emergency appropriation" status by the Congress and the President can be used to avoid the sequestration process.

(7) The budget resolution also serves as a guide for legislative changes necessary to produce any desired changes in entitlement programs (spending outside the annual or discretionary appropriations process) or receipts. The Congress usually enacts these legislative changes in an omnibus reconciliation bill. In this case, omnibus means a bill involving programs under the jurisdiction of several committees exclusive of the appropriations committees. The appropriations committees are not subject to reconciliation although reconciliation legislation often contains amendments to the Budget Act which can affect the appropriations process (e.g., creating or changing discretionary ceilings).

(8) After adoption of the budget resolution and subsequent to the passage of authorizing legislation, the House of Representatives takes action on specific appropriations. The House Appropriations Committee, through its subcommittees, reviews in detail the President's budget request. It then reports bills to the full House for action. For DOD programs, the Committee reports two bills, a DOD-wide bill and a military construction/family housing bill. After House passage, the bills are taken up in the Senate where a similar process is followed. After passage by the Senate, a conference committee (consisting of members of both bodies) is established to resolve differences. The conference version of the bill is usually acted upon first by the House and then the Senate. It is then transmitted to the President for approval (at which point it becomes law) or veto. A veto can be overridden by a two-thirds vote of both the House and Senate.

(9) Prior to conference action, DOD provides comments (appeals) on the appropriation and authorization bills concerning differences between the House and Senate bills which go into conference. The DON provides its position on these bills to OSD for incorporation into the DOD appeals.

(10) In the event appropriations are not enacted before the beginning of the fiscal year, the Congress enacts what is commonly referred to as a continuing resolution (technically, another type of appropriation) which permits agencies to continue operating at specified levels for a specified period of time.

(11) The above describes anticipated Congressional action. Variations of this process can and frequently do occur, particularly in terms of the timetable set in law.

d. Budget Execution and Control

(1) The President's budget, as modified by the Congress, becomes the basis for the financial plan for each agency. Most budgetary resources are made available by apportionment from OMB to the Executive Branches. These apportionments are made by time period or by activity to ensure the effective use of available funds and to preclude the need for additional appropriations.

(2) On the one hand, changes in law or other circumstances might necessitate the development of a supplemental budget request to the Congress. On the other hand, reserves may be established by DON, DOD or OMB to provide for contingencies or to effect savings made possible by changes in requirements or greater efficiency in operations. The Impoundment Control Act of 1974 requires that the Executive Branch must report to the Congress any deferrals or proposed rescissions of budget authority.

3. Planning, Programming, and Budgeting in the Department of Defense.

The DON budget process is guided by the DOD Planning, Programming and Budgeting System (PPBS) which is used throughout DOD for formulation of the budget. It is important that those organizations that participate in the DON budget process be aware of the DOD PPBS. This section provides a brief overview of Department of Defense PPBS which was introduced in 1961. The process has been modified by the various Defense Secretaries through the years to reflect their personal management styles and philosophies, but, in substantive terms, it has remained essentially unchanged. As noted previously, the Department of Defense has been required by law to submit a biennial budget commencing with FY 1988/1989. Therefore, in 1987, the PPBS cycle was modified to accommodate a biennial budget. In the theoretical biennial PPBS cycle, the Planning and Programming phases occur over a two-year period, which concentrates the Department's efforts on planning the first year and programming the second year. The Budgeting phase at the end of the cycle encompasses the simultaneous development of estimates for two succeeding budget years. In the "off year" of the biennial cycle, there should be an apportionment review of the upcoming fiscal year which will be executed, with only minimal changes to the second budget year considered for incorporation into the President's annual Federal budget request. Although the concept of a biennial cycle was to permit a more deliberate review of Defense requirements every other year, in reality the Congress has been unwilling to appropriate more than one fiscal year. Since the Congress will not appropriate funds for the second year, new financial considerations derived from the annual Federal budget process frequently affect the DOD budget. Therefore, some form of second year budget revision has had to occur. Consequently, major changes have been required to the second year of the biennial budget, including significant programmatic revisions. It is anticipated that some form of Programming and Budgeting will continue to occur on an annual basis until such time as the Executive Branch and the Congress agree to preparation and consideration of a biennial budget for the entire Federal government. The remainder of this Part describes the budget review which occurs as part of the biennial cycle to establish the budget for the biennial period. Distinctions applicable to the review in the "off year" are made in subsequent Parts.

a. Planning.

The process begins in September of even-numbered years with the issuance of draft planning guidance which includes a statement of national objectives, a threat assessment, and force requirements. The Military Departments participate in preparation and review of the guidance. The major output of the planning phase is the Defense Planning Guidance, issued by the Secretary of Defense in January of odd-numbered years following final decisions by the President on the budget, which is the product of the previous cycle.

b. Military Department Programming.

In late May or early June of even-numbered years, the Secretaries of the Military Departments each submit a Program Objectives Memorandum (POM) which contains specific programs to be pursued in support of the planning guidance and within the resource constraints approved by the Secretary of Defense as contained in the Defense Planning Guidance. The POM also highlights areas which deviate from the goals in the planning guidance because of resource constraints.

c. OSD Program Review.

Once the POM is submitted, the staff offices of the Secretary of Defense review the proposed programs and prepare issue papers discussing alternative programs to support the objectives of the planning guidance. After consideration of these alternative programs, revisions to the proposed programs are approved by the Secretary of Defense and promulgated in early August of even-numbered years in Program Decision Memoranda (PDMs). These documents form the programmatic basis for the subsequent submission of Military Departments' budget requests to the Secretary of Defense.

d. Military Department Budgeting.

In September of even-numbered years, the Secretaries of the Military Departments each develop and submit budget estimates for each appropriation and fund to execute the approved programs within the total dollar amount (referred to as obligation authority) approved during the programming process. The budget requests highlight areas which deviate substantially from the approved program.

e. OSD Budget Review.

After receipt of the Military Departments' budget estimates, the Office of the Secretary of Defense conducts a joint budget review with the Office of Management and Budget. This final step provides the linkage between DOD's internal system for budget formulation and the Federal budget process. The final product of PPBS is, then, the DOD portion of the President's budget.

4. PPBS in the Department of the Navy.

The DON's Planning, Programming and Budget System is used to formulate the DON's budget which is submitted to the Office of the Secretary of Defense and the Office of Management and Budget. The DON must operate within the guidelines of both the Federal budget process and the DOD PPBS. The DON system is designed to meet the

decision-making needs of the Department, while producing specific decisions and documentation that are forwarded to OSD and OMB on a schedule set by those offices. This section provides an overview of PPBS in the DON.

a. Responsibility for Planning and Programming

(1) Since the DON consists of two separate Military Services, the Navy and the Marine Corps, planning and programming are essentially delegated to the two Services with staff offices consolidating a Departmental product for the Secretary of the Navy, who is the final decision-maker.

(2) In the planning phase, the Office of Program Appraisal coordinates the efforts of the two Service planning offices (the two Deputy Chiefs of Naval Operations for Plans, Policy and Operations (N3/5) and the Marine Corps' Plans Division (MC-PL). These offices work with the OSD and JCS planning staffs during preparation and review of the draft Defense Planning Guidance.

(3) Responsibility for the Programming phase is assigned to the Director of the Navy Program Information Center (DONPIC). Program planning and preparation of the two Services' POMs are conducted separately by the Chief of Naval Operations Programming Division (N80) and by the Marine Corps Deputy Chief of Staff Programs and Resources (P&R), with a combined POM submitted to OSD by DONPIC.

b. Programming in the Navy

(1) Programming in the Navy begins in September with reviews of strategy, warfare areas, and support tasks. These reviews, variously called investment strategy reviews, warfare appraisals and assessments, examine the threat and the program levels provided by the previous cycle, and the requirements stated in draft OSD guidance. The reviews define funding needed to accomplish certain program levels or capabilities and make recommendations to the resource sponsors to use in preparing their program proposals. The reviews are summarized in the Summary Warfare Appraisal/Summary Readiness and Appraisal in late December. Program development guidance is promulgated to resource sponsors in the CNO Program and Fiscal Guidance, issued in January.

(2) From January until March, the resource sponsors, using the recommendations of the fall reviews, specific CNO guidance, and input from various offices, such as the systems commands for acquisition programs and fleet commands for readiness initiatives, develop their Sponsor Program Proposals (SPPs) which constitute the basic program building blocks for the POM. These proposals are submitted to N80 in the form of changes to the Future Years Defense Program, which is based on the previous President's Budget. Following review to ensure compliance with CNO guidance and to resolve issues, the program proposals are presented to the CNO, and then to the SECNAV. These presentations mark the beginning of final development of the POM and result in further CNO and SECNAV guidance.

c. Programming in the Marine Corps.

Programming in the Marine Corps differs somewhat from that in the Navy. The Marine Corps reviews POM proposals concerning operations, personnel, material, and systems by unique Marine Corps mission areas. Coordinated by the DC/S Programs and Resources, the Marine Corps POM submission is developed by the POM Working Group and reviewed by the Marine Corps Program Review Group. Proposals are then sent to the Assistant Commandant's Committee for final program review. Following this review, the draft Marine Corps POM submission is forwarded to the Commandant for final approval prior to submission to SECNAV.

d. The "End Game".

The "End Game" is the final development phase of the POM wherein outstanding issues are resolved by CMC, CNO, and SECNAV. It is during this phase that changes are made to ensure that the program submitted to OSD reflects their guidance. The results of CNO, CMC, and SECNAV decisions are incorporated into the data base, and documentation is prepared to describe the program. The Navy and Marine Corps program data and supporting justification are consolidated and submitted to OSD in late May or early June as the DON's Program Objectives Memorandum (POM).

e. The OSD Program Review.

As discussed earlier, the OSD staff reviews the POM from late May through July, and prepares alternative proposals as necessary. The review takes the form of the preparation of a series of issue books. Each issue in these books is prepared by a working group which includes a DON representative. Draft copies of these books are provided to the DON for comment prior to their presentation to the Defense Planning Resources Board (DPRB). Following the DPRB discussions on these issues, program decisions and revised funding guidance is then promulgated in a Program Decision Memorandum (PDM) by the SECDEF.

f. Preparation of Budget Estimates.

In the DON, preparation of budget estimates begins after completion of the DON's POM. The transformation of program estimates into budget estimates occurs in the budget submission to FMB and subsequent DON review. Initial budget estimates are developed by submitting offices based on the programs contained in the POM. Changes to the program as promulgated by the PDM are incorporated into the budget during the DON review. The budget submission to FMB, the DON budget review, and the formal budget submission to OSD and OMB are major steps in the DON Planning, Programming, and Budgeting System.

g. Submission of Budget Materials.

A Defense Reform Initiative of the Deputy Secretary of Defense established the requirement that all materials which support the FY 2000 DOD budget must be electronic. To comply with this requirement, FMB has developed the Justification Management System (JMS). JMS will become the "pipeline" for all required submissions. All budget materials submitted to FMB for the DON budget review, the budget submission to OSD/OMB, and the President's Budget will be received through JMS. All budget materials and all data submissions (automated data input to existing FMB budget data bases) will be submitted via JMS. These materials include numerous budget exhibits and supporting budget information required for

analysis, review, verification, consolidation and/or forwarding to OSD/OMB and Congress. The DON budget will be an electronic budget within the DOD electronic budget. Paper copies of budget documents have been eliminated. Specific exhibit requirements for each submission are included in the respective submission Part of this manual (Part II, III, or IV) and FMB Budget Guidance Memoranda.

5. Program/Budget Schedule.

a. Basis for Schedule.

Although the specific schedule for the various events involved in developing the DON program and budget varies from year-to-year, the general schedule of the two-year biennial cycle does not vary much. The basis for the schedule is the requirement that the President must submit the budget to Congress by the first Monday in February. The schedule is developed to ensure compliance with that requirement. OMB sets the date for submission of the budget in the fall and OSD determines the date for submission of the POM in the spring. The date of the budget submission to FMB is based upon the schedule for those two key activities. Each summer, the DON Office of Budget conducts a review. During the alternate year of the biennial cycle a comprehensive apportionment review is conducted to reassess changes occurring since formulation of the biennial budget which must be considered prior to execution of the first fiscal year.

b. Schedule of Key Events.

The approximate schedule of key events in the DON PPBS is given below.

Date	Event	PPBS Phase
November	Defense Guidance Issued	Planning
October-December	Warfare appraisals	Planning/Programming
October-March	POM development	Programming
December	Program and Fiscal Guidance issued	Programming
February	Resource Sponsor Program Proposals submitted to N80	Programming
Late March	DON Program Strategy Board Review (CNO/CMC)	Programming
April	DON budget guidance issued	Budgeting
Late May-early June	DON POM to OSD	Programming
Late May-early June	Controls issued for FMB submission	Budgeting
May-July	OSD Program Review	Programming
July-Mid August	FMB Budget Review	Budgeting
Mid-Late August	Program Decision Memorandum issued	Programming
Late August	Secretary of the Navy decisions	Budgeting
Late August	Budget guidance and controls issued for OSD Submission	Budgeting
15 September	Budget to OSD/OMB	Budgeting
September-January	OSD/OMB Budget Review	Budgeting
Early-Mid January	Issue Controls and Budget Guidance for President's Budget	Budgeting
Early February	President's Budget to Congress	Budgeting
February-September	Congressional review of Budget	Budgeting
1 October	Budget execution begins	Budgeting

Specific schedules for each budget cycle are issued annually by FMB Budget Guidance Memoranda.

6. Release of Budget Information to the Public.

a. The President's budget contains detailed budget estimates for programs approved during the Planning, Programming and Budgeting process.

There are two factors to consider when determining whether budget related information is outside the DON. The first is security classification. Information released must be appropriate according to security classification standards. The second consideration is

whether the information supports the President's Budget. Details about the President's Budget may not be released until the budget has been officially transmitted to the Congress. In addition, disclosure of information is restricted to unclassified data contained in and supporting the President's budget. Materials and information used during the DON and OSD budget reviews, or prior to transmittal of the President's Budget must not be released outside the Department since they are pre-decision documents and as such are exempt from the Freedom of Information Act standards.

b. Responsibility for determining the releasability of material rests with the organization which publishes the information.

Decisions regarding release of DON budget information rests with FMB. Decisions regarding release of other documents such as internal point papers or memoranda which include budget information rest with the organization publishing the information. The standards described above are the basis for such a determination.

c. Further information pertaining to the release of budget information to the Congress, such as release of data beyond the budget years and guidance for witnesses representing the DON may be found in Chapter 5, section 8 of Part I.

7. Budget Terms and Definitions.

Standard Government-wide definitions of budget terminology are provided in OMB issuances, especially Circulars A-11 and A-34. Some of the more common budget concepts applicable to the Department of Defense can be found in the Financial Management Regulation Volume 2A.

CHAPTER 2

Organizational Responsibilities

This Chapter identifies and explains the budget related responsibilities of the many organizations that participate in the Department of Defense budget process. The major emphasis is on the DON organization and roles.

1. Secretariat Responsibilities.

a. Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).

All DON comptroller functions, including budget, are assigned to the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN(FM&C)). The budget functions of the Office of Assistant Secretary of the Navy (Financial Management and Comptroller) occur during all phases of the budget cycle. During the first phase, the ASN(FM&C), through the Director, Office of Budget (FMB), provides substantive guidance and technical direction with respect to preparation and submission of the budget. During the second phase, the ASN(FM&C), through FMB, reviews and justifies the budget for submission to OSD/OMB, the President, and finally to the Congress during the third phase. In the fourth phase, the ASN(FM&C), through the Director, Office of Budget (FMB), monitors budget execution and program performance.

b. Director of Office of Budget/Fiscal Management Division (FMB).

The Director of FMB is responsible to the Secretary of the Navy through the ASN(FM&C) for formulation, justification, and execution of the DON budget. The Director is responsible to the ASN(FM&C) through the Principle Deputy ASN (PDASN) for the principles, policies and procedures for preparation and administration of the DON budget as assigned by law, instruction, and regulations. The budget responsibilities of each division in FMB are described below.

(1) Appropriations Matters Office (FMBE). FMBE is responsible for maintaining liaison with the Congressional Appropriations Committees, the Office of Legislative Affairs, and the Congressional Liaison Offices of the Secretary of Defense, Secretary of the Army and Secretary of the Air Force for functions related to congressional hearings and congressional staff matters for all oversight committees. The office coordinates all matters related to DON participation in hearings before the House and Senate Appropriations Committees and keeps FMB and all FMB divisions advised on the current status of congressional action and appropriation requests. It provides the schedule of committee hearings, arranges for DON witnesses, coordinates the review of transcripts of hearings, coordinates responses to committee questions, arranges

briefings for members of the committees, their staffs, and the members of the professional staffs, and provides any other coordination activities associated with these committees.

(2) Operations Division (FMB1). FMB1 is responsible for reviewing, recommending, and revising estimates for the Military Personnel (Active and Reserve forces) and Operation and Maintenance (Active and Reserve) appropriations, and other funds of the Navy and Marine Corps. The office is also responsible for assisting in the justification of estimates before OSD/OMB and the Congress, the continual review of program execution, and the recommending of adjustment to allocations, when required.

For the OSD/OMB review, the cognizant FMB1 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamas to PBDs and issues for the MBI meeting. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system.

For the Congressional review, the cognizant FMB1 analysts are responsible for preparing or clearing budget material provided to Congress in support of Military Personnel and Operation and Maintenance appropriations. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB1 may attend hearings as backup or supporting witnesses.

(3) Investment and Development Division (FMB2). FMB2 is responsible for reviewing, recommending, and revising estimates for the investment and development appropriations, including procurement, research and development, construction, family housing, and base closure and realignment. This office is also responsible for assisting in the justification of estimates before OSD/OMB and the Congress, the continual review of program execution, the recommending of adjustments to allocations when needed, and the reporting of selected acquisition costs and data to the Congress.

For the OSD/OMB review, the cognizant FMB2 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamas to PBDs and issues for the MBI meeting. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system.

For the Congressional review, the cognizant FMB2 analysts are responsible for preparing or clearing budget material provided to Congress in support of Investment and Development appropriations. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and

appeals to authorization and appropriation reports. Representatives from FMB2 may attend hearings as backup or supporting witnesses.

(4) Program/Budget Coordination Division (FMB3). FMB3 is responsible for the preparation of DON budget guidance and procedures; control and coordination of budget submissions; coordination of reclamas to SECDEF PBDs; preparation and/or clearance of all program and financing schedules included in the budget; coordination of DON's participation in appeals to Congressional action; development and operation of ADP systems in support of the budget formulation process at the DON headquarters level; administration of financial control systems and procedures for the apportionment, allocation of funds and the reprogramming process; and, preparation of fund authorization documents for appropriations under its cognizance.

This office also reviews and makes recommendations on Departmental budget issues and appraises the effectiveness of budget systems. Additionally, FMB3 prepares reports for the DON on the status of the OSD/OMB review, coordinates the DON participation in the MBI meetings, monitors the OSD automated decision recording system, and operates the DON system for recording all decisions.

FMB3 also coordinates the preparation of DON input into the Budget of the U.S. Government, the preparation of financial and other summary budget documents, and the preparation of the Budget Officer's statement. This office is responsible for preparing budget material provided to Congress in support of Advisory and Assistance Services (AAS). The office prepares bill digests and Congressional Action Tracking System (CATS) tables pertaining to the DON budget at each stage of authorization and appropriation committee action on the President's Budget. This office is also responsible for reviewing any issues that may arise during the Congressional review concerning appropriation responsibility and all proposed legislative changes which affect the budget.

(5) Business and Civilian Resources Division (FMB4). FMB4 is responsible for reviewing, recommending, and revising estimates for the Navy Working Capital Fund (NWCF) and civilian personnel for inclusion in the budget and the justification of these estimates to OSD/OMB and the Congress. This office also reviews and validates funding estimates in working capital fund activity budgets to ensure proper balance between NWCF "providers" and DON appropriated fund "customers."

For the OSD/OMB review, the cognizant FMB4 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamas to PBDs and issues for the MBI meeting. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system.

For the Congressional review, the cognizant FMB4 analysts are responsible for preparing or clearing budget material provided to Congress in support of Navy Working Capital Fund activities and Civilian Personnel accounts. This may include budget justification material, statements, transcripts of hearings, answers to questions,

backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB4 may attend hearings as backup or supporting witnesses.

c. Office of Program Appraisal (OPA).

OPA provides staff support to the Secretary of the Navy during the PPBS process.

d. Office of Legislative Affairs (OLA).

OLA is responsible for all liaison with the Congress on program authorizations and concurrent budget resolutions. This entails liaison to the House and Senate Armed Services Committees, and the House and Senate Budget Committees. It provides the schedules of Committee hearings, arranges for witnesses, coordinates the review of hearing transcripts, coordinates responses to Congressional questions, arranges special briefings of Committee members or their staff, and provides any other liaison efforts associated with these committees. OLA is also responsible for the coordination of all proposed legislation changes initiated in the DON.

e. Department of the Navy Program Information Center (DONPIC).

DONPIC coordinates POM development for the DON. This office assists in the transition from the POM to the budget process in the identification of PDM changes, and in the operation of the Navy Headquarters Programming System.

f. Assistant Secretaries of the Navy (ASN).

They are responsible for specific subject areas, and participate in the budget process to varying degrees as those subject areas are involved. The areas include Research, Development and Acquisition (RDA); Installation and Environment (I&E); Manpower and Reserve Affairs (M&RA); and Financial Management and Comptroller (FM&C).

2. Responsibilities of the Office of the Chief of Naval Operations (OPNAV).

OPNAV is responsible for development and justification of program requirements for the Navy. The responsibilities of the staff offices during the budget process are described below.

a. Assistant/Deputy Chiefs of Naval Operations (A/DCNO).

The A/DCNO are responsible for development and justification of program requirements for specific warfare and supporting areas within the Navy. Their primary role in the budget process is defending requirements during formulation and justification at FMB, OSD/OMB, and Congressional review levels.

b. Deputy Chief of Naval Operations (Resources, Warfare Requirements and Assessment) (N8).

N8 integrates planning, programming, budgeting, and execution for the CNO and represents the CNO in resolving Navy budget issues of a programmatic nature, when necessary, including the accommodation of program adjustments.

(1) Programming Division (N80). N80 is responsible for the programming process for the CNO. With respect to budget formulation, it assists FMB in the translation of both the Navy POM and PDM from program terms to budget terms.

(2) Fiscal Management Division (N82). N82 is responsible for the fiscal management of Navy appropriations. This includes integrating programming and budgeting actions by coordinating the review of budget estimates within OPNAV to ensure conformance with the POM, controlling and suballocating funds which have been allocated by FMB, ensuring reporting of program status and funds availability, and reviewing execution of allocated funds to ensure program objectives are satisfied. This office is also the appropriation sponsor for the O&MN and OPN appropriations. N821 functions as the staff for the O&MN appropriation and N822 functions as the staff for the OPN appropriation.

(3) Congressional Policy and Coordination Branch (N804)

This office coordinates all congressional matters for the Chief of Naval Operations. It serves as the coordinating office for OLA and FMBE for Congressional matters for which OPNAV has action. It coordinates all witness statements, transcripts of testimony, Congressional questions, and requests for briefings. It maintains backup files and coordinates the preparation of posture statements for the Chief of Naval Operations.

3. Responsibilities of Headquarters, Marine Corps (HQMC).

Headquarters, Marine Corps is responsible for development and justification of program requirements for the Marine Corps. The responsibilities of the staff offices during the budget process are described below.

a. Deputy Chiefs of Staff (DC/S).

These offices are responsible for development and justification of program requirements for specific Marine warfare and supporting areas. The offices assist in the justification of programs before various review levels and assist in the resolution of budget issues under their cognizance.

b. Fiscal Division (MC-FD).

Similar to the responsibilities of the OPNAV Fiscal Management Division (N82) described above, the Programs & Resources Department (Fiscal Division) is responsible for the fiscal management function regarding the Marine Corps appropriations.

4. Other DON Organizational Responsibilities.

a. Appropriation Sponsor.

The appropriation sponsor is the senior executive in the DON responsible for supervisory control over a designated appropriation with broad decision making authority on matters relating to the appropriation. This involves assisting in solving funding deficiencies during budget formulation, testifying before Congress, and recommending the reprogramming of funds within the appropriation during budget execution. These sponsors serve as the lead witnesses before Congress, prepare and review witness statements, respond to Congressional or staff questions, and brief members of the Committees or their staffs. They are responsible for reviewing Committee reports and for preparing consolidated appeals for their appropriations and submitting them to FMB in accordance with FMB guidance and schedules. DON appropriation sponsors are listed in paragraph 6 below.

b. Resource Sponsor.

Navy resource sponsors are responsible for an identifiable group of resources constituting certain warfare and supporting warfare tasks, such as air, surface, or subsurface warfare. Unlike appropriation sponsors, resource sponsors have a functional or program orientation. The resource sponsor is responsible for interrelated programs or parts of programs in several mission areas. One of the resource sponsor's responsibilities during the programming process is to ensure an effective and balanced program within assigned fiscal controls. Accordingly, during internal budget reviews, the resource sponsor provides assistance when program changes are required to accommodate fact-of-life pricing and other funding increases in order to maintain a balanced program. While the Marine Corps does not have designated resource sponsors per se, the Deputy Chiefs of Staff (DCS) who are the appropriation sponsors for Marine Corps appropriations and the DC/S (Programs and Resources) perform much the same functions as Navy resource sponsors with respect to achieving an effective and balanced program within fiscal constraints, and recommending program adjustments to accommodate pricing and other funding increases when required. Resource sponsors offices are also responsible for providing program guidance to budget submitting offices during the development of budget estimates and subsequent reviews of those estimates. They perform key functions in determining program adjustments needed to accommodate fact-of-life pricing increases. Sponsor representatives attend DON budget review sessions, review the FMB Mark-up, attend OSD budget hearings, review PBDs and participate in reclama reviews. They are also responsible for nominating issues to be considered at the Major Budget Issue meetings and for nominating program offsets as necessary during the course of the OSD/OMB review. These offices are responsible for preparing and reviewing witness statements, answering Congressional questions, briefing members of Committees or their staffs, reviewing Committee reports, and preparing/ submitting to appropriation sponsors proposed appeals in accordance with the schedule established by FMB. Navy resource sponsors are listed in paragraph 6 below.

Navy resource sponsors are supported by a series of program sponsors for managed items. A program sponsor is responsible for determining program objectives, time phasing and support requirements, and for appraising progress, readiness and military worth for a given weapon system, function or task. The program sponsor is the primary Navy or Marine Corps spokesperson on matters related to the requirement for the particular weapons system or program. In addition to assisting justifying programs during the budget process, program sponsors assist resource sponsors in resolving funding problems.

c. Responsible Office.

The responsible office carries out fiduciary responsibilities for appropriation sponsors. This office is assigned fiscal management responsibility for all programs financed by a particular appropriation or fund. Fiscal management consists of three basic elements: (1) Integrating programming and budgeting actions by coordinating the review of budget estimates prepared by cognizant organizations with headquarters staff elements to ensure conformance with programmatic decisions reflected in the approved Program Objectives Memorandum; (2) Providing fiscal control of funds which have been allocated by FMB, including the suballocation of funds to administering offices, and ensuring accurate and timely reporting of program status, funds availability, commitments, obligations and expenditures from appropriate executing organizations; and, (3) Providing for the review of execution of allocated funds to ensure that program objectives are satisfied, and identifying the need to reprogram funds. DON responsible offices are listed in paragraph 6 below.

d. Budget Submitting Office.

Budget submitting offices are those administering offices or claimants responsible for preparation, compilation, and submission of budget estimates and supporting material directly to FMB for the DON, OSD/OMB, and President's Budget submissions. These offices are responsible for preparation of budget estimates within the program, fiscal, and policy guidance provided in the POM, this manual, and other guidance. They are responsible for submission of these estimates in the appropriate exhibits and for ensuring that subordinate offices submit material in time to meet prescribed due dates. They are responsible ensuring submissions are consistent with decisions made during the DON Review for the OSD/OMB submission and with PBDs for the President's Budget Submission. They also arrange for the appropriate personnel to attend FMB budget review sessions and OSD/OMB budget hearings and to provide any follow-up information necessary to justify estimates. They are responsible for reviewing budget adjustments made by FMB, OSD/OMB, and Congressional Committees, and preparing reclamas or appeals as necessary. As requested, they are responsible for attending Congressional hearings, reviewing Congressional testimony, preparing answers to Congressional questions, preparing backup or point papers, and preparing/submitting to appropriation sponsors proposed appeals to those reports in accordance with the guidance and schedules established by FMB. Budget submitting offices are identified in paragraph 6 below.

e. Program Executive Officer (PEO)/Direct Reporting Program Manager (DRPM).

Program Executive Officers (PEO) and Direct Reporting Program Managers (DRPMs) have authority and are responsible for all major programs under their cognizance, as well as other programs designated by SECNAV. The PEO reports directly to the Component Acquisition Executive (CAE) who is the ASN for RD&A. Normally, Program Managers report to a PEO,

but some large, complex or critical programs are managed by DRPMs, who also report directly to the CAE. DON PEOs/DRPMs are listed in paragraph 6 below.

f. Administering Office.

Administering offices are responsible for fiscal management of an entire appropriation/fund or a specifically assigned portion of an appropriation/fund. Administering office responsibilities also include budget preparation. During the formulation phase, these offices compile, review, and forward estimates to FMB. Additionally, representatives of these offices assist program managers and sponsors at DON, OSD/OMB, and Congressional reviews.

g. Claimants.

Major claimants are responsible for portions of the Navy operation and maintenance, reserve personnel and selected procurement appropriations. Claimants are identified in paragraph 6 of this Chapter.

h. Project Manager.

This is the individual responsible for executing an approved project. The project manager provides cost, schedule, and performance data for inclusion in the DON budget and justifies project estimates at budget review sessions/hearings. The project manager also is responsible for ensuring that allocated funds are effectively used and in accordance with authorized purposes.

5. Other Executive Branch Organizations

In the following section, those organizations whose actions affect the formulation, justification or execution of the DON budget are described.

a. Office of Management and Budget (OMB)

OMB assists the President in the organization and management of the Executive Branch. Primary functions include preparation of the budget, formulation of the government's fiscal program and supervision and control of the administration of the budget. The OMB reviews the DON budget submission jointly with OSD, makes recommendations to the President regarding significant issues not resolved during the joint review and forwards the President's budget to the Congress. After appropriating legislation has been enacted, OMB apportions funds and monitors the execution of appropriations.

b. Office of the Secretary of Defense (OSD).

This office is comprised of staff advisors to the Secretary of Defense on various areas such as budget, manpower, and research. The primary office responsible for DOD budgeting is the Office of the Under Secretary of Defense (Comptroller). This office is responsible for conducting a budget review with the OMB and recommending adjustments as appropriate. During budget execution, this office reviews funding plans, releases funds to the Military Departments, and monitors execution.

c. Defense Planning and Resources Board (DPRB).

The is chaired by the Deputy Secretary of Defense and is comprised of the Under and Assistant Secretaries of Defense, the USD(C), the Secretaries of the Military Departments and the Chairman of the JCS. As matters on the agenda of the DPRB dictate, other senior military and civilian officials will be called upon to participate in its deliberations including, as appropriate, the Service Chiefs, CINCs, and representatives of other OSD offices. Representatives of the Director of the Office of Management and Budget and the Assistant to the President for National Security Affairs will participate in the DPRB on a regular basis. The DPRB is the ultimate decision board before major issues are presented to the Secretary of Defense.

6. Organizational Assignment of Responsibilities.

The organizational groupings listed below can also be found on the NHBS web site (http:///navweb.secnav.navy.mil/nhbs) under: Budget guidance - Titles - Major groupings.

a. Appropriation sponsors and responsible offices for each appropriation are listed in the following table.

Appropriation	Appropriation Sponsor	Responsible Office
Military Personnel, Navy (MPN)	N1	CNO(N82)
Military Personnel, Marine Corp (MPMC)	DC/S(P&R)	CMC(P&R)
Reserve Personnel, Navy (RPN)	N095	CNO(N82)
Reserve Personnel, Marine Corps (RPMC)	DC/S(P&R)	CMC(P&R)
Operation and Maintenance Navy (O&MN)	N82	CNO(N82)
Operation and Maintenance, Marine Corps (O&MMC)	DC/S(P&R)	CMC(P&R)
Operation and Maintenance, Navy Reserve (O&MNR)	N095	CNO(N82)
Operation and Maintenance, Marine Corps Reserve (O&MMCR)	DC/S(P&R)	(P&R)
Environmental Restoration, Navy (ERN)	N4	CNO(N82)
Aircraft Procurement, Navy (APN)	N88	CNO(N82)
Weapons Procurement, Navy (WPN)	N86	CNO(N82)
Shipbuilding and Conversion, Navy (SCN)	N86	CNO(N82)
Other Procurement, Navy (OPN)	N82	CNO(N82)
Spares (All Appropriations)	N4	CNO(N82)
Procurement, Marine Corps (PMC)	COMMCSYSCOM	CMC(P&R)
Research, Development, Test & Evaluation, Navy (RDT&EN)	N091	CNR(OCNR)
Military Construction, Navy (MCN)	N4	CNO(N82)
Military Construction, Naval Reserve (MCNR)	N095	CNO(N82)
Family Housing, Navy and Marine Corps (FH,N&MC)	N4	CNO(N82)
Base Realignment and Closure (BRAC)	N4	CNO(N82)

Navy Working Capital Fund (NWCF)	Not applicable	Not applicable
National Defense Sealift Fund (NDSF)	N82	N4
Procurement of Ammo, Navy and MC (PANMC)	N82/MCSYSCOM	CNO(N82)/ CMC(P&R)

b. DON resource sponsors are listed in the following table.

Resource Sponsor	Resource Area
Assistant Vice Chief of Operations (N09B)	Admin/Physical Security
DCNO for Manpower and Personnel (N1)	Personnel Support
Director, Naval Intelligence (N2)	Intelligence
for Logistics (N4)	Logistics (including Sealift)
Director, Space and Electronic Warfare (N6)	Space, Command and Control
Director, Naval Training (N7)	Education and Training
Director, Naval Nuclear Propulsion Program (NOON)	Nuclear Propulsion
Director, Navy T&E and Technology Requirements (N091)	RDT&E
Director, Naval Medicine/Surgeon General (N093)	Medical Support
Director, Naval Reserve (N095)	Reserve Affairs
Oceanographer of the Navy (N096)	Oceanography and Meteorology
Director of Religious Ministries/Chief Chaplains (N097)	Religious Support
Director, Liaison (N83)	CINC Programs
Director, Expeditionary Warfare (N85)	Expeditionary Forces
Director, Surface Warfare (N86)	Surface Programs
Director, Submarine Warfare (N87)	Submarine Programs
Director, Air Warfare (N88)	Aviation Programs
Director, Special Programs (N89)	Special Programs
Headquarters, Marine Corps (HQMC)	USMC Resources

c. Department of the Navy Budget Submitting Offices/Claimants are listed below:

Director, Field Support Activity *
Assistant for Administration, Office of the Under Secretary of the Navy (AAUSN) *
Chief of Naval Research (OCNR)
Director, Office of Naval Intelligence (ONI) *
Chief, Bureau of Medicine and Surgery (BUMED) *
Commander, Naval Air Systems Command (NAVAIR) *
Bureau of Naval Personnel (BUPERS) *
Naval Supply Systems Command (NAVSUP) *
Commander, Naval Sea Systems Command (NAVSEA) *
Commander, Naval Facilities Engineering Command (NAVFAC) *
Headquarters, Marine Corps (HQMC) *
Director, Strategic Systems Programs (SSP) *

Commander, Space and Naval Warfare Systems Command (SPAWAR) *
Director, Naval Systems Management Activity (NSMA) *
Commander-in-Chief, U.S. Atlantic Fleet (CINCLANTFLT) *
Commander-in-Chief, U.S. Naval Forces, Europe (CINCUSNAVEUR) *
Chief of Naval Education and Training (CNET) *
Commander, Naval Computer and Telecommunications Command (COMNAVCOMTELCOM) *
Commander, Naval Meteorology and Oceanography Command (COMNAVMETOCCOM) *
Naval Security Group Command Headquarters (NAVSECGRU) *
Commander-in-Chief U.S. Pacific Fleet (CINCPACFLT) *
Commander, Naval Reserve Force (COMNAVRESFOR) *
Naval Special Warfare Command (NAVSPECWARCOM)

* *Claimants*

d. PEO/DRPMs are assigned as follows:

PEOs

Air ASW, Assault and Special Mission Programs
Carriers, Littoral Warfare & Auxiliary Ships
Cruise Missile Programs and UAV Joint Projects
Tactical Aircraft Programs
Surface Combatants/AEGIS Program
Space Communication and Sensors
Submarines
Mine Warfare
Theater Air Defense
Undersea Warfare
DD 21
Joint Advanced Strike Technology Program (JAST)

DRPMs:

Strategic Systems Programs
Advanced Amphibious Assault Program

e. Navy Working Capital Fund

Supply Management Activity Groups:

1) Naval Supply Systems Command (NAVSUP)
   Navy Supply Management

2) Headquarters, Marine Corps (HQMC)
   Marine Corps Supply Management

Non-Supply Activity Groups:

(1) Naval Sea Systems Command (NAVSEA)
Naval Shipyards
Naval Undersea Warfare Center
Naval Surface Warfare Center

(2) Military Sealift Command (MSC)
Transportation - Navy

(3) Naval Air Systems Command (NAVAIR)
Naval Aviation Depots (NAVAVNDEPOT)
Naval Air Warfare Centers

(4) Chief of Naval Research (CNR)
Naval Research Laboratory (NRL)

(5) Naval Facilities Engineering Command (NAVFAC)
Public Works Centers (PWC)
Naval Facilities Engineering Service Center (NFESC)

(6) Naval Supply Systems Command (NAVSUP)
Fleet Material Support Office (FMSO)

(7) Naval Computer and Telecommunications Command (NAVCOMTELCOM)
Naval Computer and Telecommunications Stations (NAVCOMTELCOM)

(8) Space and Naval Warfare Systems Command (SPAWAR)
SPAWAR Systems Centers

(9) Headquarters, Marine Corps (HQMC)
Marine Corps Depot

(10) Commander-in-Chief, U.S. Atlantic Fleet (Atlantic Ordnance Command & Detachments)

(11) Commander-in-Chief, U.S. Pacific Fleet
Naval Weapons Station Seal Beach and Detachments

(12) Commander, Naval Reserve Force (COMNAVRESFOR)
Naval Reserve Information Services Office (NRISO)

Navy Trust Funds

Account	Submitting Office
USN Academy General Gift Fund	U. S. Naval Academy
USN Academy Museum Fund	U. S. Naval Academy
Navy General Gift Fund	AAUSN
Ship's Stores Profit, Navy	NAVSUP
Naval Historical Fund	FSA

Special Accounts

Account	Submitting Office
Wildlife Conservation Fund	NAVFAC

Federal Civil Rights Programs

Chief of Naval Operations (CNO) (N00)

Chief of Naval Operations (CNO) (N095)

Office of Chief of Naval Research (OCNR)

Headquarters, Marine Corps (HQMC)

Navy Secretariat and Staff Offices Equal Employment Opportunity (NS&SO/EEO)

Office of General Counsel (OGC)

National Foreign Intelligence Program (NFIP)

Director Of Naval Intelligence (N2)

Communications, Space, Command And Control Program

Director, Space and Electronic Warfare (N6)

DOD Military Retirement Fund

Bureau of Naval Personnel (BUPERS)

Headquarters, Marine Corps (HQMC)

CHAPTER 3

Budget Submission to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Department of the Navy Review

The DON budget review occurs prior to the submission of the budget to the Office of the Secretary of Defense and the Office of Management and Budget. It consists of the development of budget estimates by budget submitting offices throughout the Department, the review of these estimates by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), and final decisions on the allocation of resources by the Chief of Naval Operations, the Commandant of the Marine Corps, and the Secretary of the Navy. The major purpose of the review process is to ensure that these estimates reflect the program contained in the POM, are consistent with the guidance of higher authority, are executable, and are supportable in subsequent review by OSD/OMB and the Congress. This chapter describes each of these activities, while Part II provides more detailed guidance and requirements.

1. Overview of the Process.

The starting point for the development of the DON's budget in the biennial year is the Program Objectives Memorandum (POM). In the apportionment year, the DON Budget is based on the biennial year's BY2 President's request adjusted by a Program Review (PR). FMB issues guidance and financial controls for submission of the budget shortly after completion of the POM (or PR). Budget submitting offices then prepare detailed budget exhibits and submit them to FMB. After a detailed review of these exhibits, FMB budget analysts may request additional information prior to issuing marks for each appropriation to the respective budget submitting offices, appropriation and resource sponsors. If any recipients disagree with the recommendations contained in the marks, they are permitted to submit reclamas stating their position. All reclamas are reviewed by the FMB staff. Unresolved issues are adjudicated by the Director, Office of Budget, consulting with senior officials in the Office of the Chief of Naval Operations and Headquarters, Marine Corps as appropriate. A summary of the budget as it stands after this review, highlights of changes from the POM, and any remaining issues are then presented to the Secretary of the Navy. After SECNAV's final decisions, appropriation level and detailed controls are provided to budget submitting offices for preparation of the budget for submission to OSD and OMB.

2. Purpose and Objectives.

The preparation and review of budget estimates provides the basis for the Secretary of the Navy to make final resource allocation decisions prior to the submission of the Department's budget to OSD and OMB.

a. Development of Estimates.

The development of estimates by budget submitting offices is designed to ensure that those offices responsible for executing the budget participate fully in its formulation. Thus, management officials at all echelons must ensure that the estimates they develop result from meaningful and considered evaluations of resource requirements for their programs.

b. Review of Estimates.

These estimates are reviewed by the Office of Budget to ensure that they are consistent with all applicable program, policy, and budgetary guidance. The objectives of the DON Budget Review are as follows:

(1) To reflect POM programs in budget quality estimates ensuring that these programs are properly funded.

(2) To ensure that programs conform with overall performance goals, and budget and fiscal guidelines issued by higher authority including the Secretary of Defense and the Congress.

(3) To provide an opportunity for the Secretary of the Navy to reallocate resources based on current fiscal constraints and program information which may be substantially and significantly different from the data available at the time the POM was prepared.

(4) To involve managers at all echelons in the budgetary process.

(5) To ensure that personnel requirements and costs are held to the minimum necessary to support and accomplish approved program objectives.

(6) To provide managers at all levels an opportunity to evaluate the cost effectiveness of their operations and to propose the reallocation of resources as appropriate to improve performance.

(7) To provide for the consideration of alternative methods of accomplishing approved program goals and objectives.

(8) To ensure that the outyears accurately reflect the impact of program and funding decisions.

3. The Budget Submission to FMB (Program to Budget Transition).

In the Planning, Programming and Budgeting System (PPBS), the basic decisions on program levels and program directions are arrived at through the Program Objectives Memorandum (POM) or the Program Review submitted by the Military Departments in response to the guidance furnished by the Secretary of Defense (Defense Planning Guidance (DPG)). This program review process operates within a set of fiscal guidance levels for each Military Department and is arrayed in a programmatic format along Defense Program or warfare area lines for which the Future Years Defense Program elements are the basic building blocks. Upon the commencement of the budget review phase, the fiscal and program level detail is converted into its corresponding appropriation budget format in preparation for the review and approval of the Congress. It is incumbent on the organizations and individuals who prepare and review the budget to be aware of the contents of the POM and the rationale for its development and planned achievements while participating in the budget phase. POM documentation supporting the submission to the Office of the Secretary of Defense is made available by the DON Program Information Center (DONPIC).

a. Differences between Programming and Budgeting.

A key difference is the level of precision and accuracy associated with resource estimates. During the programming phase, many different program alternatives are considered and a high level of precision in estimates is not required. More precise budget estimates are required to ensure the executability of the budget. The budgeting phase provides the decision maker with the final opportunity to refine estimates to reflect the most accurate data available. Another difference is the structure in which programs are presented for review. The programming process provides data in DOD major program categories with resources identified by mission/program element/line item/activity-subactivity group/project, while the budget process presents resources on an appropriation/budget activity/line-sub line item/activity-subactivity group/project basis. There are also differences in the amount and kinds of detailed justification used in each process, much more being required in the budget process. Another difference is that resources are allocated to resource sponsors in the programming phase and to budget submitting offices during the budget formulation phase. Each participate in the programming process and in the budgeting process. One other difference is that DONPIC has departmental responsibilities for the programming process while FMB has these responsibilities for the budget process.

b. PPBS Central Data Base.

Despite these differences, DONPIC and FMB have established compatible data bases for PPBS. This provides a complete audit trail of changes from the January Future Years Defense Program (FYDP) to the next President's Budget. The completed POM is the basis for detailed and summary budget controls provided to budget submitting offices for the DON budget submission. Procedures have been developed to provide a crosswalk between program data and budget data where possible and a method of allocating where necessary. DONPIC has responsibility for data during the programming process (until completion of the POM) and FMB is responsible until submission of the President's budget (January Future Years Defense Program). Although the Program Decision Memorandum (PDM) is part of the programming process, PDM decisions are normally incorporated during the DON Budget Review.

c. Budget Submission Control Numbers.

After the POM is completed in biennial budget years (or the Program Review in apportionment budget years), the Office of Budget issues control numbers to BSOs to begin formulation of the budget. Summary controls for all appropriations are issued initially followed by detailed controls (e.g., by procurement line item and claimant/sub-activity groups) to appropriate BSOs. These detailed controls are available electronically from the NHBS web site. Other information (e.g., audit trail from the January Future Years Defense Program to the POM) is also available. Additionally, liaison between the offices responsible for developing and reviewing the POM and those responsible for submitting budgets is an important element in the transition from programming to budgeting.

4. FMB Budget Review Sessions.

After an initial review and analysis of the material submitted in support of the budget estimates, each FMB analyst may schedule budget review sessions to review program details with representatives from BSOs and resource sponsors (RS). The primary purpose for these sessions is to obtain additional information on programs for which the justification contained in budget exhibits does not adequately support the budget estimates. A schedule of budget review sessions for each appropriation/fund is issued by the respective FMB division. Representatives from other interested offices (such as DONPIC, OPA, and the offices of the Assistant Secretaries) are also invited to attend these sessions. The analyst conducting the session often provides questions in advance to facilitate the exchange of information at the session and to make BSOs and RSs aware of area of concern or potential budget marks. Correspondence between the analyst and BSO points-of-contact will be by electronic mail (email). BSOs should ensure that an updated list of command email addresses for their organizations is provided to FMB32, Budget Systems Branch. Email addresses of FMB analysts are available from the Navy Headquarters Budgeting System (NHBS) web site. Video teleconferencing (VTC) equipment for budget review sessions and ad hoc meetings is available to each FMB Division.

5. The FMB Budget Mark.

After completing the review and analysis of the budget estimates contained in the submission, an Office of Budget (FMB) mark is prepared (if required) for each appropriation/fund or major sub-division thereof. The mark contains recommended adjustments to the budget estimates and the rationale for these adjustments. Marks will be prepared by cognizant FMB budget analysts, issued by the appropriate division director, and posted to the web site for viewing and/or downloading electronically. Unless a reclama to the mark is submitted, these adjustments become final decisions.

a. Office of Budget Review Policy.

Given the constraints of guidance provided by OSD and OMB, the review and analysis of budget estimates effects a balance of program profiles with resources available to the DON. In view of the relationship of individual program/budget estimates to the total DON, DOD and Federal budgets, it is important that individual budget estimates are consistent with the same economic principles and other assessments that underlie the total DON, DOD and

Federal budgets. Furthermore, uppermost in the guidance for approving budget estimates is the need to provide essential requirements at minimum costs.

(1) During the formulation of program/budget estimates there is an inherent conflict between the reviewing analyst and the cost estimators who prepare and submit the estimates. This conflict emanates from the reviewing analysts who:
- make a "downward bias" assessment when initially reviewing program estimates;
- question program repricing which is not supported by guidance;
- and differentiate budget formulation assumptions from cost estimate parameters.

(2) A "downward bias" then appears which is, in fact, the only ultimate assurance at the departmental level that the assessment of programs and resources is astutely and fairly examined. The ultimate impact is as likely to be an upward assessment as it may be downward, but initially the concept is that all cost estimates can be reduced. Cost estimates invariably do include an area of cost uncertainty and a range of overstatement factors, often ascribed to the impact of inflation. Therefore, what may be perceived as a hedge against program risks and cost overruns by the cost estimator, is in all practicality viewed as "capricious" repricing by the budget reviewer.

Frequently a protective blanket encompasses the program manager's estimate of requirements that is in conflict with the budget reviewer's assumptions regarding the estimates. While such a pricing philosophy may be fitting and proper from an estimator's point of view, the budget reviewer's responsibilities demand an affidavit of true need where cost uncertainties and overstatements are obvious.

(3) If budget estimates were not substantiated by an "unbiased" examiner as occurs in the DON process, the loss of both programs and dollars could be quite costly to total departmental estimates. The final commitment to the departmental budget estimates requires the accomplishment of a qualitative analysis of the program statement of requirements.

(4) This conflict is an integral part of the comprehensive, intensive review and analysis efforts associated with the budget process which are made continuously from the initial planning and programming cycle, through formulation and justification, and on to final execution. This process not only provides a sound basis for projection of future estimates, but also an effective management tool for the approval of departmental programs and dollar estimates.

b. Mark Coverage.

Although review and analysis techniques vary from account to account and from analyst to analyst, there are a number of common areas addressed in the FMB marks. The following paragraphs address some of the areas covered.

(1) Approval for Production. One of the key factors to be considered in formulation of procurement budgets is the readiness of an item to enter production. An objective of the FMB analyst is to ensure that programs are meeting scheduled milestones leading to a production decision. This type of adjustment will address readiness for

production issues in the context of budget submission guidance discussed in Part II, Chapter 5.

(2) Unfunded Requirements. These adjustments resolve funding deficiencies in one of two ways. For those programs which cannot be executed due to improper POM program pricing or imbalance with other appropriations, the deficiency must be funded with offsets nominated by the resource sponsor after coordination with DONPIC. The other type of shortfall to be addressed is one which occurs following the POM submission and over which the resource sponsor has no control. In this case, the program should be properly priced without requiring offsets.

(3) Pricing. An important objective of the review is to ensure that program pricing is reasonable and that budget submitting offices have followed published guidance. If pricing guidance has changed subsequent to the submission, then program pricing will be adjusted in the mark.

(4) Program Executability. Whether a program can be executed during the budget year is a key consideration during the review. Factors such as prior and current year contract award status and contractual administrative requirements leading to award are examined. Budget estimates are reviewed to ensure that requirements are budgeted lead time away from need, that end item and support lead times are properly phased, that long lead materials are available, that production rates are achievable, and that all deliveries occur within the funded delivery period. Additionally, the balance of manpower and dollars, consistency of budget estimates and deployment schedules, construction design status, and the phasing of maintenance requirements and resources are analyzed.

(5) Program Decision Memorandum (PDM). Because of the schedule of events during the DOD Program/Budget review process, the decisions of the Secretary of Defense on the programs included in the DON's POM are usually received while the DON budget review is being conducted. Accordingly, these PDM decisions are addressed as part of the basic FMB mark review or by a subsequent mark review if the PDM is not received in time.

(6) Congressional Action. The latest Congressional actions on the DOD Budget may be incorporated into a mark (if direction received by DOD to reflect latest Congressional action in the OSD/OMB budget submission).

(7) Audit Savings. Budget Submitting Offices are required to reflect audit report findings and recommendations in their budget estimates. Marks will ensure that audit savings are reflected where appropriate. This will afford the DON the opportunity to effect efficiencies and economies while redistributing the resultant savings to satisfy other program needs. Additionally, it ensures that valid savings are available to the DON instead of being lost to OSD and Congressional budget reductions. It also provides the opportunity to identify invalid savings recommended in audit reports and to develop a rational defense against inappropriate budget reductions by OSD and the Congress.

(8) Interappropriation Transfers. To the extent that questionable items are identified in the budget review, FMB will ensure that items are budgeted in the proper appropriation, as delineated in DON Financial Management Policy Manual. If it is determined that a particular item has not been budgeted in the correct appropriation, the mark will recommend an interappropriation transfer.

(9) Prior Year Performance. In reviewing budget estimates, FMB will ensure that funds are budgeted for the year in which they are required. Based on historical trends which reflect the rules of full funding for procurement and construction and incremental funding for O&M and R&D, accepted obligation and expenditure rates have been established for each appropriation. To the extent that a program's obligation and/or expenditure rate in the prior year deviates significantly from the past appropriation pattern, a funding profile problem is indicated. Extremely low obligations/expenditures tend to reflect "forward funding," or funding in advance of annual requirements, while unusually high obligations may reflect a funding shortfall. Such aberrations will be reviewed and funding rephasings recommended as appropriate in the mark.

(10) Outyears. Although the primary emphasis of the FMB mark is on the budget years, outyear adjustments are made as required to reflect accurately the impact of the program and funding decisions made during the budget review as well as the impact of fiscal reality.

c. Preparation and Distribution of the marks.

All changes made to the budget estimates are documented in marks. A markup package may be prepared for each appropriation/fund or major subdivision thereof in late July or early August. Marks are also issued covering Information Technology; Morale, Welfare, and Recreation activities and the National Foreign Intelligence Program. A specific schedule for mark distribution is published each year in a Budget Guidance Memorandum. To reduce the number of marks, adjustments will generally be limited to issues of $1 million or more. Budget Analysts may include recommendations to make adjustments of less than $1 million when critical to correct justification material or address policy issues. While these markup packages are prepared by cognizant analysts, they are issued by the respective division director (FMB1, FMB2, or FMB 4) after review by the branch head, division director and FMB. After the markup packages are approved for release, they are posted to the NHBS web site for viewing by all cognizant offices in the Department. Supplemental marks may be issued to cover PDM adjustments, Congressional actions, CNO/CMC/SECNAV directed changes, new pricing guidance, or any other action that occurred too late to be included in the initial mark.

6. Reclama Procedures.

Reclama procedures have been established to provide budget submitting offices and other DON organizations an opportunity to respond to adjustments made in the FMB mark. If a reclama is submitted to a specific mark, then that mark is considered a tentative decision until the reclama is resolved. If no reclama is submitted, then the mark becomes a final decision.

a. Criteria for submitting reclamas

(1) Reclamas are an important part of the dialogue necessary in formulating the final DON budget. Reclama procedures are designed to guard against arbitrary or incorrect adjustments made during the DON Budget Review. They are not designed to provide submitting offices or sponsors an opportunity to shift funds from one program to another. Reclamas should not attempt to direct funds to programs other than those marked. Other procedures apply for the reapplication of any funds that become available as a result of the DON Budget Review.

(2) Budget submitting offices have action in preparing and submitting reclamas, unless specifically directed in writing to a sponsor. It is not necessary for a sponsor to submit a reclama to show support for a program. Budget submitting offices should take several factors into consideration before preparing a reclama. The reviewed mark should be read with a full understanding of the rationale behind it. If necessary, the FMB analyst who wrote the mark should be contacted for purposes of clarification. The reclama should address the specific issue and rationale contained in the mark. Inclusion of other information, while sometimes appropriate, often detracts from the reclama and almost always lengthens the review time. The reclama should concentrate on factual disagreements, whether they be errors or omissions of fact. While reclamas based on differences of judgment are not always inappropriate, such reclamas should consider which level of authority (and thus perspective) is appropriate for the specific issue. The approach described above will optimize the submitting office's or sponsor's position and require less time to resolve.

b. Preparation Instructions.

The reclama format template is available from the NHBS web site, along with other pertinent DON budget review information including the latest schedule of events and due dates. Due dates for submission of reclamas also are contained in the cover memo for each individual mark package. Normally, reclamas are due on the fourth working day after the release of the mark package. All reclamas must be electronically submitted to FMB32 for posting to the NHBS web site. Procedures for submitting reclamas are published in Budget Guidance Memoranda.

c. Reclama Review Process.

Full discussion of the issues raised in the mark and disputed in the reclama is provided for. Several levels of review are in place for the resolution of issues:

(1) The majority of issues will be resolved with the cognizant budget analyst and branch head, who have the authority to resolve any issues addressed in the reclama.

(2) Issues not resolved with the analyst/branch head will be presented to the appropriate division director for final resolution.

(3) An opportunity will be provided for BSOs to discuss major issues with the DON Budget Officer. These meetings will be limited to specific time allotments and will be attended by senior organizational representatives. This Major Issue Meeting will provide the primary forum for identifying issues which are likely to be presented to

the Secretary of the Navy for approval. Video teleconferencing (VTC) equipment is available for these meetings.

(4) FMB meets with the Deputy Chief of Naval Operations for Resources, Warfare Requirements and Assessment (N8) for a discussion of Navy issues. Often, the cognizant appropriation sponsor and program sponsor also attend these meetings. FMB also meets with representatives of Headquarters, Marine Corps to resolve Marine Corps issues.

d. Budget Mark Restorals.

(1) Issue resolution results are to be entered by FMB staff in the Navy Budget Tracking System (NBTS) no later than 24 hours after the discussion in which the decision is made, and as such, provide the official documentation of budget decisions. BSOs and other interested parties are responsible for viewing the information available with the understanding that the absence of a restoral entry also is a decision result. If results in NBTS are not consistent with an expectation of issue resolution decisions, it is incumbent upon the BSO to contact the cognizant FMB analyst. All approved restoral information is available on the NHBS web site.

(2) Decisions on restorals are not normally documented in written form beyond NBTS and the NHBS web page. Whenever ambiguity or extenuating circumstances are anticipated or if an expected result is not received, BSO's, sponsors, or other parties are encouraged to draft a memorandum of decision and submit it for approval by FMB staff. It is recommended that any agreement that is expected to result in a restoral of a recommended adjustment (mark) AFTER the prescribed 24 hour period, or which is conditional on future action or additional information, be documented by a memorandum of decision. This will eliminate any conflicting expectations from the restoral process. Memorandum of decisions may be in any form (e.g. point paper), not to exceed one page and must include an approval blank for endorsement by FMB staff. This will serve as documentation of any extraordinary resolutions to issues addressed in markup documents.

7. SECNAV Decisions.

In late August, the Director of Office of Budget (FMB) presents an overview of the proposed budget reflecting the decisions made during the DON budget review, along with any unresolved issues, to the Secretary of the Navy for final decisions. The Chief of Naval Operations, Commandant of the Marine Corps, Under Secretary and Assistant Secretaries of the Navy participate in this presentation to provide advice or alternative recommendations to the Secretary. This overview depicts the significant programs and issues for each appropriation and for civilian and military personnel.

a. Outyear Rebalancing.

The primary emphasis in the DON review is to achieve a balanced budget submission within the fiscal guidance provided by OSD. However, it is also necessary to balance each of the outyears within established fiscal guidance and to be consistent with the decisions made by

the Secretary of the Navy on the budget. Following the presentation of the budget to SECNAV, FMB with support from DONPIC, finalizes the DON outyear program.

b. Final DON Budget Controls.

The final step in the DON Budget Review is the issuance of control totals for submission of budget estimates to OSD/OMB. Final decisions resulting from the Secretary of the Navy review are reflected in these fiscal controls and no deviations from these controls are allowed.

8. Schedule.

The specific schedule for the various events involved in the DON budget review varies for each cycle. The schedule is keyed to the need to submit the DON budget in accordance with the schedules established by the Office of the Secretary of Defense and the Office of Management and Budget. Normally the submission to OSD and OMB is required by the 15th of September. The start date is similarly constrained in that the budget submission to FMB is based on the programs contained in the Department's Program Objectives Memorandum in biennial budget years or the timing of the Program Review in apportionment budget years, usually late May-early June.

The schedule of key events for the DON Budget Review is as follows:

	Events	Date
1.	Issue budget guidance	April
2.	Issue dollar controls	Late May-Early June
3.	Budget submissions due to FMB	Early July
4.	Budget Review Sessions	Mid July-Mid August
5.	Distribution of marks	Late July-Early August
6.	Reclamas submitted to FMB	Early-Mid August
7.	Initial Division Reclama Reviews	Early-Mid August
8.	Receive Program Decision Memorandum from OSD	Mid-Late August
9.	Major Issue Meetings	Mid-Late August
10.	Presentation of Budget to the Secretary of the Navy	Late August
11.	Issuance of controls and budget guidance	Late August- Early September
12.	Budget submission to OSD/OMB	15 September

Specific dates are published in FMB Budget Guidance Memoranda.

CHAPTER 4

Budget Submission to the Office of the Secretary of Defense (OSD)/Office of Management and Budget (OMB) and the OSD/OMB Review

The Office of the Secretary of Defense (OSD) and Office of Management and Budget (OMB) joint budget review occurs after the DON budget review and just before the submission of the President's Budget to the Congress. It consists of submission of the budget estimates by the Military Departments and Defense Agencies to OSD/OMB, the review of those estimates by the staffs of OSD/OMB, and final decisions on the allocation of resources by the Secretary of Defense and the President. The purpose of this review is to ensure that estimates supporting the DOD goals and reflecting the program approved by the Program Decision Memorandum are executable, reflect a proper balance between Military Departments for joint programs, accommodate final DOD fiscal guidance, and are supportable in subsequent review by the Congress.

1. Overview of the Process.

The baseline for the OSD/OMB budget review is the Program Decision Memorandum (PDM). Within the DON, the starting point is the issuance of control totals which incorporate PDM decisions along with all decisions that occurred during the DON budget review. FMB prepares the formal transmittal memorandum, the summary exhibits, and the automated submission that constitute the official budget submission. Budget submitting offices prepare detailed exhibits and submit them to FMB via JMS for consolidation and/or clearance and subsequent submission to OSD and OMB. The OSD and OMB staffs review these exhibits and conduct hearings to gather additional information. These staffs then prepare Program Budget Decisions (PBDs) which are ultimately signed by either the Secretary of Defense, the Deputy Secretary of Defense or the Under Secretary of Defense (Comptroller). These PBDs are reviewed in draft form by all interested offices (budget submitting offices, appropriation and resource sponsors, and other staff offices). If appropriate, a DON position is forwarded by the Assistant Secretary of the Navy (Financial Management and Comptroller) in a formal coordination document. After consideration of the Department's position, the PBD is signed. A list of all PBDs received for coordination as well as all reclamas, coordination memoranda, summaries, and signed PBDs are available electronically from the NHBS web site. Near the end of the review, normally in late December or early January, the Secretary of the Navy is given the opportunity to discuss with the Secretary of Defense those PBDs which are deemed most critical to the DON in a Major Budget Issues (MBI) meeting. Following the MBI meetings with all the Military Departments, the Secretary of Defense meets with the Director of OMB and the President to resolve any issues raised by OMB and to receive final

Presidential decisions. Following this meeting, final decisions are issued in the form of PBDs and appropriate controls are issued for preparation of the President's Budget.

2. Purpose and Objectives.

The budget estimates submitted to and reviewed by OSD/OMB provide the basis for the Secretary of Defense and the President to make final resource allocation decisions prior to submission of the President's Budget to the Congress.

a. Submission of Estimates.

The Office of the Secretary of Defense requires that each Military Department submit detailed justification material in support of the budget estimates. Within the DON, the development of these estimates occurs during the DON budget review. Budget submitting offices and other DON organizations participate in that process and are also responsible for preparing the detailed exhibits supporting the budget estimates submitted to OSD and OMB. This participation ensures that those offices responsible for executing the budget participate fully in its formulation.

b. Review of Estimates.

The review of these estimates by OSD and OMB is designed to ensure that they are consistent with all applicable program, policy, and budgetary guidance. Within the DON, procedures for this review have been developed to allow participation of budget submitting offices, sponsors, and other DON organizations in order to ensure that the offices responsible for execution and for program development participate in the decision-making process and are aware of the reasons for the decisions made in this process.

3. The DON Budget Submission to OSD/OMB.

The budget submission to OSD/OMB begins with the publication of control numbers in late August or early September. It includes the preparation and submission of summary and detailed exhibits in mid September, the subsequent submission of Additional Budget Submissions (ABS) if needed, and the updating of the budget estimates for end year accounting results in November. This chapter generally describes each of these activities while Part III provides more detailed guidance and requirements.

a. Publication of Control Numbers.

The issuance of appropriation controls is both the final step in the DON budget review and the first step in preparing the OSD/OMB budget submission. These controls incorporate POM and final Secretary of the Navy decisions affecting the Department's budget. They form the basis for the preparation of both summary and detailed exhibits by all offices throughout the Department responsible for preparing budget materials. The use of these controls by all offices ensures that the Department's budget estimates are consistently presented in all material provided to OSD and OMB. When final, BSO controls are available electronically from the NHBS Information web site.

b. Transmittal Memorandum and Summary Exhibits.

The official DON budget must be formally transmitted by the Secretary of the Navy. This is accomplished by a memorandum in which the Secretary expresses major policy concerns as they relate to the budget. Accompanying this transmittal memorandum are a highlights book (Blue Book), several summary exhibits, and summary data in automated format. The highlights book provides an overview of the DON budget for senior officials in the Department of Defense and the Office of Management and Budget. The summary exhibits and automated data are required to allow OSD to verify that the submission is in accordance with the fiscal guidance and to establish a baseline for its automated control system.

c. Detailed Budget Exhibits.

These exhibits provide the basic information used by the OSD and OMB staffs in the detailed review of the Department's budget. Accordingly, it is important that they are in agreement with the published control numbers, are consistent with the separately prepared summary exhibits, and reflect the program and policy position of the DON. The responsibility for ensuring that these exhibits properly support the Department's budget is shared by the offices that prepare them and by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) which reviews them prior to submission to OSD and OMB.

d. Additional Budget Submissions.

After submission of the DON budget in mid-September, OSD permits the Secretary of the Navy to amend those estimates when specific changes in circumstances warrant a change in the budget estimates. OSD requires that these submissions be signed by SECNAV, that such submissions be transmitted no later than 30 September and be financed with greater or equal TOA offsets. It is the policy of the DON to consider changes in estimates whenever necessary. Appropriation sponsors, resource sponsors, budget submitting offices, or the Secretariat should notify FMB whenever it is believed that it is necessary to revise the budget estimates. To the extent these changes are identified after the OSD deadline for Additional Budget Submissions, FMB will pursue alternative methods of advising OSD of the changes.

e. Actual Year Update of Budget Estimates.

The final phase of the budget submission to OSD and OMB consists of updating the budget estimates based on the final end of year accounting reports. This submission, which normally occurs in early November, primarily affects the prior year columns of the budget. However, the current and budget years are also adjusted to reflect the effect of prior year performance on obligation and outlay estimates. Budget submitting offices are required to provide automated updates to the Navy Budget Tracking System (NBTS) to reflect final end of year accounting results contained in the DD 1002, SF 133 and SF 725.

4. OSD/OMB Budget Hearings.

After an initial review and analysis of the material submitted in support of the budget estimates, the USD(C) staff schedules hearings to review program details with representatives from the Military Departments. FMB divisions will promulgate hearing schedules to sponsors, budget submitting offices, and other interested organizations. DON representatives attending these hearings usually include appropriation and resource sponsor staffs as well as

personnel from operating activities. The OSD or OMB analyst may provide questions in advance that are intended to be asked at the hearing. If available, the FMB analyst will provide the questions to the appropriate sponsors and budget submitting offices. Although every effort is made to provide all information requested by the analysts prior to the budget hearing, there are instances in which additional information has to be provided after the hearings have been completed. DON policy is that any required additional information be submitted, reviewed, and cleared by the FMB analyst. Further, this information should be delivered to OSD or OMB analysts as quickly as possible.

5. Program Budget Decision (PBD) and Reclama Procedures.

Prior to submission of the budget to OSD/OMB, the USD(C) promulgates a list of PBD numbers and titles to be used to issue budget decisions. These PBDs contain broad groupings of similar or related programs.

a. Preparation of PBDs in OSD

(1) The decision making process within the OSD focuses on the preparation, processing and promulgation of Program Budget Decisions (PBDs). These decision documents are designed to provide the SECDEF with an analysis of the funding and program requirements as requested by the Military Departments or Defense Agencies/ Components along with one or more alternative recommendation(s). A PBD normally highlights problems with program milestones or funding so that the SECDEF has the opportunity to take corrective action, for example, to add funding necessary to meet schedule deadlines or delay funding until problems are resolved. Although this is a combined OSD/OMB review, the PBD process is a mechanism designed to permit the SECDEF to examine DOD programs prior to meeting with the President and the Director of OMB to resolve final levels of Defense spending.

(2) PBDs are prepared by USD(C) analysts with input from the OMB analysts as appropriate. The PBDs are reviewed by senior members of the Comptroller staff, and after approval by the Comptroller, are coordinated simultaneously with the Military Departments and other OSD offices. Following this coordination and consideration of responses received, the PBDs are forwarded to the SECDEF for signature.

(3) In order to ensure that all offices are notified of PBDs on a timely basis, each DON office is requested to provide points of contact and email addresses of the responsible individuals. FMB32 is responsible for updating the standard distribution lists for PBDs annually before the start of the PBD review.

b. Coordination PBDs

(1) Coordination PBDs are sent by the USD(C) to FMB at the time they are circulated for coordination within OSD. The FMB office responsible for receiving the PBD and coordinating all processing is FMB32. DON is normally allowed the opportunity to comment on these drafts, usually within a 24 to 72 hour period. DON positions will be formulated based upon the issues contained in the draft PBD.

(2) Since coordination PBDs are being provided to DON as a courtesy, it is necessary for addressees to respond expeditiously in order that DON comments receive favorable consideration. It is also important that information addressees who are responsible for a portion of a reclama provide their input in sufficient time to meet this deadline.

(3) Upon receipt of a PBD by DON, FMB32 will post the electronic copy of the PBD to the NHBS web site. The copy will include a Routing Information Sheet (RIS) which will specify the lead FMB analyst as well as the reclama and reclama review due dates and times. It is imperative that all dates and times indicated on the RIS are strictly adhered to.

c. Reclamas

(1) Action offices should take several factors into consideration before preparing a reclama. The PBD should be read with a full understanding of the rationale behind it. If necessary, the cognizant FMB analyst should be contacted for purposes of clarification. The reclama should then be written to address the specific issue and rationale used in the PBD. Inclusion of other information, while sometimes appropriate, often detracts from the reclama and almost always lengthens the review time. The reclama should concentrate on factual disagreements, whether they be errors or omissions of fact. While reclamas based on differences of judgment are not always inappropriate, such reclamas should consider which level of authority (and thus perspective) is appropriate for the specific issue. The approach described above will not only optimize the reclama, but will also save time in reclama reviews.

(2) Reclamas should be forwarded with the endorsement of a responsible official of the organization.

(3) Reclamas should be electronically forwarded to FMB32 by the time specified on the RIS, normally the day following PBD receipt and posting by FMB. Each reclama will address a specific PBD issue following the instructions and format provided at the NHBS web site. A point of contact with phone number should be provided for each reclama.

d. Reclama Reviews

(1) Reclama reviews are conducted in order to discuss the issues raised by OSD/OMB in the PBD. All PBDs received generally will be scheduled for a reclama review, even if no coordination comments are planned. Reclama reviews for draft PBDs are normally held the second day following receipt of the draft PBD by FMB and will be conducted in the FMB conference room, 4C742, Pentagon. The Director of Office of Budget reviews all proposed reclamas on the date and at the time specified on the RIS. The assigned FMB lead analyst will present all reclama papers submitted and highlight any other pertinent considerations on all PBD issues. To ensure that all concerns and positions are addressed, representatives from the Secretariat, the Service Headquarters (including appropriation/resource sponsors), BSOs and PEOs/DRPMs may attend as appropriate. Because of time constraints, this review will serve as the only vehicle for internal DON consideration.

(2) Following the FMB reclama review, the assigned action office is responsible for incorporating any required revisions to these reclamas. FMB Division Directors are responsible for forwarding the reclama to their counterparts in the USD Comptroller organization.

(3) The official DON comments on issues are communicated to the USD(C) in a Coordination Memorandum, normally signed by the Assistant Secretary of the Navy (Financial Management and Comptroller). The assigned FMB lead analyst prepares the coordination memorandum on the basis of reclamas submitted and decisions made in the reclama review.

(4) Coordination memos will be available electronically from the NHBS web site.

e. Signed PBDs.

After consideration of comments on the drafts, the USD(C) will finalize the PBDs and forward them for signature, usually by the Deputy Secretary of Defense. After signature, PBDs will be posted to the NHBS web site for viewing by cognizant DON organizations. In the event a significant signed PBD is received for which no coordination was completed within DON, the reclama review procedures outlined for coordination PBDs will be followed in order to formulate a DON position.

f. PBD Status Reports and Electronic Access

(1) The USD(C) operates a control system which documents all decisions in the data base and which provides status reports for OSD management as well as for the Military Departments and Defense Agencies/Components. FMB is responsible for monitoring this control system for the DON, for operating a DON system to supplement the OSD system, and for providing status reports within the DON.

(2) The automated submissions from the Military Departments and Defense Agencies/Components for TOA and military and civilian end strengths are used by OSD to establish a data base for recording all decisions during the OSD/OMB review. After each PBD is signed, all changes are entered into the data base by appropriation, budget activity, and PBD. The system automatically creates the obligation, expenditure, and financing adjustments associated with these decisions. OSD considers its data base to be the official record of budget estimates and decisions. It provides the official OSD input to OMB for printing the President's Budget documents, a series of financial summary tables supporting the President's Budget, and an audit trail of changes from the initial submission of DOD components.

(3) OSD usually provides an electronic set of computer reports with each batch of signed PBDs available from the NHBS web site. These reports are to ensure that the PBD decisions contained in the batch are reflected correctly in the data base. Any errors are brought to the attention of the appropriate OSD analysts by FMB analysts.

(4) FMB maintains various electronic status reports which reflect the daily, cumulative and dollar status of PBD issues. These reports, as well as copies of unclassified coordination PBDs, are accessible to users of NHBS web site, Navy Headquarters

Programming System (NHPS), and Navy Headquarters Information System (NHIS) network at any time and reflect up-to-date information on the PBD process.

6. Final Decisions.

The initial PBDs are considered tentative decisions. Final decisions in the OSD/OMB review result from three separate activities: PBDs responding to DOD component reclamas, the Major Budget Issues meeting, and the SECDEF meeting with the President. Decisions from all three sources, however, are recorded by PBDs.

a. Major Budget Issues Meeting

(1) Near the end of the OSD/OMB review (usually early December) the Secretary of the Navy meets with the Secretary of Defense to discuss signed PBDs which the Department still takes exception in a Major Budget Issue meeting. Usually, the Chief of Naval Operations and the Commandant of the Marine Corps attend this meeting with the Secretary. FMB3B staff is responsible for coordinating Major Budget Issues (MBIs).

(2) Each year, the USD Comptroller issues guidelines governing this meeting, including the schedule, formats of required material, and deadlines for submission of material. The DON, however, is free to select the issues to be discussed. Preparation for this meeting is coordinated by FMB including the issuance of guidance, reviewing the issues that are nominated and the supporting material, providing MBI books for DON principals, and submitting the required material to OSD. Appropriation sponsors are requested to nominate issues and to prepare briefing material for the issues.

(3) Not all issues are resolved at this meeting. Some require additional staff work and some are delayed pending SECDEF's meeting with the President. All decisions are eventually documented by PBD; these PBDs may be new ones or changes ("C" version) PBDs.

b. SECDEF Meeting With the President

(1) Each year the Secretary of Defense and the Director of OMB meet with the President as part of the final Presidential determinations regarding the budget and to resolve any outstanding issues between OMB and SECDEF. The decisions resulting from this meeting can include new inflation indices, end strength numbers, specific Defense program decisions challenged by OMB or of extraordinary national significance, and new Defense Budget totals.

(2) After this meeting, OSD issues PBDs which incorporate the President's decisions in the Defense budget. Similar to the PBDs reflecting MBI decisions, these PBDs may be issued as new ones or as changes ones ("C" versions).

7. Conclusion of the OSD/OMB Review.

The SECDEF meeting with the President concludes the decision-making phase of the OSD/OMB review. However, in addition to the issuance of PBDs documenting these decisions, more work often remains to incorporate these final decisions into the budget estimates.

a. Wrap-up PBDs.

At or near the end of the OSD/OMB review, summary PBDs are normally issued that address the totals approved for each appropriation, correct any major errors, and assess the financing of the revised current year estimates. PBDs also are prepared to incorporate final Congressional action on the current year and its impact on the budget year.

b. OMB Printing Process

(1) OMB establishes a work schedule which is designed to allow the budget document, the Budget of the United States, to be printed in time to be transmitted with the President's Budget Message in early February. The first priority after final Presidential decisions is the incorporation of these decisions in the detail required by OMB.

(2) In early December, after the actual year accounting results have been updated in the budget, the prior year column of the budget is locked by OMB. No additional changes to the prior year column are permitted.

(3) Immediately after Presidential decisions on the current and budget years, OMB establishes TOA and obligation controls by appropriation and budget activity as well as budget authority, outlay, and object class controls by appropriation. Once these controls are established and provided to OMB in galleys of the Budget, no additional changes are allowed.

c. DON Controls for the President's Budget

(1) Final decisions must also be incorporated into the detailed budget. Often final decisions are not specific and may affect all or virtually all line items in the budget. In these cases, appropriation and budget activity controls are sometimes established by OMB and OSD before the line item distribution is completed.

(2) FMB issues controls by appropriation, budget activity, line item, activity/sub-activity group and special interests (O&M); program element (R&D), and project (R&D, MCN, MCNR, FHCON). Civilian personnel workyear controls are issued by appropriation, fund, budget line item, and type of hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect, direct and reimbursable). Normally, these controls are initially issued at the appropriation level with the detailed controls below that level issued only to affected budget submitting offices. No deviations from these controls are permitted.

8. Schedule.

The specific schedule for the various events involved in the OSD/OMB budget review varies each cycle. The schedule is keyed to the need to submit the President's Budget to Congress on the first Monday in February. OMB has established 15 September as the standard due date for the biennial budget submission to OSD/OMB. The schedule of key events for the OSD/OMB budget review is as follows:

	Event	Date
1.	Issue budget guidance	Early August
2.	Issue appropriation/manpower controls	Late August-Early September
3.	Submission to FMB	Early September
4.	Submission to OSD/OMB	15 September
5.	OSD/OMB hearings	Late September-October
6.	Deadline for Additional Budget Submissions	30 September
7.	PBDs issued by OSD	October-December
8.	Actual Year Update	Mid-Late November
9.	MBI meeting	Early- Mid December
10.	SECDEF meeting with President	Late December
11.	Final decisions	Early January
12.	Issue controls and budget guidance for President's Budget	Early-Mid January
13.	President's Budget to Congress	Early February

Specific dates are published in FMB Budget Guidance Memoranda.

CHAPTER 5

Submission of the President's Budget and the Congressional Review

By law the President is required to transmit an annual budget request to the Congress for the entire Federal government. In accordance with the Constitution, only the Congress can propose the appropriation of federal money. This chapter describes how the President, through OMB and OSD, fulfills this legal responsibility and how the Congress carries out its Constitutional responsibility. It also provides guidance and instructions for the DON's participation in both the submission of estimates supporting the President's Budget and in the Congressional review process.

1. Overview of the Process.

The starting point for the Congressional review phase of the budget process is the President's transmittal of the budget to the Congress. Within the Executive Branch, however, preparation of material supporting the President's Budget begins near the end of the OSD/OMB budget review. OMB establishes topline agency budget controls after final Presidential decisions, OSD establishes appropriation controls within this topline by issuance of final PBDs, and finally FMB establishes line item and budget submitting office controls within these appropriation controls. These controls are established to allow OMB, OSD, and the DON to prepare budget documents and justification material that consistently support the President's Budget from the total federal level down to the individual program and line item level. After receipt of the President's Budget, the Congress conducts hearings with Executive Branch representatives, ranging from the Director of OMB and the Secretary of Defense to individual program managers in the DON. After reviewing the President's Budget in committees, the Congress approves a budget resolution, binding only on the actions of its committees, which sets ceilings on the total Federal budget and the National Defense function. It then approves legislation authorizing the establishment and nature of federal programs and approves legislation which would appropriate money to fund these programs. In addition to participating in the Committees' reviews of the budget, the Department of Defense participates in the legislative process by providing to the Committees, over the signature of the Secretary of Defense, its views on differing authorization and appropriation bills proposed by the two bodies of Congress. Upon occasion, the President will transmit to the Congress an amendment to the budget request before the Congress passes the appropriation bills, and will transmit supplemental appropriation requests after the Congress has enacted the regular appropriations.

2. Purpose and Objectives.

The budget estimates submitted to, and reviewed by, the Congress provide the basis for the Congress to make the final resource allocation decisions that result in the enactment of appropriations.

a. The President's Budget.

The Budget and Accounting Act of 1921 requires that the President submit to the Congress an annual budget request for the entire Federal government. This law enables the President to use the "power of the purse" to establish national priorities through the budget process. The President's Budget submitted to the Congress sets forth the overall financial plan for the Federal Government indicating the priorities and proposals for government programs and financing as well as the detailed budget requests for the individual departments and agencies. Within the DON, the development of estimates included in the President's Budget occurs during the DON and OSD/OMB budget reviews. Budget submitting offices participate in those reviews and are also responsible for the initial preparation of much of the justification material supporting the budget estimates provided to the Congress. This ensures that offices responsible for executing the budget also participate in its formulation.

b. The Congressional Review.

The Congress carries out much of its Constitutional authority over Federal revenue and spending through the process of reviewing and marking up the President's Budget request. Article 1, Section 8 of the Constitution states that...."The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; Article 1, Section 9 states that "No money shall be drawn from the Treasury but in Consequence of Appropriations made by Law;...." Within the DON, procedures have been developed to allow participation to the extent possible in the Congressional process by budget submitting offices and sponsors to ensure that the offices responsible for budget execution and program development provide necessary support for the budgeted program and are aware of the reasons for decisions made in this process.

3. The President's Budget Submission to the Congress.

The budget submission to the Congress begins with the publication of control numbers. It includes the transmittal of the President's Budget message and the preparation and submission of budget documents by OMB, OSD, and the DON. It also includes the transmittal of any subsequent budget amendments and supplementals. This section generally describes the budget submission to the Congress, while Part IV provides detailed guidance on required budget documents.

a. Publication of Control Numbers

(1) The issuance of control numbers is both the final step in the OSD/OMB budget review and the first step in preparing the President's Budget. Controls are issued by OMB to the Department of Defense, by OSD to the Department of the Navy, and by FMB to individual budget submitting offices within the Department of the Navy.

(2) Although OMB sets controls initially at the DOD total level, OSD is required to establish controls at the level of detail used in the OMB budget publications (e.g., appropriation, budget activity, object class). OSD in turn issues controls by appropriation and budget activity, but requires that the DON establish controls at the level of detail that is used in OSD budget publications (e.g., procurement line items, R&D program elements, MILCON projects).

(3) The controls issued by FMB reflect the constraints established by OMB and OSD as well as those established within the DON. They form the basis for the preparation of all material supporting the President's Budget by all offices throughout the DON bearing responsibility for preparing budget material. The use of these controls by all offices ensures that the Department's budget estimates are consistently presented along with those of OMB and OSD.

b. Appropriation and Authorization Language and Other Proposed Legislation.

The President's Budget is submitted to the Congress in the form of proposed legislation of three categories: proposed appropriation bills, proposed authorization bills, and other proposed legislation. The proposed appropriation bills contain statutory language for each appropriation as well as a set of general provisions. The proposed authorization bills contain the necessary language for each authorization title and a set of general provisions. In those cases that the budget estimates depend upon changes in other legislation, OMB requires that proposed legislative changes be prepared in support of the President's Budget. Such legislative proposals are normally transmitted to the Congress separately from the President's Budget. While the appropriations requests do not normally include the financial impact of changes in other legislation, this financial impact is identified in the budget estimates under the category of proposed legislative changes.

c. The Budget Message of the President and OMB Published Documents.

The President's Budget message to the Congress is a major policy statement in which the President sets forth priorities for allocating national resources. It discusses problems facing the nation, identifies goals, programs and policies to address these problems, explains the overall revenue and spending plans in support of programs and policies, and reports on past accomplishments. The budget documents prepared by OMB expand on the themes contained in the President's message and provide detailed information on the various appropriations and funds that comprise the budget.

d. The Secretary of Defense's Annual Report to the President and the Congress and Other DOD Budget Documents.

This report is the Secretary's policy statement concerning National Defense. The Office of the Secretary of Defense also publishes documents which provide summary statistical and programmatic overviews of the Defense Budget.

e. DON Posture Statements and Summary Documents.

The Secretary of the Navy, the Chief of Naval Operations, and the Headquarters, Marine Corps prepare posture statements for the Congress which provide their views on the state of the DON and its two component military services. FMB publishes documents which provide statistical, budgetary and programmatic highlights of the DON budget.

f. Detailed Budget Justification Material

(1) Several books are prepared for each appropriation which constitute the formal justification of the budget estimates. Information and data are provided by entitlement category for the Military Personnel appropriations, by budget activity and activity group for the Operation and Maintenance accounts, by budget activity and line item for the Procurement appropriations, by program element and project for the RDT&E appropriations, by budget activity and project for the Military Construction and Family Housing appropriations, and activity group for the Navy Working Capital Fund. Information on selected special interest areas such as communications, intelligence, and information technology is provided to specific OSD organizations for inclusion in OSD budget books.

(2) These books include the Justification of Estimates, O&M Data Book, Committee Staff Procurement Backup Books, and the Budget Item Justification Sheets.

g. Other Supporting Information.

In addition to the material submitted to the Congress as justification for the President's Budget Request, other material is prepared for both Congressional and internal DOD use which must be consistent with the President's Budget. The Future Years Defense Program is updated after submission of the President's Budget to agree with the estimates included in the budget. Selected Acquisition Reports (SARs) submitted to the Congress in February each year must agree with the estimates included in the President's Budget. Other reports required by the Congress which display resources, such as the Defense Manpower Report, must also be consistent with the resources contained in the President's Budget.

h. Budget Amendments, Supplemental Requests, and Rescission Proposals.

While the President is required annually to submit a budget to the Congress, that request may be amended at any time before the Congress has enacted appropriations. This amendment may take the form of off-setting changes, an increase, or a decrease to the original budget request. If the Congress has already enacted appropriations, the President may request additional appropriations in the form of supplemental appropriations or propose that funds previously appropriated be rescinded. Normally, the President transmits supplemental requests and proposes rescissions for the current fiscal year along with the annual budget request. In all cases the Congress requires a formal transmittal from the President before recognizing an Executive Department amendment, supplemental request, or rescission. However, the Congress can initiate a supplemental appropriation or rescind previous appropriations without a request from the Executive Branch.

4. The Legislative Process.

Under the basic legislative process, Congress approves appropriation and authorization bills which become law when signed by the President or by Congressional override of a veto.

a. The Creation of a Law

(1) A member of either the House or the Senate must first introduce a bill. The leadership of the House or Senate refers the bill to one or more committees. The bill may then be referred to a subcommittee, or the full committee may take action on it.

(2) The subcommittee or committee holds hearings (gathers information) on the bill, and then marks it up (votes to approve it with or without changes). If handled at the subcommittee level, an approved bill is next reported to the full committee where it is marked up. After committee approval, the bill is reported to the full House or Senate for a vote.

(3) The House floor procedure is governed by a rule on the amendment process for each bill which may limit the number or nature of amendments allowed. In the Senate, any member can offer amendments to a bill under consideration. After debating and voting on any proposed amendments, the members vote on the entire bill, as amended. Passage of appropriations and authorization bills usually requires a majority vote. If passed, a bill is sent to the other body for consideration.

(4) If significant differences exist in bills which have been passed by the House and the Senate, then a conference committee is formed to reconcile the differences. Each body appoints its own members, usually (but not necessarily) from the committees originating the bill. Once the conference committee has approved a bill, it is reported back to the full House and Senate. If the majority of House and Senate members approve the compromise bill, it becomes an enrolled bill and is sent to the President. If either disapproves, it is returned to Conference.

(5) The President may sign legislation approved by Congress, veto it, or choose not to sign it. If the President signs the legislation, it becomes law. If the President vetoes it, it is returned to the Congress which may then vote to override the veto. If a two-thirds majority of both the House and Senate vote to override the President's veto, the legislation becomes a law. If the President chooses not to sign the legislation, it becomes a law after ten days if the Congress is in session. If the Congress has adjourned its second session, then the legislation becomes void. This is called a "pocket veto." In this case, the Congress has no opportunity to override the President's decision.

b. Legislation Required for the DOD Budget

(1) Congressional approval of the Department of Defense Budget normally requires the enactment of a concurrent budget resolution (binding only on Congress) and three public laws.

(2) The budget resolution sets spending totals for the Federal Government and for the Defense Function overall.

(3) The three public laws provide first for authorization of appropriations, and secondly, for the appropriations themselves. The three acts are entitled as follows:

National Defense Authorization Act
Department of Defense Appropriation Act
Military Construction Appropriation Act

(4) In addition, supplemental requests and rescission proposals also require Acts of Congress. Supplementals and rescissions may be approved by the Congress in separate acts or may be included in one of the basic appropriation acts.

(5) The next three sections of this chapter describe the budget resolution, authorization acts, and appropriation acts in more detail.

5. The Budget Resolution and Enforcement Procedures.

The requirement for a budget resolution originated in the Congressional Budget and Impoundment Control Act of 1974. The Budget Act enables more effective consideration of budget matters by requiring government-wide budget estimates, including revenues, expenditures, the deficit and public debt, be approved by Congress before individual authorization and appropriation bills are enacted.

a. Enforcement.

The concurrent budget resolution is approved by both the House and the Senate, but it does not require the President's signature and it does not have the force of law. Instead, the budget resolution controls the budgetary actions of the committees within Congress through a series of procedures and prohibitions provided in the Budget Act.

b. Composition of the Budget Resolution.

The budget resolution sets forth the government-wide levels of budget revenues, outlays, budget authority, deficit or surplus, and the level of Federal debt for the coming fiscal year. It also distributes budget authority and outlays by broad functional categories (e.g., National Defense, Education, Health, etc.). Recent amendments to the Budget Act contain specific ceilings (or caps) on the total level of appropriated budget authority and outlays which the budget resolution cannot exceed within the aggregate totals.

c. The Committees Involved.

The budget resolution falls under the jurisdiction of the Budget Committees in both the House and the Senate. These committees do not have any subcommittees.

d. Hearings.

The Budget Committees conduct broad hearings with senior officials from the Executive Branch, Members of Congress, and experts from the private sector. Normally, Executive Branch witnesses include the Director of the Office of Management and Budget, Secretary of the Treasury, and selected agency heads (e.g., the Secretary of Defense). The committees may also hold hearings on particular subjects which could involve witnesses from the DON.

e. Other Information Gathered by the Budget Committees.

By 25 February of each year the Appropriations and other standing committees of the House and Senate are scheduled to provide a report to the Budget Committees which recommends funding levels in their areas of jurisdiction. These reports tend to be extremely broad in their discussions of funding priorities. The Congressional Budget Office also submits a report by 15 February which evaluates the President's Budget request. Finally, Budget Committee Members or their staff may request individual briefings or specific information from the Executive Branch.

f. Committee Reports and Floor Action.

The Senate Budget Committee is scheduled to report a budget resolution by 1 April. The House Budget Committee usually acts before the Senate Budget Committee. The two committees prepare their budget resolutions and reports independently and the resolutions are debated and amended on the floor of each body. After both the House and Senate have passed their versions of the budget resolution, a conference committee is formed, normally with members selected from the Budget Committees. The conference then works out a compromise resolution which is reported to both bodies for approval. Congress is scheduled to complete action on the budget resolution by 15 April, followed by the start of appropriation action. However, should final action on the budget resolution not occur by 15 May, consideration of appropriation bills can begin in the House.

g. The Budget Resolution and Appropriation Ceilings

(1) The budget resolution sets spending targets for the functional categories as guidelines to be followed by the Appropriations Committees. However, as noted before, the sum total of the budget resolution's discretionary spending assumptions must stay within the discretionary appropriation ceilings previously set in law.

(2) Following approval of the budget resolution by the House and Senate, the Budget Committees allocate to the appropriations committees the budget authority and outlays available to them under the discretionary ceilings. The appropriations committees must then publicly report their planned subdivision of these totals to appropriation subcommittees, including the defense-related subcommittees. The reported appropriation bills cannot exceed the subcommittee allocations without being subject to objection or point of order on the floor of either body. Such points of order can preclude further consideration of the bill.

(3) Toward the end of the appropriations process, the subdivision for the defense-related appropriation bills and other appropriation bills is often adjusted while maintaining the original Budget Committee allocation for total discretionary budget authority and outlays.

(4) In addition to the Budget Act restrictions on appropriation bills relative to the discretionary appropriation ceilings, any spending created outside the appropriations process which would cause a budget resolution's spending aggregates to be exceeded, or any tax bill which would cause revenues to be reduced below the aggregate level, is subject to a point of order.

h. Scorekeeping.

The Budget Committees, assisted by the Congressional Budget Office (CBO), closely monitor appropriation bills to identify any conflict with a completed budget resolution or Budget Act requirements in general. Congressional Budget Office reports detail the estimated cost of each reported appropriation bill (budget authority and estimated outlays) and its relationship to the Appropriations Committees' discretionary spending allocations. Members of Congress can use the CBO scorekeeping reports as the basis for their objection to the consideration of a particular appropriation bill. In some cases, consideration of an appropriation bill by the House or Senate will be postponed until it is altered to satisfy the budgetary objections.

i. Reconciliation Bill.

The aggregate spending and revenue totals approved in a budget resolution often assume anticipated savings in programs that do not require annual review, usually entitlement programs such as food stamps, as well as anticipated revenue increases. Rather than consider individual bills from many committees to address the required changes in law to achieve these savings or revenue increases, the legislation is combined in an omnibus reconciliation bill. The committees involved are directed by a completed budget resolution to report legislation to the Budget Committees which achieve specified savings or revenue increases. The Budget Committees consolidate the legislation and manage consideration of the reconciliation bill through House, Senate and conference committee action. A reconciliation bill, like an appropriation bill, requires enactment into law. Any reconciliation process must be completed by 15 June in the House.

6. The Authorization Process.

The requirement for a Defense authorization originated in the enactment of section 412(b) of Public Law 86-149 in 1959. This law has been amended many times since then and is now codified in Title 10 of the United States Code, Section 138.

a. Introduction

(1) Annual authorizing legislation is required for almost all Department of Defense appropriations, including operation and maintenance, procurement, research and development, military construction, family housing construction, and the Navy Working Capital Fund. The authorizing legislation establishes individual programs and how they will operate and often sets a maximum ceiling on the amounts that may be subsequently appropriated by the Congress. The authorization acts do not convey authority to obligate or expend funds. Such authority is contained only in appropriation acts.

(2) The annual authorizing legislation establishes a ceiling on active military and average reserve strength, and on military training levels.

(3) The authorizing legislation also contains general provisions that require the Department to take certain actions, place limits on the activities of the Department, or provide the Department some discretion or flexibility in carrying out the act. For example, general provisions might require the Secretary of Defense to submit a report on some program, might limit procurement of some program to American companies only, or might allow the Secretary of Defense to exceed end strength levels under certain conditions. These general provisions may also contain revisions to permanent legislation which affects the Department.

(4) All authorization is contained in the National Defense Authorization Act. After enactment, the Congress may amend this act. For example, if the Department submits a supplemental appropriations request, it may be necessary for additional authorization legislation to be enacted before supplemental appropriations can be passed.

(5) The National Defense Authorization Act normally contains the following categories (titles) of authorization:

Division A
I Procurement
II Research, Development, Test, and Evaluation
III Operation and Maintenance
IV Military Personnel Authorizations
V Military Personnel Policy
VI Compensation and Other Personnel Benefits
VII Health Care
VIII Acquisition Policy, Acquisition Management
IX DOD Organization and Management
X General Provisions

Division B

Military Construction/Family Housing

Division C

Department of Energy National Security Authorization

b. *The Committees Involved*

(1) The authorization bill falls under the jurisdiction of the House and Senate Armed Services Committees.

(2) Both committees review the President's Budget and develop the authorization bill through subcommittees. The House Armed Services Committee currently has the following subcommittees:

- Research and Development
- Procurement
- Military Personnel
- Readiness
- Military Installations

The Senate Armed Services Committee currently has the following subcommittees:

- Seapower
- Airland
- Readiness and Management Support
- Strategic
- Personnel
- Emerging Threats and Capabilities

Both committees may establish new subcommittees or disestablish existing ones at their own discretion.

c. Hearings

(1) The House and Senate Armed Services Committees and their subcommittees gather information for marking up the authorization bill through the process of hearings. Hearings may be held by either the full committee or the subcommittees.

(2) Normally the first hearings held are posture hearings conducted by the full committee with the Secretary of Defense and the Chairman of the Joint Chiefs of Staff. They are followed by posture hearings with the Secretaries of the Military Departments and the Service Chiefs.

(3) Following the posture hearings, more detailed hearings are conducted by the subcommittees, although the full committees may also conduct additional hearings on detailed subjects that are of interest to the full committee. Witnesses at these hearings may include Deputy, Under, and Assistant Secretaries from throughout the Defense Department, senior military officers and civilian executives, and individual program managers or sponsors.

(4) The committees or subcommittees may also conduct hearings with witnesses from outside the Department of Defense, including former military and civilian officials and academic, technical, or business experts.

(5) Hearings may be closed or open. Normally, hearings are closed whenever it is necessary to cover classified subjects. Unclassified subjects are covered in open hearings with the public free to attend.

(6) All testimony at hearings is recorded to allow a subsequent publication of an unclassified record of the hearings.

d. Other Information Gathered by the Committee.

The committees also gather information relevant to their review of the budget by other means. The committees have, of course, all the supporting documentation submitted in support of the President's Budget. The members and staff supplement this information by visiting military installations or Defense contractors, by requesting briefings on specific subjects, or simply by requesting that additional information or answers to questions (either in writing or verbally) be provided by the Department. The committees also review General Accounting Office (GAO) and other audit reports which are relevant to the Department's budget request.

e. Committee Reports and Floor Actions

(1) The authorization bill requested by the President is referred to the House and Senate Armed Services Committees. Each portion of the bill is first marked up by the cognizant subcommittees. Each proposed change is voted on and then the entire section, as amended, is voted on and, if passed, reported to the full committee.

(2) The full committee then considers the bill as reported by the subcommittees. Proposed changes are considered as amendments to the bill. The full committee then votes on the bill, as amended, and, if approved, reports the bill to the floor. The Department receives a copy of the full committee report shortly after the bill is reported to the floor.

(3) On the floor of the House and Senate the bill is defended by the Chairmen of the authorization committees. In the House, the bill may have a rule limiting amendments to certain Members for certain amendments. In the Senate any Member can offer amendments. Amendments in order are debated and then voted on. After consideration of all amendments, the bill, as amended, is then voted on. Once a bill is approved by both bodies it is then sent to conference for resolution of any significant differences and reported back to each body for final approval.

f. The Conference Bill and Final Legislation

(1) In view of the varying concerns of the House and Senate, a conference is almost always necessary. The members of the conference committee are normally appointed from the membership of the authorizing committees.

(2) The conference does not consider any changes in those cases where the bill from the House and the bill from the Senate are identical. For example, if both bills reduce a specific program by $50 million from the President's request, that program will not be addressed by the conference. The conference only addresses differences that exist between the two bills. For example, if the House bill cuts a program by $50 million and the Senate bill adds $50 million to the same program, then the conference may approve either the full decrease, the full increase, or something in between.

(3) In considering differences between the two bills, the conference usually takes into account the DOD position which is provided by the Secretary of Defense.

(4) After approval by the conference, the Authorization Bill is reported to both the House and Senate for approval. A copy of the conference report is made available to the Department. If either body disapproves, it is returned to the Conference. If both approve, it goes to the President for signature.

7. The Appropriations Process.

As stated in Chapter 1, the requirement for appropriations originating from the Congress is contained in the Constitution. The appropriations process followed by the Congress is its way of carrying out this responsibility. The Congress may appropriate funds with many constraints, or with almost no constraints, for a very narrow purpose, or for a broadly defined purpose. The Congress has the power to decide what will be appropriated and how it will be appropriated.

a. Introduction

(1) The Congress handles appropriations for the Department of Defense in two acts: the Department of Defense Appropriation Act and the Military Construction Appropriation Act. Supplemental appropriation requests require additional acts, which may be drafted in a way to cover government-wide requirements or only those of the Department of Defense.

(2) The Department of Defense Appropriation Act normally contains the following categories (titles) of appropriations:

I Military Personnel
II Operation and Maintenance
III Procurement
IV Research, Development, Test, and Evaluation
V Revolving and Management Funds
VI Other Department of Defense Programs
VII Related Agencies
VIII General Provisions

The Military Construction Appropriation Act normally contains the following categories of appropriations.

Military Construction
NATO Infrastructure
Family Housing
Base Realignment and Closure

These acts provide the specific amounts appropriated, the purpose for which the funds are appropriated, and general provisions applicable to the appropriations.

(3) Unless otherwise specified, the general provisions apply to all appropriations contained in the act. Like those in the Authorization Act, many require the Department to take certain action, place limits on the Department's appropriations, or

provide greater flexibility than contained in the language of the individual appropriations. For example, a general provision might require the Secretary of Defense to submit a report, might limit obligation of funds for some kind of activity (such as travel), or might allow the Secretary of Defense to transfer funds from one appropriation to another under certain circumstances.

b. The Committees Involved

(1) Appropriation bills fall under the jurisdiction of the Appropriations Committees of both the House and Senate.

(2) Both committees review the President's Budget request for Defense through two subcommittees responsible for one of the two acts. In the House this is the Subcommittee on Defense and the Subcommittee on Military Construction. In the Senate it is the Subcommittee on Defense Appropriations and the Subcommittee on Military Construction.

c. Hearings

(1) The Appropriations Committees and their subcommittees gather information for marking up the appropriations bills through the process of hearings. Hearings may be held by either the full committee or the subcommittees, but in the case of the Defense bills, virtually all hearings are conducted by the two subcommittees responsible for the bills.

(2) The first hearings normally held are posture hearings with the Secretary of Defense and the Chairman of the Joint Chiefs of Staff. They are followed by posture hearings with the Secretaries of the Military Departments and the Service Chiefs. Budget overview hearings are also held with the Commanders-in-Chief of Unified and Specified Commands, Under Secretary of Defense (Comptroller) and the Budget Officers from the Military Departments.

(3) The subject of follow-on hearings can be entire appropriation titles, individual appropriations, mission areas, or specific programs. Witnesses at these hearings include Deputy, Under, and Assistant Secretaries from throughout the Defense Department, senior military officers and civilian executives, and individual program managers or sponsors.

(4) The subcommittees may also conduct hearings with witnesses from outside the Department of Defense, including former military and civilian officials and academic, technical, or business experts.

(5) Hearings may be closed or open. Normally, hearings are only closed whenever it is necessary to go into classified subjects. Unclassified subjects are covered in open hearings with the public free to attend.

(6) All testimony at hearings is recorded to allow the subsequent publication of an unclassified record of the hearings.

d. Other Information Gathered by the Committees.

The committees also gather information relevant to their review of the budget by other means. They have all the supporting documentation submitted in support of the President's Budget. The members and their staffs supplement this information by visiting military installations or Defense contractors, by requesting briefings on specific subjects, or simply by requesting that additional information or answers to questions (either in writing or verbally) be provided by the Department. The committees also review GAO and other audit reports which are relevant to the President's Budget request. Finally, the House Appropriations Committee may request the Surveys and Investigations (S&I) staff to gather information and prepare reports in areas that the committee has an interest.

e. Committee Reports and Floor Action

(1) Appropriations as requested by the President are introduced as bills in the House and Senate and referred to the appropriations committees. By long-standing custom, appropriation bills originate in the House. Thus, the House Appropriations Committee develops their bill in response to the President's request and the Senate Appropriations Committee usually amends the bill passed by the House.

(2) Each bill is first marked up by the cognizant House subcommittee. Each proposed change to the bill is voted on and, if passed, reported to the full committee. The Department usually obtains a copy of the subcommittee (unnumbered) report at this time.

(4) The full House Appropriations Committee then considers the bill as reported by the subcommittee. Proposed changes are considered as amendments to the bill. The full committee then votes on the bill, as amended, and, if approved, reports the bill to the floor of the House. The Department obtains a copy of the report (numbered) after it is sent to the House floor.

(5) Since an authorization bill normally precedes the appropriation bill, the House Appropriations Committee will not send an appropriation bill to the floor until the necessary authorization has at least passed the House. Otherwise, any member may raise a point of order and have the appropriation bill withdrawn from the floor.

(6) On the floor of the House the bill is usually defended by the subcommittee chairman responsible for it. After debating and voting on any amendments allowed by the rule governing consideration of the bill, the bill, as amended, is voted on. If it passes, it is sent to the Senate.

(7) A similar process is followed in the Senate, except that the Senate committee marks up the House-passed bill rather than the President's proposal. The Senate committee also may request that the Department of Defense provide its position on all changes that the House made to the President's request. This is discussed in the appeals section (Section 9) later in this chapter.

(8) The Senate Appropriations Committee not only waits for the House to complete its action on the appropriation bill, it also normally waits for the final authorization act before reporting a bill to the Senate floor. Sometimes, however, subcommittee or full

committee action is partially completed prior to the House completing its appropriation bill or the Congress completing the authorization act. On occasion the Senate Appropriations Committee will report out the bill while the authorization act is still in conference. In those cases the conference for the appropriation bill should correct any inconsistencies between the authorization act and the appropriation bill.

(9) Once on the floor of the Senate, the appropriation bill is processed similar to the way it is processed in the House except that the amendment process is much less constrained by rules of the Senate. Once passed by the Senate, the bill is sent to a conference committee to resolve differences with the House.

f. The Conference Bill and Final Legislation

(1) In view of the varying concerns of the House and Senate, a conference is almost always necessary. Members of the conference committee are normally appointed from the membership of the Appropriations Committees.

(2) As is the case with the authorization conference, the committee only considers changes in those cases in which the two bills differ.

(3) In considering differences between the two bills, the conference usually takes into account the DOD position which is provided by the Secretary of Defense.

(4) After approval by the conference, the appropriation bill is reported to both the House and Senate. A copy of the report is obtained by the Department. If either body of Congress disapproves, the bill is returned to conference. If both approve, it goes to the President for signature.

8. Guidance for Department of the Navy Participation.

The Congressional budget review requires the participation of many offices and personnel in the DON. This participation includes preparing witness statements, testifying at hearings, reviewing testimony, answering questions for the record, briefing committee or staff members, answering ad hoc questions, and preparing backup or point papers for DON witnesses. This section provides guidance for each of these activities. The Office of Legislative Affairs annually publishes a booklet entitled Navy Witness Guide which provides helpful guidelines and instructions for DON witnesses.

a. Policy Guidance

(1) Whether testifying before a Congressional Committee, briefing a committee staff, or providing an answer to an ad hoc question, two policies set by the Office of Management and Budget must be followed.

(2) Witnesses representing the DON must support the President's Budget.

(a) Witnesses will give frank and complete answers to all questions.

(b) Witnesses will avoid volunteering personal opinions that reflect positions inconsistent with the program or appropriation requests the President has transmitted to the Congress.

(c) In responding to specific questions on program and appropriation requests, witnesses will refrain from providing plans for the use of appropriations that exceed the President's request. Witnesses, typically, bear responsibility for the conduct of one or a few programs, whereas the President must weigh carefully all of the needs of the Federal Government, and compare them against each other and against the revenues available to meet such needs. Where appropriate, witnesses should call attention to this difference in scope of responsibility in explaining why it is not proper for them to support efforts to raise appropriations above the amounts requested by the President.

(d) Witnesses should be careful that their communications are not perceived to be an estimate, request for an appropriation, or an increase in an item of any such estimate or request. Witnesses are expected to support the President's budgetary decisions and seek adjustments to those decisions only through established procedures for budget amendments or supplemental appropriation requests if the Secretary of the Navy and the Secretary of Defense determine such action to be necessary.

(3) Disclosure of information about the President's Budget is restricted to that contained in or submitted in direct support of the President's Budget.

(a) No information concerning the President's Budget may be provided outside the Department until the President has transmitted the budget to the Congress.

(b) The President's Budget contains detailed budget estimates for the budget years of programs approved during the Planning, Programming, and Budgeting System process. Data beyond the budget period is contained in budget backup documents and the selected acquisition reports. DON personnel are free to discuss the data contained in the President's Budget and backup documents within the limits of security classifications and public release restrictions (information limited to official use).

(c) Budget estimates, justification material, and decision documents used during the DON and OSD/OMB budget reviews are not to be provided outside the Department unless requested in formal appropriation hearings by a Member of Congress in connection with the review of the budget after it has been transmitted to the Congress.

(d) Since the formulation of the next budget overlaps the Congressional review of the previous budget, this policy is sometimes difficult to follow. A DON official could participate in the morning in a decision affecting a program in the POM and in the afternoon could be testifying before the Congress in support of that same program as it is contained in the President's Budget. However, it is important to remember that decisions made in the POM, PDM, and DON Budget review are subject to change until such time as the President submits the budget to the

Congress. Any premature disclosure of such tentative decisions potentially could pre-empt the Presidential responsibility for developing and submitting the budget to the Congress.

(e) The Future Years Defense Program and related programs data bases are classified documents and contain decisions made during the PPBS process. The period beyond the budget years reflects internal DOD planning assumptions which have not undergone the same degree of budget scrutiny and are not presented in the level of detail found in budget documents. By DOD policy, this data may not be released outside the Executive Branch without the expressed written consent of the USD(C). The Future Years Defense Program is usually released by DOD to Congress in order to provide the larger context within which specific budget decisions are made. However, DON personnel may not discuss Future Years Defense Program data, except as reflected in the budget data discussed in paragraph (b) above. Any request for such Future Years Defense Program data, whether from the Congress or the public, should be referred to the Office of Budget (FMB32).

(f) SECNAVINST 5740.26A of 15 January 1998, provides specific guidance on how to respond to General Accounting Office (GAO) requests for access or release of information. Any requests from GAO for budgetary information or Future Years Defense Program data should be referred to the Office of Budget (FMB32).

b. Witness Statements

(1) The FMR (page 1-107) provides general guidance on the preparation of witness statements. The Office of Legislative Affairs (OLA) or the Office of Budget (FMBE) provides specific instructions and guidelines for preparing witness statements.

(2) Statements are normally required only of the principal witness at a hearing.

(3) The different committees have different requirements for statements. It may be necessary to prepare a summary statement or an unclassified statement along with the regular statement.

(4) The committees usually require statements in advance of the scheduled hearings. In addition, all statements are reviewed by OSD for security and policy clearance. OLA or FMBE are responsible for obtaining the OSD clearances and for delivering the statements to the committees.

(5) The staff of the principal witness is responsible for preparation of the statement in accordance with the instructions and schedules issued by OLA or FMBE. The staff is also responsible for ensuring that the content is consistent with the President's Budget.

c. Testifying at Hearings.

In testifying before a Congressional Committee, briefing a committee staff, or providing an answer to an ad hoc question, DON personnel must adhere to the Department's policies stated in paragraph 8.a. of this section. Witness lists for all hearings are coordinated through either

OLA or FMBE. Normally, testimony at the hearings is given by the principal witness. Supporting witnesses testify only when asked by the principal witness or when a member of the committee specifically directs a question to them.

d. Review of Transcripts

(1) The FMR (Volume 2A, Chapter 1) provides general guidance on transcript processing. The Congressional committees have granted the Department's witnesses the courtesy of editing transcripts before they are printed for the record. This privilege is conditioned on the Department's meeting the Congressional suspense dates and not abusing the privilege by substantially altering the testimony. Editorial changes must be limited to correcting factual and grammatical errors and to clarifying meaning by punctuation or minor word changes. It is imperative that "over editing" does not occur because the committees will return transcripts that are "over edited."

(2) Witnesses and their staffs are responsible for reviewing these transcripts in accordance with the instructions and schedules set by OLA and FMBE . They are also responsible for ensuring that the edited testimony is factually correct.

e. Questions and Inserts for the Record

OLA and FMBE provide instructions each year on how to process such questions.

(1) Often there is not enough time during the hearings for the committee members to ask all the questions that they have about the budget request. Accordingly, they will give the witnesses questions to be answered for the record. These questions are answered in a specified format and provided back to the committees along with the transcript of the hearing.

(2) If a witness cannot answer a question or if the committee desires amplifying information which is too complex or detailed for testimony, this information is usually provided as an insert to the record. These inserts are also prepared and processed with the transcripts. Specific instructions are provided by OLA and FMBE.

f. Briefings and Other Questions

(1) Quite often committee members or their staffs will request briefings or ask questions on specific programs outside the formal hearings process. All briefings and answers to questions must be coordinated through OLA and FMBE.

(2) Offices assigned responsibility for preparing the briefings or responding to the questions must treat these requests as if they were part of the formal hearing process. The instructions and deadlines issued by OLA and FMBE must be followed. The information provided must support the President's Budget.

g. Point Papers and Backup Papers

(1) Many point papers or backup papers are prepared to brief the Secretary of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps and other senior officials in preparation for their testimony before the Congress.

(2) The offices preparing these papers are responsible for ensuring that the information contained in these papers is consistent with the President's Budget.

(3) To ensure this consistency, all papers prepared for the SECNAV and CNO which contain budget information are reviewed by the Fiscal Management Division (N82)/ Office of Budget (FMB). Similarly, papers prepared for the CMC are reviewed by the Fiscal Division (FD).

(4) Secretariat witnesses should similarly clear briefing papers prepared for them with FMB.

9. Department of Defense Appeals.

After receiving committee reports on the authorization and appropriations bills, the Department of Defense prepares appeals which provide the Department's position on the changes approved by the committees. The FMR (Volume 2A Chapter 1) provides general guidance on the appeals process.

a. Policy

(1) Appeals are forwarded to relevant Congressional committees by the Secretary of Defense. The positions taken in these appeals are the position of the Secretary.

(2) Generally, appeals are required to support the original President's Budget. Additions to the budget are normally not supported by the Secretary. Reductions to the budget may be accepted if the Department agrees with the reasons for the reductions.

(3) Appeals are usually sent to the Senate committees after House committee action with additional appeals as necessary after House action. Appeals are always provided to the conference committees.

b. Procedures

(1) USD(C) provides general guidance and procedures to the DON for the appeal procedures. The Office of Budget establishes the internal DON policies and procedures to be used in responding to House and Senate actions on the defense authorization and appropriations requests. Detailed guidance on the preparation of appeals is contained in Chapter 12 of Part IV of this manual.

(2) Appeals are submitted in two parts, (1) a letter from the Secretary of Defense to the respective Committee Chairman requesting support for the Department's position on the most critical issues, and (2) a package of appeals stating the Department's

position on funding adjustments and on bill language items with which the Department takes exception.

(3) Immediately upon receipt of Committee recommendations, FMB tasks applicable appropriation and program sponsors to prepare and submit appeals covering the funding adjustments and language items with which the sponsor takes the greatest issue. The letter sent to the Committees by the Secretary of Defense must, of necessity, be of reasonable size in order to ensure the Committee's attention is focused on the most important issues. Therefore, it is important that sponsors submit appeals for only the most important issues.

(4) Upon receipt of these appeals, the Director of the Office of Budget reviews all issues and prepares a letter forwarding the highest priority appeals. This letter is provided to the CNO (N8), CMC (FD), and the Secretariat for concurrence and is signed by the Secretary of the Navy.

(5) Following receipt of the recommended appeals from the DON and other Departments, the USD(C) prepares a draft letter, forwards it to the principal staff offices in the OSD and to the Military Departments for comment, incorporates pertinent comments, and submits it to the Secretary of Defense for signature. After submission to the applicable Congressional committees, a copy is provided to FMB for distribution within the DON.

c. Supplemental and Rescission Appeals.

The same policy and procedures apply to appeals on Congressional action concerning supplemental appropriations or rescissions of appropriations.

10. Conclusion of the Congressional Review.

Unlike the DON and OSD/OMB budget reviews, there is no single ending point to the Congressional review. The review ends, for the most part, as each authorization act and appropriation act is signed into law by the President. Once the authorization and appropriation acts, including supplementals, are completed, the amounts contained in these acts become the control numbers for execution of the budget. Of course, Congress can consider at any time the rescission of prior year funding that is still available for this purpose.

11. Schedule.

The schedule for the Congressional review starts with the requirement that the President must send a budget request to the Congress on the first Monday in February. Other key dates, such as the passage of the concurrent budget resolution and all appropriation acts are also set by law. However, because the Congress does not always adhere to its own schedule of review, any schedule of the Congressional review process is subject to wide variation from year to year. The schedule of key events is generally as follows:

	Event	Date
1.	FMB issues budget guidance	Late Dec-Early Jan
2.	FMB issues control numbers	Early January
3.	President's submission to Congress	Early February
4.	Committees report to Budget Committees	25 February
5.	BSO submissions to FMB	Mid-Late January
6.	DON submission to Congress	Mid-Late February
7.	Posture hearings by Congress	Late Feb-Early March
8.	Detailed hearings by Congress	March-April
9.	Budget Committees report Resolution	1 April
10.	Action completed on Budget Resolutions	15 April
11.	House completes action on appropriations	30 June
12.	Congress completes action on appropriations	30 September

FMB publishes specific schedules for budget submission, hearings by appropriations committees, and submission of Congressional appeals. OLA publishes specific schedules for hearings by the Budget and authorization committees.

CHAPTER 6

General Guidance for All Submissions

This chapter provides general guidance for the preparation and submission of budget materials for the three budget submissions: the initial Department of the Navy (DON) budget estimates, the submission of DON budget estimates to the Office of the Secretary of Defense and the Office of Management and Budget (OSD/OMB), and the annual President's Budget submission to Congress.

1. Budget Guidance Documents.

Standard guidance and procedures for the submission of budget materials for all submissions are contained in Volumes 2A and 2B of the Financial Management Regulation (FMR) (DOD Instruction 7000.14-R), this manual and OMB Circular A-11. **All references to the FMR in this manual relate to Volumes 2A and 2B**. The FMR is generally issued by DOD biennially, prior to the OSD/OMB review of initial biennial budget estimates. Special instructions and one-time requirements are issued by the USD (Comptroller) via submission-specific budget calls to the DON and normally include guidance resulting from new laws or Congressional reports. The DOD submission-specific requirements are promulgated by the DON to budget submitting offices via FMB Budget Guidance Memoranda. OMB's Circular A-11 is updated annually.

This manual supplements the FMR with DON-specific guidance and procedures for all submissions. Instructions and formats for individual exhibits are contained in the FMR or the Appendices to this manual. Some budget exhibit templates are available at the Navy Headquarters Budgeting System (NHBS) on-line web site. Additional budget requirements and scheduling information provided in FMB Budget Guidance Memoranda for specific submissions are also available on the NHBS web site.

2. Budget Submitting Offices.

Budget exhibits and backup material are prepared at various levels throughout the Department of the Navy. Offices and commands perform the tasks of preparing exhibits using input from the operating forces, shore activities, systems commands, and project managers. Headquarters Marine Corps, acting through the Director, Fiscal Division with participation from staff and command components, provides exhibits and material for Marine Corps appropriations.

3. Fiscal Years.

a. Prior Year (PY).

Estimates are based upon enacted appropriations, supplementals, and reprogramming actions approved and/or proposed to date. The best data available at the time of submission should be used. An update of prior year data is required in November of each year, when actual accounting information is available.

b. Current Year (CY).

As a baseline, CY control totals are based upon the amounts appropriated by the Congress adjusted for any proposed above or below threshold reprogramming actions, supplementals, rescissions, transfers or fact-of-life changes. Additionally, updates to the CY of the new President's Budget will incorporate all program or price changes, including all pending above or below threshold reprogramming actions.

c. Biennial Budget Years One and Two (BY1 and BY2)

(1) DON Submission: Budget estimates for BY1 and BY2 are based on the Program Objectives Memorandum (POM) as approved by the Secretary of the Navy. For the apportionment (off-year) budget submission, estimates for BY1 and BY2 are based on the programs approved in the President's Budget adjusted for Program Review decisions. Approved programs will be fully funded, using budget quality estimates. Pricing and program changes from the POM and from the President's Budget for BY1 and BY2, as appropriate, will be clearly identified and fully justified.

(2) OSD/OMB Submission: Budget estimates for BY1 and BY2 are based on Program Decision Memorandum (PDM) approved by the Secretary of Defense normally in August, as adjusted for pricing, feasibility, fact of life, and other adjustments made during the DON review. During the second year of the biennial cycle the budget years are also based on the PDM, SECNAV approved changes resulting from the DON review, and on adjustments driven by Congressional action, policy and fact-of-life changes.

(3) President's Budget Submission: Budget estimates for BY1 and BY2 are based on the amounts approved by the President and by the Secretary of Defense as reflected in PBDs.

d. Third, Fourth, Fifth and Sixth Year of the Future Years Defense Program (FYDP) (BY3, BY4, BY5 and BY6).

(1) DON Submission: Outyear estimates, which are required for selected exhibits, are based on the program approved in the POM for the first year of the biennial budget submission. For the second year, or the apportionment submission, estimates will be based on the programs approved in the President's budget as adjusted by Program Review decisions.

(2) OSD/OMB Submission: Control totals for the outyears are based on amounts approved in the PDM as adjusted by changes resulting from the DON review.

(3) President's Budget Submission: Control totals for the outyears are based on amounts approved by the President and by the Secretary of Defense as reflected in Program Budget Decisions (PBDs).

4. Issuance of Controls.

Funding controls are provided to budget submitting offices (BSOs) electronically. BSOs must ensure consistency and accuracy of all related budget data and schedules. These controls are used in preparing all summary budget data, as well as all detailed budget materials.

a. TOA controls are issued at the following level of detail:

- Budget Submitting Office
- PEO/DRPM
- Appropriation
- Budget Activity
- Line Item
- Activity/Sub-activity Group/Special Interest (all O&M accounts)
- Program Element (R&D)
- Project (R&D/MCN/MCNR/FHCON)
-Project/Activity (BRAC)

b. Military Personnel End Strength.

Military personnel end strength controls are provided to BSOs by appropriation, budget activity, and budget line item.

c. Civilian Personnel.

Civilian personnel end strength and civilian personnel full-time equivalent (FTE) targets are issued to BSOs by appropriation, fund, budget line item, and type hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect, direct and reimbursable).

5. Pricing Guidance.

It is Department of the Navy policy to reflect the most likely or expected full costs for each estimated year for all appropriations. The proper pricing of budget estimates is a responsibility shared by both the BSOs and FMB. It is the responsibility of BSOs to ensure that detailed budget justification materials reflect the pricing decisions accommodated in the control amounts.

a. Military and Civilian Pay.

Funding for all pay raises is included in appropriation control amounts. Pay raise rates are provided in FMB Budget Guidance Memoranda.

b. Customers of the Navy Working Capital Fund.

Estimates for all purchases from supply and non-supply activity groups are to reflect fully escalated estimates. The current year is priced using the stabilized rates established for the President's Budget for that year. The budget years are priced in accordance with rates provided in FMB Budget Guidance Memoranda.

c. Fuel Purchases.

Fuel is priced using the specific per barrel costs approved by USD(C). These prices are published in FMB Budget Guidance Memoranda.

d. Prices Set by Statute or Regulation.

All items or programs for which payment is set by statute or administrative regulation (such as per diem payments, bonuses, postage, and GSA standard level user charges) are priced in accordance with the latest approved charge. Price escalation indices should not be used to increase these charges. The control amounts normally include funds for the currently approved rates. In those cases where controls include an approved charge scheduled to take effect at some specific future time, Budget Guidance Memoranda will identify the charge.

e. Foreign Currency Exchange Rates.

Foreign currency exchange rates applicable to overseas station allowances funded by Military Personnel, Operation and Maintenance, Military Construction and Family Housing appropriations must be priced in accordance with foreign currency exchange rates provided in Budget Guidance Memoranda. Procurement, and Research and Development appropriation estimates are to be based on current foreign exchange rates, except as specified in a current contract.

f. All Other Purchases and Services

(1) All remaining areas of the budget must reflect fully escalated estimates using the specific escalation indices provided in Budget Guidance Memoranda. Total Obligational Authority (TOA) and outlay indices published in Budget Guidance Memoranda, are based on the economic assumptions approved by OMB for use in developing budget estimates. These indices must be used in developing the detailed pricing estimates contained in the budget justification materials. However, in those cases when another Military Department, as the procurement agent for a particular item, provides the Department of the Navy with other pricing information, the price escalation indices used by that Military Department should be reflected in the price estimates. Individual BSOs are responsible for obtaining the appropriate price

escalation information along with the pricing information directly from the procurement agent.

(2) Indices incorporate the standard appropriation outlay rates approved by OSD. When using these indices, the base year selected should be the year in which the latest actual contract price data is available. If no actual information is available, then the earliest estimated year should be used as the base year. The use of approved price escalation indices to estimate future increases due to inflation is mandatory except in those cases where other specific information is available. For example, price escalation indices would not be used to price programs where specific contractual options exist or to price manpower costs at a plant where an existing union contract has a pay increase scheduled to take effect on a specific date.

(3) The application of price escalation indices should be the last step in pricing. A base cost should first be developed that takes into consideration all other variables that may affect pricing. These include changes in the business environment, the physical characteristics of the product, and the production process, such as cost/quality price relationships, learning curve efficiencies, and economic production rates. Further information on the use of these indices is available in Appendix I of this manual.

6. Changes to Approved Programs.

Pricing and other funding increases needed to support the approved program for the first year of the biennial budget submission, or for the apportionment submission, must be accommodated within TOA and manpower controls. Such increases may be incorporated into the budget submission as follows:

a. Intra-Appropriation.

In seeking a source of funds to pay for such increases, first consideration should be given to potential price decreases that may have occurred (since the approved program estimates were established) in other programs within the same appropriation under the cognizance of the BSO. If a source is not available, other approved programs must be reduced to accommodate the required increases. In this case, the BSO is responsible for initiating and coordinating resolution of program reductions with the appropriate resource sponsors. The appropriation sponsor should assist in this process as necessary.

b. Inter-Appropriation.

While it may be preferable to accommodate funding increases by reducing programs within the same appropriation, a lower priority program, funded in another appropriation, under the affected BSO's cognizance may also be used as a funding source. In this case, the BSO is responsible for initiating and coordinating resolution of program reductions with the appropriate resource sponsors. The appropriation sponsor should assist in this process as necessary. In all instances, program reductions are to be limited to lower priority programs. If the BSO cannot accommodate the adjustments internally, the BSOs should coordinate with cognizant FMB analysts and Resource Sponsors to identify sources

and make adjustments via FMB Mark. Such inter-appropriation transfers may occur only before the budget is submitted to Congress.

c. Changes to Approved Civilian Resources.

Submitting offices may submit changes to the approved targets to reflect a balanced program of civilian end strength, workyear, and costs to funded workload.

7. Unfunded Requirements.

Submission of unfunded requirements occur most often with the DON submission and may be submitted in the form of marked-up copies of appropriation budget exhibits clearly marked "Unfunded Requirements." Such deficiencies would include program decreases from the approved program, as well as other new, emergent, critical, unfunded requirements which could not be absorbed within controls due to pricing changes and fact-of-life adjustments which occurred since the approved program was established. A narrative justification explaining the need for additional funding should also be submitted. For Operation and Maintenance accounts, the OM-6 Exhibit must be submitted. The format and instructions are provided in Appendix B of this manual.

8. Functional Transfers

Requests for approval of functional transfers may be submitted at any time throughout the fiscal year. These requests must be coordinated with the respective FMB Divisions. For those transfers approved during an off cycle period (e.g., during POM development or Program Review periods) the functional transfers must also be coordinated with (N80) and HQMC (P&R). Proposed transfers must be coordinated among BSOs affected by the transfer. FMB will review and address each request separately. The decision may appear in the form of a budget mark or may be incorporated in execution. An NC-4 exhibit will be submitted by the gaining BSO for all approved functional transfers. The template and instructions for the NC-4 are provided at the NHBS on-line web site. For those transfers approved outside the budget cycle, the transfer will be incorporated at the next possible update to BSO controls.

9. Preparation and Submission of Justification Materials.

Parts II, III and IV of this manual contain submission requirements tables for each appropriation, the Navy Working Capital Fund, trust, revolving and special funds, civilian personnel, and special interest areas. All budget materials required of BSOs for appropriations or funds under their cognizance must be submitted electronically via the Justification Management System (JMS) or by automated submission to the Navy Budget Tracking System (NBTS) or the Budgetary Object Classification System (BOCS). An advance copy of individual exhibits may be provided directly to a requesting FMB

analyst. However, this does not satisfy the requirement for a full budget materials submission.

a. Justification Management System (JMS).

The Justification Management System (JMS) will be used to collect and track the status of all justification material submitted to FMB. JMS provides a BSO index of material for all appropriations and funds to be submitted. The system is web-enabled to allow access from a web browser. Access to the material submitted to JMS is restricted to users with valid names and passwords. The system provides access to previously submitted budget materials as a starting point for developing revised budget materials. For budget material that requires consolidation (either within the BSO or at the FMB level) JMS allows for the collection of "partial" budgets which must be combined with other partials prior to submission to FMB or OSD.

b. Navy Budget Tracking System (NBTS).

The NBTS data base provides an audit trail of adjustments throughout the budget process and is utilized to produce Total Obligational Authority (TOA) controls. Additionally, NBTS is used to provide detailed Department of the Navy budget information by appropriation, budget activity, and PBD for the OSD/OMB submission.

c. Budgetary Object Classification System (BOCS).

The data base is used to collect obligation data (not TOA) and to satisfy various DON and OSD budget exhibit requirements. The purpose of BOCS is to identify the distribution of program resources by the object to which they will be applied in budget execution (obligations). These objects are used for multiple purposes including the following:

(1) To reflect the obligation of funds for various types of program costs.

(2) To convey information supporting the pricing basis of estimates.

(3) To identify resources in special interest categories of the budget.

Exhibit requirements for DON and OSD satisfied through include the following:

(1)	OP-5(Partial)	Summary of Increases and Decreases
(2)	OP-32	Summary of Price and Program Change
(3)	P-32	Procurement Purchases from Revolving Funds
(4)	R-32	Purchases from Revolving Funds
(5)	OP-26	Petroleum, Oil, and Lubricants (POL)
(6)	PB-15	Advisory and Assistance Services
(7)	PB-19	Contract Reporting by Appropriation
(8)	PB-2(P&)	Appropriation by Object Classification

All BSOs must submit BOCS data for each appropriation for which they obligate funds and for which they submit budget justification.

Inflation estimates are to be submitted by appropriation, budget activity, activity group, subactivity group or line item, inflation category, object classification, and auxiliary information codes. These estimates will be provided for PY and an identification of price and program increases and foreign currency adjustments to CY, BY1 and BY2.

d. Deadlines for Submissions.

Budget Guidance Memoranda provide submission dates for budget materials and all DON Office of Budget (FMB) events occurring during the DON budget review, the OSD/OMB budget submission and review, and the President's Budget submission to Congress. In order to meet external submission dates, it is mandatory for budget submitting offices to submit all budget materials on the dates set by FMB.

e. Consistency of Budget Materials.

Detailed exhibits must be in exact agreement and consistent with all summary budget exhibits, other budget justification materials, automated submissions, and published controls.

10. Uniform Budget and Fiscal Accounting Classifications

Chapter 1 of the FMR provides uniform functional title classifications and subdivisions thereof by which appropriation and fund accounts of the Department of Defense are required to be arranged, grouped, or classified in budgetary and fiscal presentations. Additionally, appropriate information by title, appropriation, or fund is available in the respective chapter of the FMR where applicable. (e.g., budget and fiscal accounting classifications and descriptions for active military personnel (pages 2-3/21), Research, Development, Test, and Evaluation (pages 5-2/3), military construction (pages 6-11/12), family housing (pages 6-11/12 and 6-12/13), and Base Realignment and Closure (pages 7-2/5).

Part II

Budget Submission to the Office of Budget and the Department of the Navy Review

CHAPTER 1

General Submission Guidance

This chapter provides guidance for the preparation and submission of the initial DON estimates.

1. Scope of Submission.

The submission consists of summary and detailed backup material and exhibits for each appropriation, fund, civilian personnel, and military end strength based on the programmatic content underlying the DON Program Objectives Memorandum or the Program Review in the second year of the biennial budget. The purpose of this submission is to document reasons for changes from the POM or PR submission, maintain an historical record of key changes made during the DON review, provide a control mechanism to ensure consistency with fiscal guidance, derive DON control numbers as a basis for the preparation of estimates for submission to OSD/OMB, and provide the required inputs to the USD(C) control data base (Budget Review System (BRS)). Submission of estimates via automated media is also required. Budget estimates in this material are required for the prior year (PY), current year (CY), and biennial budget years one and two (BY1 and BY2), and for certain exhibits, the outyears (BY3, BY4, BY5, BY6).

2. Total Obligational Authority (TOA) Controls.

TOA controls by appropriation are not to be exceeded except as authorized in specific budget guidance memoranda. Submissions will be in accordance with policies contained in this manual, applicable DON instructions, the Department of the Navy Financial Management Policy Manual, and any policy revisions contained in Budget Guidance Memoranda.

3. Basis of Estimates.

The basis for estimates under the biennial budget concept varies for the first and second years of the biennial cycle. Accordingly, all budget exhibits will display data for the prior year (PY), current year (CY), biennial budget years (BY1 and BY2), and outyear estimates (BY3, BY4, BY5, BY6) based on the programmatic content underlying the Program Objectives Memoranda (POM). During the second year of the biennial cycle the budget years and outyear estimates are based on the Program Review (PR).

4. Preparation and Submission of Justification Materials.

Chapters 2 through 9 of this Part contain guidance material tailored to each appropriation, the Navy Working Capital Fund, trust, revolving and special funds, civilian personnel, and special interest areas. Submission requirements tables provide sources and references to the FMR, this manual's Appendices, or the NHBS on-line web site for individual exhibit formats and instructions.

a. Preparation.

(1) The POM control base will remain unchanged for the first year of the biennial budget submission. Control numbers for the apportionment budget submission, however, will reflect the approved programs in the President's budget as adjusted by the Program Review.

(2) The approved program changes are to be identified by appropriation, budget activity, BSO, and line item and a reason stated for changes. Line items are defined as activity/subactivity groups for the O&M appropriations, P-1 line items for the procurement appropriations, program elements and projects for RDT&E, and unit identification codes and project numbers for military construction. These changes will be provided for PY, CY, BY1, BY2, and the outyears through BY6.

b. Deadlines for Submission.

(1) FMB requires that budget materials be submitted by a specific date, generally around 1 July. Budget Guidance Memoranda establish submission due dates often including a deferred due date for budget materials required somewhat later than the initial submission date of 1 July. In order to have time for the DON review, it is mandatory for BSOs to submit the material on the dates set by FMB.

(2) Although the issuance of control totals is sometimes delayed because of late decisions, it is still necessary that budget submissions be received in accordance with the published schedule. Budget submitting offices must make every effort to submit on schedule by beginning preparation based on advanced information (e.g. Sponsor Program Proposals(SPP)/Tentative POM(T-POM)), and by the judicious use of overtime and temporary manpower.

CHAPTER 2

Submission Requirements for All Budget Submitting Offices

1. General Guidance.

This chapter provides guidance applicable to all Budget Submitting Offices (BSOs) for submission of budget materials. Many of these exhibits involve multiple appropriations and are not required for justification of a particular appropriation or fund request. These exhibits provide information about certain programs or elements of expense which also cross BSO budget lines. Included in this category are exhibits for Management Headquarters; Environmental; Morale, Welfare, and Recreation (MWR); Combating Terrorism resources, among others.

2. Special Interest/Multi-Appropriation Exhibits.

BSOs will prepare budget materials in accordance with the instructions contained in the FMR, FMB Budget Guidance Memoranda and this manual. The submission requirements table shows sources and references for individual exhibit formats and instructions.

3. Civilian Personnel.

For this submission, civilian resources include end strength, workyears, and costs, prepared by appropriation, fund, budget line item, resource sponsor, program element, and type hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect; direct and reimbursable), based on civilian resource estimates proposed by the Department of the Navy POM or Program Review (PR). The civilian resource estimates are a baseline projection of civilian resources necessary to fulfill programming objectives. Submitting offices may adjust civilian resource estimates to reflect a balanced program of civilian resources to funded workload. The submission requirements table shows sources and references for individual exhibit formats and instructions.

4. Information Technology (IT).

Special interest information technology budget exhibits are submitted by budget submitting offices (BSOs) to FMB and the Department of the Navy Chief Information Officer (DON-CIO); and by the DON CIO to higher authority.

a. General.

(1) The DON CIO may issue supplemental guidance covering submission requirements which may supersede the guidance contained in Appendix H of this manual due to annual changes in Office of the Secretary of Defense (OSD) IT budget exhibit reporting requirements. DON CIO supplementary guidance, when issued, is considered an extension of the guidance contained herein.

(2) Scope. The scope of IT budget reporting covers all IT resources, defined in the Clinger-Cohen Act (Information Technology Reform Act (ITMRA)) of 1996).

b. Submission Requirements.

(1) The IT submission consists of budget materials as specified in the submission requirements table.

(2) IT budget estimates are an extract of BSOs' appropriated and Navy Working Capital Fund (NWCF) budgets and, therefore, reflect approved IT resources funded within budget controls.

(3) Submissions must reflect all changes resulting from the POM or Program Review and any other action affecting the IT estimates.

(4) Include copies of procurement exhibits and NWCF capital budget authority exhibits showing IT capital investments in the IT budget package submitted to DON CIO.

5. Morale, Welfare and Recreation (MWR) Activities.

Specific guidance and requirements applicable to the submission of MWR budget estimates is contained in this section.

a. General.

(1) Budget submissions are to be made through a budget submitting office, reflecting MWR estimates for all appropriations under that BSO's cognizance.

(2) Submissions must reflect all changes resulting from the POM or Program Review and any other action affecting the MWR estimates.

b. Submission Requirements.

(1) The MWR submission consists of backup material as specified in the submission requirements table.

(2) MWR data on forces afloat is not required.

(3) Definitions for MWR activities will be promulgated separately by USD(C).

(4) All budget material must be submitted electronically to the Justification Management System (JMS).

6. Environmental.

Specific guidance and requirements applicable to the submission of Environmental related exhibits is contained in this section.

a. General.

(1) Budget exhibits in support of the Environmental Restoration program are to be provided by the Naval Facilities Engineering Command (NAVFAC).

(2) Budget submitting offices are required to submit budget exhibits for Environmental Quality and Environmental Security Technology, PB-28 and PB-28A.

(3) NAVFAC is also required to submit Installation Level Detail.

b. Submission Requirements.

(1) The Environmental submission consists of backup material as specified in the submission requirements table.

(2) Submissions must reflect all changes resulting from the POM or Program Review and any other action affecting Environmental issues.

(3) Formats and instructions for preparation of the exhibits required for Environmental exhibits are referenced in the Environmental requirements table. Detailed formats and instructions for some of these exhibits are available at the NHBS on-line web site.

(4) All budget material must be submitted electronically to the Justification Management System (JMS).

c. Automated Submission Requirements.

(1) NAVFAC is required to submit the Summary of Price and Program Change Exhibit (OP-32).

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for the Environmental Restoration, Navy appropriation by object class. Detailed instructions and formats are available at the NHBS on-line web site.

7. Financial Management Activities.

OMB Circular A-11 requires preparation and submission of budget material to fulfill Section 40, Data on Financial Management Activities. Further information is available in the FMR 19-6.

8. Submission Requirements Tables.

The submissions requirements tables for the this submission for Special Interest/Multi-Appropriation exhibits; Civilian Personnel; Information Technology; Morale, Welfare, and Recreation; and Environmental exhibits follow.

Special Interest/Multi-Appropriation Exhibits

DON Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
PB-11B 1/	Cost of Medical Activities - DEPMED	O&M	SUP/PAC/ LANT	FMR 12-15/18
PB-15	Advisory and Assistance Services	All	BOCS	FMR 19-38/40
PB-18	Foreign Currency Exchange Data	O&M	BSO	FMR 19-43
PB-22	Management Headquarters	Various	BSO	NHBS on-line
PB-34	Revenue from Leasing Out of Department of Defense Assets	Various	NAVFAC	FMR 8-19
PB-41	Administrative Motor Vehicle Operations	Various	NAVFAC/ HQMC	FMR 19-57
PB-42	Competition and Privatization	All	BSO	FMR 19-58/61
PB-50	Child Development, Family Centers and Family Advocacy	Various	BSO	FMR 19-62/66
PB-52A	DOD Aeronautics Program	RDTEN,OPN	BSO	FMR 19-67/68
PB-52B	DOD Space Budget	RDTEN, OPN	BSO	FMR 19-69/72
OP-26	POL Consumption Costs	Various	BOCS	NHBS on-line
OP-29	Overseas Military Facility Investment Recovery Account	N/A	NAVFAC	FMR 8-19
OMBP-01	Overseas Military Banking Program	O&M	EUR/PAC	FMR 19-76/77
NC-2	Audit Findings and Recommendations	All	BSO	Appendix H
Cbt-1	Combating Terrorism Resources	Various	BSO	FMR 19-16/21

1/ The PB-11B, Deployable Medical Activities, should be submitted whenever deployable assets are used by NAVSUP, LANTFLT, and PACFLT to CNO (N931) who will coordinate a submission to FMB. The PB-11 and PB-11A Cost of Medical Activities exhibits are prepared by BUMED and submitted directly to Defense, Health Affairs.

Civilian Personnel

DON Submission Requirements

Exhibit No.	Title	Source	Reference
CP-1	Civilian Manpower by Activity Group/Type of Hire/RS/PE	BSO	NHBS on line
CP-2	Analysis of Civilian Personnel Costs	BSO	NHBS on line
CP-9	FTE Changes Year-to-Year	BSO	NHBS on line
CP-24	SIP/RIF Budget Plan	BSO	NHBS on line
PB-22	Management Headquarters	BSO	NHBS on line
PB-42	Competitive Sourcing & Privatization	BSO	NHBS on line

Note: These requirements are data loads with templates available on the NHBS on-line web site.

Information Technology

DON Submission Requirements

Exhibit No.	Title	NITE/STAR	Hard Copy	Reference
ES	IT Executive Summary		X	
IT-300b	IT Capital Asset Plan and Justification		X	FMR 18-23/29
NC-33	Justification of Increases and Decreases		X	Appendix H
NC-36	NITE/STAR Worksheets (For Each ADPS Code)	X	X	Appendix H
NC-37	NITE/STAR Appropriation Summary	X	X	Appendix H
P-5	Weapon Systems Cost Analysis		X	FMR 4-22
P-5a	Program History and Planning		X	FMR 4-30/33
P-40	Budget Item Justification Sheet		X	FMR 4-75/77
P-40a	Budget Item Justification for Aggregated Items		X	FMR 4-78/79
Fund-9a	Capital Investment Summary		X	FMR 9-80/83
Fund-9b	Capital Investment Justification		X	FMR 9-84/88

Morale, Welfare, and Recreation

DON Submission Requirements

Exhibit No.	Title	Source	Reference
OP-34	Appropriated Fund Support for Morale, Welfare and Recreation Activities (MWR)	BSO	FMR 3-96/101
PB-50	Child Development, Family Centers and Family Advocacy Programs	BSO	FMR 19-59/63

Environmental

DON Submission Requirements

Exhibit No.	Title	Source	Reference
	Environmental Restoration, Navy		
ENV-30A	Funding by Priorities	NAVFAC	FMR 13-7
ENV-30B	Summary by Phase	NAVFAC	FMR 13-8/9
ENV-30C	Reconciliation of Increases and Decreases	NAVFAC	FMR 13-10
ENV-30D	Outyear Funding by Priorities	NAVFAC	FMR 13-11
ENV-30E	Outyear Funding by Phase	NAVFAC	FMR 13-12
OP-32	Summary of Price and Program Change	NAVFAC	NHBS on-line
PB-2	P & F Schedules (Object Class)	BOCS	NHBS on-line
Project Listing	Installation Level Detail	NAVFAC	N/A
	Environmental Quality		
PB-28	Summary of Funds Budgeted for Environmental Projects-Environmental Quality	BSO	NHBS on-line
PB-28A	Environmental Security Technology	BSO	NHBS on-line
EQR	Environmental Quality	BSO	NHBS on-line

CHAPTER 3

Submission Guidance for Military Personnel Appropriations

1. General Guidance.

This chapter provides guidance and prescribes the justification materials required to support budget estimates for the military personnel appropriations.

a. Military Personnel Appropriations.

The Department of the Navy military personnel appropriations include Military Personnel, Navy (MPN), Military Personnel, Marine Corps (MPMC), Reserve Personnel, Navy (RPN) and Reserve Personnel, Marine Corps (RPMC).

b. Budget Estimates/TOA Controls.

Military personnel budget estimates should be prepared such that pay and allowances, subsistence, permanent change-of-station travel, and other military personnel costs reflect approved guidance. Additionally, military end strength requirements must be consistent with approved operating forces and related operation and maintenance funding estimates.

2. Submission Requirements.

The submission requirements tables includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

(1) All exhibits must include both direct and reimbursable personnel.

(2) Active military personnel subsistence-in-kind (SIK) average daily food allowances are calculated based upon a Food Cost Index (FCI) which reflects actual food consumption patterns. Reserve military personnel SIK estimates are based on the daily sale of meals rate and any contract messing and field ration costs. Daily sale of meals rate is established by NAVSUPNOTE 7330. SIK information will be prepared by Navy and Marine Corps budget submitting offices.

b. Automated Submission Requirements.

(1) Changes by budget activity/budget line item must be submitted via automated format and must be consistent with controls issued by FMB.

(2) Submission of automated data in support of estimates is required for both active and reserve Navy and Marine Corps military end strength by officer and enlisted and defense component or agency, if applicable. Data are also required by budget subactivity (PBD) for the National Foreign Intelligence Program (NFIP) and the Working Capital Fund Activity Group.

(3) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for military appropriations by Object Class.

Military Personnel, Navy and Marine Corps

DON Submission Requirements

Exhibit No.	Title	Source	Reference
PB-30A	Summary of Requirements by Budget Program	BUPERS/HQMC	FMR 2-48
PB-30B to PB-30F	Personnel Summaries	BUPERS/HQMC	FMR 2-49/54
PB-30F-1	Total Officer Gains Phased by Month	BUPERS/HQMC	FMR 2-55
PB-30F-2	Enlisted NPS Accessions Phased by Month	BUPERS/HQMC	FMR 2-56
PB-30J	Summary of Entitlements by Sub-activity	BUPERS/HQMC	FMR 2-57/60
PB-30K	Analysis of Appropriation Changes and Supplemental Requirements	BUPERS/HQMC	FMR 2-61/64
PB-30Q	Schedule of Increases and Decreases	BUPERS/HQMC	FMR 2-65
PB-30P	Schedule of Increases and Decreases Pay and Allowances	BUPERS/HQMC	FMR 2-66
PB-30Q	Military Personnel Assigned Outside DOD (End Strength)	BUPERS/HQMC	FMR 2-67/68
PB-30R	Reimbursable Program	BUPERS/HQMC	FMR 2-69
PB-30V	Incentive/Bonus Payment Stream	BUPERS/HQMC	FMR 2-70/71
MP-1	Reconciliation of Fund Changes with Prior Year	BUPERS/HQMC	FMR 2-72/73
MP-2	Dependents, Housing, and BAH Estimates	BUPERS/HQMC	FMR 2-74/75
MP-3	Summary of Outyear Data	BUPERS/HQMC	FMR 2-76
MP-4	Military Personnel by Region and Country (End Strength)	BUPERS/HQMC	FMR 2-77/81

Exhibit No.	Title	Source	Reference
MP-5	Active Duty Stationed Ashore by Regional Area	BUPERS/HQMC	FMR 2-82
MP-6	Education Benefits - Additional Basic Benefits	BUPERS/HQMC	FMR 2-83
MP-7	Aviation Retention Bonus	BUPERS/HQMC	FMR 2-84/85
MP-9	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/HQMC	FMR 2-86
MP-10	Summary of MILPERS Separation Payments	BUPERS/HQMC	FMR 2-87
MP-11	Clothing Allowance Initial Costs	BUPERS/HQMC	Appendix A
MPERS-1	Monthly Obligation Phasing Plan	BUPERS/HQMC	Appendix A
MPERS-4	Reenlistments within 3 months of Release from Active Duty	BUPERS/HQMC	Appendix A
MPERS-6	PCS Moves/Obligations by Type/Category (CY)	BUPERS/HQMC	Appendix A
OP-33	Reconciliation in Average Strength/ FTEs in NATO European Countries	BUPERS	FMR 3-95
OP-44	Military Assigned to Ships and Aircraft Squadrons	BUPERS/HQMC	FMR 3-104
PB-22	Management Headquarters	BUPERS/HQMC	FMR 19-45
NC-2	Audit Findings and Recommendations	BUPERS/HQMC	Appendix H

Reserve Personnel, Navy and Marine Corps

DON Submission Requirements

Exhibit No.	Title	Source	Reference
PB-30A	Summary of Requirements by Budget Program	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-88
PB-30F	Schedule of Gains and Losses to Selected Reserve Strength	BUPERS/CNRF/HQMC	FMR 2-89/90
PB-30G	Summary of Personnel	BUPERS/CNRF/HQMC	FMR 2-91
PB-30H	Reserves on Active Duty-Strength by Grade	BUPERS/HQMC	FMR 2-92
PB-30I	Strength by Month	BUPERS/CNRF/HQMC	FMR 2-93
PB-30J	Summary of Entitlements by Subactivity	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-94/97
PB-30K	Analysis of Appropriation Changes	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-98/102
PB-30L	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/BUMED CNRF/HQMC	FMR 2-103/104
PB-30M	Summary of Basic Allowance for Housing (BAH) Costs	BUPERS/CNRF/HQMC	FMR 2-105/106
PB-30N	Summary of Travel Costs	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-107/108
PB-30O	Schedule of Increases and Decreases-Summary	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-65
PB-30P	Schedule of Increases and Decreases	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-66
PB-30R	Reimbursable Program	CNRF/HQMC	FMR 2-69
PB-30S	Reserve Officer Candidates	CNET/HQMC	FMR 2-109

Exhibit No.	Title	Source	Reference
PB-30T	Reserve Officer Candidates (ROTC) Enrollment	CNET/HQMC	FMR 2-110
PB-30U	Reserve Officer Candidates (ROTC) Program	CNET/HQMC	FMR 2-111
PB-30V	Incentive/Bonus Payment Stream	BUPERS/CNRF	FMR 2-70/71
PB-30W	Full-time Support Personnel	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-112
MPR-1	Initial Active Duty for Training Program and Prior Service Enlistments	BUPERS/CNRF/HQMC	FMR 2-113/114
MPR-2	Additional Training Assemblies	CNRF/HQMC	FMR 2-115
MPR-3	Reconciliation of Fund Changes with Prior Year	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-116/117
MPR-4	Education Benefits (Title 10, Chapter 106)	BUPERS/CNRF/HQMC	FMR 2-118
MPR-5	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/CNRF BUMED/HQMC	FMR 2-119
MPR-6	Active Reserve/Guard (AGR) Personnel Costs	BUPERS/HQMC	FMR 2-120
MPERS-1a	Monthly Obligation Phasing Plan (Reserves)	BUPERS/BUMED CNET/CNRF/HQMC	Appendix A

CHAPTER 4

Submission Guidance for Operation and Maintenance Appropriations

1. General Guidance.

This chapter prescribes the justification materials required to support budget estimates for the operation and maintenance (O&M) appropriations.

a. Operation and Maintenance Appropriations.

The Department of the Navy O&M appropriations include Operation and Maintenance, Navy (OMN), Operation and Maintenance, Marine Corps (OMMC), Operation and Maintenance, Navy Reserve (OMNR), and Operation and Maintenance, Marine Corps Reserve (OMMCR).

b. Budget Estimates/TOA Controls.

Budget estimates must agree with TOA controls issued by FMB. O&M estimates should be prepared in accordance with fact-of-life changes and guidance on operating tempo factors, civilian pay raises, price escalation indices, fuel prices, foreign currency exchange rates and Navy Working Capital Fund rates. The budget estimates must be in support of an executable program.

c. FTE and Military End Strength.

Civilian full-time equivalent (FTE) and active duty military end strength and workyears will be included in active O&M appropriation exhibits and supporting material, where applicable. Budget submitting offices (BSOs) are to maintain close liaison with the various program and resource sponsors regarding changes in manpower requirements.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should

be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) The following automated submissions are required:

OP-32	Summary of Price and Program Change
OP-5	Automated Reporting System (OARS)
BS-1	Base Support

(2) Data submitted to the Budgetary Object Classification System (BOCS) is used to prepare a consolidated OP-32.

(3) OARS is an automated system utilized to manage and review Operation and Maintenance budget information and to prepare budget justification materials. Detailed instructions and related information on this system is available at the NHBS on-line web site.

(4) Information provided in the BS-1 automated submission is used to prepare the Backlog of Maintenance and Repair (OP-27) and the Summary of Major Repair Projects (OP-28) exhibits for OMN only. The OP-27 and OP-28 exhibits for OMNR are submitted by COMNAVRESFOR in lieu of a BS-1. For OMMC and OMMCR, these exhibits are submitted by HQMC.

Operation and Maintenance Appropriations

DON Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
O-1	O&M Funding by Budget Activity and Activity Group	All	NBTS	NHBS on-line
OP-5	Part 1 (Budget Activity) Part 2 (Sub-Activity Group) Attachments 1-5, as applicable	All	OARS	NHBS on-line
OP-14	Individual Training Data	OMN/MC	CNET CNO BUPERS HQMC	FMR 3-54/67
OP-20	Analysis of Navy Flying Hour Program-Summary	OMN/R	N889	FMR 3-85
OP-20A	Analysis of Navy Flying Hour Program-TACAIR	OMN/R	N889	FMR 3-86
OP-20B	Analysis of Navy Flying Hour Program-Fleet Training	OMN/R	N889	FMR 3-87
OP-20C	Analysis of Navy Flying Hour Program-Fleet Support	OMN/R	N889	FMR 3-88
OP-24	Emergency and Extraordinary Expense Limitation	OMN	AAUSN	FMR 3-92
OP-26	POL Consumption and Costs	All	BOCS	NHBS on-line
OP-27	Real Property Maintenance Activities	All	BSOs with MRP	FMR 8-9/10
OP-27P	Real Property Maintenance & Minor Const-Projects over $500,000	All	BSO	FMR 8-11/12
OP-28	Summary of Major Repair Projects	All	BSO	FMR 8-13/14

Exhibit No.	Title	Approp.	Source	Reference
OP-30*	Depot Maintenance Program	All	BSO	FMR 3-96/97
OP-30S	Ship Depot Maintenance	OMN/OMN	LANTFLT/ PACFLT/ NAVSEA	Appendix B
OP-32	Appropriation Summary of Price/Program Change	All	BOCS	NHBS on-line
OP-40	Ship Fuel Data & Operating Tempo Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-124
OP-41	Ship Operating Cost Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-125
BS-1	Base Support	OMN	BSO	NHBS on-line
OM-1Q	Quarterly Obligation Phasing Plan	All	BSO	Appendix B
OM-4	MSC Charter by Ship Hull	OMN OMNR	LANTFLT PACFLT SSP	Appendix B
OM-6	Unfunded Requirements	All	BSO	Appendix B
NC-10	Naval Shipyard Workload Summary	OMN	BSO	Appendix H
NC-50S	Mandays at Naval Shipyards	All	NAVSEA/ SPAWAR	Appendix H

*For BSOs with Depot Maintenance in more than one SAG, an OP-30 exhibit is required to be submitted at the SAG level vice the claimant level.

CHAPTER 5

Submission Guidance For Procurement Appropriations

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required to support budget estimates for the procurement appropriations.

a. Procurement Appropriations.

The Department of the Navy procurement appropriations include Aircraft Procurement, Navy (APN), Weapons Procurement, Navy (WPN), Shipbuilding and Conversion, Navy (SCN), Other Procurement, Navy (OPN), Procurement, Marine Corps (PMC), and Procurement of Ammunition, Navy and Marine Corps (PANMC).

b. Approval for Production

(1) A key consideration in preparation of procurement estimates is the readiness of an item to enter production. Some form of production approval (either Approval for Full Production (AFP) or Approval for Limited Production (ALP)) must be granted prior to the signing of a production contract. Accordingly, initial production funds may be budgeted if full or limited production approval can be reasonably expected to be provided in time to allow full program execution during the fiscal year for which funds are requested.

A carefully-structured and well-defined plan leading to production approval must be available to support any budget estimates for initial production funding. Factors that could affect successful execution include the potential for program slippage due to technical problems, personnel shortages, or other administrative limitations based on historical experience with similar programs and the adequacy and proper phasing of required funding budgeted in other appropriations. Every effort should be made to budget for funds in the year in which they will be executed.

(2) Whenever approval for production cannot be attained prior to submission of the budget to the Congress, decisions to include funding in the budget request will only be made on a case-by-case basis. In such instances, recommendations to budget for procurement prior to ALP/AFP will be based on as much corroborative information as is available at the time of the budget review (for example, OT&E and other test results, statements of urgent priority). For such a program to be considered for inclusion in the budget, it must be of critical importance to the national security.

c. Full Funding.

It is preferable to fully fund the total cost of a procurement end-item in one fiscal year. Each procurement program is budgeted to encompass all of the costs associated with the acquisition of an approved quantity of usable end-items through completion of deliveries. This practice ensures that the Congress and the public can see the full cost of an acquisition program at the time a decision on funding is to be made, and that a successor Congress is not committed to appropriating funds to complete production of an item initiated in a prior fiscal year. Approved exceptions to budgeting on a fully funded basis include the limited use of advance procurement for major weapon systems and economic order quantity (EOQ) procurement for multiyear procurement. Economic order quantity procurements are only permitted in support of multiyear contracts. It should be noted that the only deviation from the full funding policy permitted in the OPN appropriation is for EOQ associated with multiyear procurement. No advance procurement for long lead-time material is permitted in the OPN appropriation. Advance procurement is budgeted in a separate P-1 line item and requires the P-10 and P-10A exhibits. Full funding criteria and multiyear procurement requirements are discussed in more detail in the Department of the Navy Financial Management Policy Manual.

d. Multiyear Procurement (MYP).

An alternative to the full funding concept may be approved by the Office of the Secretary of Defense if it is determined that a multiyear procurement contract permits more economic and efficient acquisition of an item. Details of the contracting and financing alternatives, as well as the criteria for making MYP decisions are contained in the Department of the Navy Financial Management Policy Manual.

e. Lead-Time Away Procurement.

Related to the full funding concept is the time phased procurement of certain equipment and spares needed to support end item procurement. Such equipment will be budgeted procurement lead time away from need. However, standard items of government furnished equipment (GFE) which are integral to the configuration of a weapon system or sensor system are considered to be part of the end item and should be fully funded in the same fiscal year as the end item rather than lead time away.

f. Weapons Systems Costs.

Guidance for the costs to be included within P-1 line items for weapons systems and other equipment is contained in the Department of the Navy Financial Management Policy Manual.

g. Product Improvement Programs/Modification.

Procurement of fully developed product improvements to be installed in inventory equipment is properly budgeted in procurement appropriations. In addition, installation of improvements in existing equipment is considered a capital investment and should be

budgeted in the appropriate procurement appropriation. Expense/investment criteria are discussed in more detail in of the Department of the Navy Financial Management Policy Manual.

h. Installation Funding.

Costs associated with the installation of weapon systems or other equipment procured by procurement appropriations is considered a capital investment and should be budgeted in the appropriate procurement appropriation.

i. Funded Delivery Period.

The funded delivery period begins with the first deliveries of a fiscal year program and ends with the last deliveries of that fiscal year program. This period should not exceed 12 months for a budget year program.

j. Construction of Facilities.

DOD guidance provides that construction projects at Government-Owned, Contractor-Operated (GOCO) industrial production or RDT&E facilities is funded by procurement or RDT&E appropriations. Exhibit P-15 (Summary Listing of Production Support and Facilities Projects) will be submitted for applicable P-1 line items when procurement funds are used to finance construction at Government-Owned, Contractor-Operated industrial production facilities. Construction is defined as the erection, installation, or assembly of buildings or structures and/or the addition, expansion, extension, alteration, conversion or replacement of existing buildings or structures. Industrial real property acquired or constructed at Government-Owned, Government-Operated (GOGO) facilities will be budgeted in Military Construction appropriations.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements

(1) Changes by P-1 line item must be submitted via automated format in accordance with the instructions available on the NHBS web site and must be consistent with controls issued by FMB.

(2) BSOs are required to provide an automated submission to BOCS. This information reflects planned obligations for all procurement appropriations.

Procurement Appropriations

DON Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
P-1	Procurement Program	All	NBTS	NHBS on-line
P-1M	Procurement Program Mod Summary	All	NBTS	NHBS on-line
P-1R	Procurement Programs for the Reserves	All but SCN	NBTS	NHBS on-line
P-3a	Individual Modification Program	All but SCN	BSO	FMR 4-18/21
P-5	Cost Analysis	All	BSO	FMR 4-22
P-5a	Procurement History and Planning	All	BSO	FMR 4-30/33
P-5b	Analysis of Ship Cost Estimate-Basic Escalation	SCN	NAVSEA	FMR 4-34
P-8a	Analysis of Ship Cost Estimates-Major Equipment	SCN	NAVSEA	FMR 4-35
P-10	Advance Procurement Requirements Analysis	All but OPN	BSO	FMR 4-36/43
P-17	Layaway and/or Distribution	As applicable	BSO	FMR 4-44
P-18	Initial and Replenishment Spares and Repair Parts Justification	All but SCN	BSO*	FMR 4-46/47
P-20	Requirements Study	All	BSO	FMR 4-48
P-21	Production Schedule	All but SCN	BSO	FMR 4-51/52
P-21a	Production Schedule, All Types	All but SCN	BSO	FMR 4-53
P-22	Ammunition Inventory	PANMC	BSO	FMR 4-54/55
P-23a	Installation Data	All but SCN	BSO	FMR 4-57

*Note: No longer coordinated by NAVSUP

Exhibit No.	Title	Approp.	Source	Reference
P-25	Production Support and Industrial Facilities Cost Analysis	As applicable	BSO	FMR 4-60/61
P-27	SCN-Ship Production Schedule	SCN	NAVSEA	FMR 4-64
P-29	SCN Outfitting Costs	SCN	NAVSEA	FMR 4-65
P-29a	SCN Outfitting Costs Summary	SCN	NAVSEA	FMR 4-66
P-30	SCN Post Delivery Costs	SCN	NAVSEA	FMR 4-67
P-30a	SCN Post Delivery Costs Summary	SCN	NAVSEA	FMR 4-68
P-32	Purchases from WCF	All	BOCS	NHBS on-line
PB-32B	Comparison of CY Program Requirements	As applicable	BSO	FMR 4-90
P-35	Major Ship Component Fact Sheet	SCN	NAVSEA	FMR 4-72/73
P-36	Depot Level Ship Maintenance Schedule	OPN	BSO	FMR 4-74
P-40	Budget Item Justification Sheet	All	BSO	FMR 4-75/77
P-40a	Budget Item Justification for Aggregated Items	All	BSO	FMR 4-78/79
P-45	Summary of Reimbursables	As applicable	BSO	FMR 4-80
MYP-1	Multiyear Procurement Criteria	As applicable	BSO	FMR 4-82/83
MYP-2	Total Program Funding Plan	As applicable	BSO	FMR 4-84
MYP-3	Contract Funding Plan	As applicable	BSO	FMR 4-85
MYP-4	Present Value Analysis	As applicable	BSO	FMR 4-86/89
NC-50	Ship Modernization Installation	All	BSO	Appendix C
NC-53	Non-Equipment Nuclear Alterations	OPN	BSO	Appendix C

Exhibit No.	Title	Approp.	Source	Reference
NC-61	Installation Requirements (Non -Aircraft Mod/Ship Modernization)	All	BSO	Appendix C
NC-62	Advanced Questions	All	BSO	Appendix C

CHAPTER 6

Submission Guidance for the Research, Development, Test and Evaluation, Navy (RDT&E,N) Appropriation

This chapter prescribes the justification materials required in support of budget estimates for the RDT&E,N appropriation.

1. General Guidance.

a. Incremental Funding.

The RDT&E,N estimates are prepared on an incrementally funded basis, as opposed to the full funding basis used in preparing procurement budget estimates. Generally, the budget year estimates of the amounts to be programmed for individual research and development programs are formulated to cover all costs expected to be incurred during the twelve-month period, but including only those costs which are necessary to further the program toward its objective during that increment of the total schedule. "Costs" may include estimated expenditures for work to be performed during the incremental time period (for example, salaries and wages paid and material consumed), as well as other liabilities which have to be created during the time period to further the program (for example, long lead time orders for project-related material and equipment and subcontracts awarded). Details of the incremental funding policy, as it applies to various types of R&D contracts and programs, are contained in the Department of the Navy Financial Management Policy Manual.

b. Submission by Program Element/Project.

DON submission material is prepared by program elements. The R-2 Budget Item Justification Sheet Exhibit and the R-3, Program Element/Project Cost Breakdown are submitted by project within each program element. An R&D project is defined as a grouping of tasks or efforts directed toward a single end result. It contains effort unique to a single program element and the budget activity of which that element is a part.

2. Submission Requirements.

The RDT&E,N submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements

(1) Authorized changes by program element and project must be submitted via automated format in accordance with the instructions available on the NHBS web site and must be consistent with controls issued by FMB.

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for the RDT&E, N appropriation by object class.

Research, Development, Test and Evaluation, Navy

DON Submission Requirements

Exhibit No.	Title	Source	Reference
- -	Project Listing by Budget Activity	NBTS	NHBS on-line
R-1	RDT&E Programs	NBTS	NHBS on-line
R-2	RDT&E Budget Item Justification Sheet	BSO	FMR 5-14
R-2a	RDT&E Project Justification	BSO	FMR 5-15/17
R-3	RDT&E Project Cost Analysis	BSO	FMR 5-18/21
R-33	Program Element Comparison Summary	NBTS	NHBS on-line
DD-1391	Military Construction Project Data	BSO	FMR 6-38/46
MRTFB-1	Installation Financial Summary	BSO	FMR 19-22/25
MRTFB-2a	Element of Expense Listing	BSO	FMR 19-26
MRTFB-2b	MRTFB Activity Schedule of Increases/Decreases	BSO	FMR 19-27
MRTFB-2c	Workyears	BSO	FMR 19-28
MRTFB-2d	Source of Direct Funds	BSO	FMR 19-29
MRTFB-3a	Improvement & Modernization Funds Summary	BSO	FMR 19-30
MRTFB-3b	Military Construction and BRAC projects	BSO	FMR 19-31
MRTFB-3c	Improvement and Modernization Detail	BSO	FMR 19-32
T&E-1	Test and Evaluation	BSO	FMR 19-33/36
NC-62	Advanced Questions	BSO	Appendix D

CHAPTER 7

Submission Guidance for the Military Construction, Base Realignment and Closure (BRAC), and Family Housing Appropriations

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required to support budget estimates for the Military Construction, Base Realignment and Closure, and Family Housing appropriations.

a. Appropriations.

The Department of the Navy Military Construction appropriations are Military Construction, Navy (MCN) and Military Construction, Naval Reserve (MCNR). Family Housing appropriations are Family Housing, Operations and Debt (FHOPS) and Family Housing, Construction, Navy and Marine Corps (FHCON). Base Realignment and Closure (BRAC) is also included in this chapter.

b. Design Status.

As a general rule, construction projects funded by the Military Construction and Family Housing appropriations should not be budgeted in BY unless the 35 percent design status milestone is planned to occur by 30 November CY. Exceptions to this policy will be made on a case-by-case basis only for those crucial, high priority projects where there is a high confidence level in the cost estimates and where the operational requirements are such that deferral until the following year would have an adverse effect on national security.

c. Full Funding Policy

(1) Construction projects funded by the Military Construction and Family Housing appropriations will be budgeted on a fully funded basis in order to define the scope and total costs of the proposed projects and to avoid the uncertainties associated with approval of subsequent years' funding.

(2) MILCON projects may be budgeted on a phased basis in exceptional circumstances. Such projects must cost in excess of $100 million and each phase must be complete and segregable without requiring legislation for funding of the next phase. Full authorization for the entire project must be requested in the first year of funding. Full funding requirements for construction projects are discussed in more detail in the Department of the Navy Financial Management Policy Manual.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

(1) Authorization year estimates are required on the Reconciliation of Estimates - Appropriation to Authorization exhibit only.

(2) Economic analyses are required on a selected basis as requested for certain projects justified primarily on economic grounds.

b. Automated Submission Requirements

(1) Authorized changes by program element and project must be submitted via automated format in accordance with the instructions available on the NHBS web site and must be consistent with controls issued by FMB.

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for all appropriations by object class.

Military Construction, Navy
Military Construction, Naval Reserve

DON Submission Requirements

Exhibit No.	Title	Source	Reference
DD-1390	Military Construction Program (by state only)	NAVFAC	FMR 6-38/41
DD-1390 S/1/2	Guard and Reserve Military Construction	NAVFAC	FMR 6-42/45
DD-1391/ 1391/C	Military Construction Project Data (by state only)	NAVFAC	FMR 6-46/52

Base Realignment and Closure

DON Submission Requirements

Exhibit No.	Title	Source	Reference
BC-01	BRAC Service Overview	NAVFAC	FMR 7-12
BC-02	BRAC Implementation Costs and Savings	NAVFAC	FMR 7-13/14
BC-03	BRAC Package Description	NAVFAC	FMR 7-15/16
DD-1391/ 1391C	Military/Family Housing Construction Project Data	NAVFAC	FMR 7-17/23

Family Housing, Navy and Marine Corps

DON Submission Requirements

Exhibit No.	Title	Source	Reference
FH-1	Tri-service Family Housing Cost Model	NAVFAC	FMR 6-54
FH-2	Family Housing Operation and Maintenance	NAVFAC	FMR 6-55
FH-3	Furnishings Summary	NAVFAC	FMR 6-56/57
FH-4	Analysis of Leased Units	NAVFAC	FMR 6-58
FH-5	Historic Housing Costs	NAVFAC	FMR 6-59
FH-10	Reprogramming Proposed Funding Realignment	NAVFAC	Appendix E
PPV	Family Housing Privatization	NAVFAC	Appendix E
FHIF	Family Housing Improvement Fund	NAVFAC	Appendix E

CHAPTER 8

Submission Guidance for the Navy Working Capital Fund

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required for the Navy Working Capital Fund (NWCF) which includes supply management activity groups and non-supply (industrial) activity groups. Additional guidance on policy, rate setting, and definitions for Defense Working Capital Fund (DWCF) activities is contained in Pages 9-1/16 of the FMR.

2. Supply Management Activity Groups.

a. Budget Estimate Controls.

The budget estimates must be in support of an executable program and prepared in accordance with pricing guidance and fact-of-life changes.

b. Pricing Guidance

(1) An effective pricing program is a critical element of overall financial management responsibilities for supply activity group budget development. Budget execution for the supply activity group and customer accounts depends heavily on accurate reflection of procurement and repair costs.

(2) Estimates for costs are prepared in accordance with the pricing guidance contained in Part I, Chapter 6, “General Guidance for All Submissions” section of this manual. These estimates should be based upon the latest actual prices and fully escalated to the fiscal year in which the costs are budgeted.

(3) Standard and net prices charged supply activity group customers in PY and CY are those developed for the previously approved PY and CY President’s Budget.

(4) The budget submission to FMB is the beginning of the development of the standard prices for BY1.

(a) Standard prices for DON managed items used to develop supply activity group sales projections will be based on the latest actual prices, adjusted for inflation. Unless otherwise specified, standard prices will be developed using the price escalation indices approved for the Other Procurement, Navy (OPN) appropriation and adjusted for the recommended surcharge. Where the most

recent actual purchase data occurred prior to PY, this data will be indexed to PY using approved (OPN) price escalation indices. The total costs of sales in PY will then be indexed to BY1 using the approved OPN price escalation indices.

(b) Net repair prices for BY1 will reflect the estimated designated overhaul point repair prices (fully escalated to BY1 prices, as appropriate) plus a recommended surcharge. For industrially funded activities use the approved price escalation for Navy NWCF. For commercial and non-industrial activity organic activities, unless otherwise specified, use the approved OPN price escalation.

(c) Prices for non-DON managed items will be based on CY prices, increased to reflect the approved price escalation indices for BY1. Specific fuel prices will be provided in FMB Budget Guidance Memoranda.

(5) Total supply activity group sales and orders projections for CY and BY1 will reflect the currently approved percent of value of annual demand changes programmed for customer budgets.

(6) The factor required to adjust supply activity group prices for estimated gains or losses through the end of CY will be developed during the DON budget review.

c. ***Other Guidance.***

(1) Budget submitting offices (BSOs) must maintain close liaison with the various resource sponsors to be fully aware of the logistics implications of approved programs, particularly those where major changes may have occurred during, and since establishment of the approved program.

(2) The vast majority of material acquired by supply activity groups is through the sale of inventory items and the reinvestment of proceeds to replenish the inventory. However, budget authority will be requested for war reserve requirements needed to achieve war reserve inventory goals. Such requirements will be based upon the approved program and will not exceed control totals except as specified in paragraph (1)(c) above.

(3) BSOs will prepare and consolidate estimates as specified and submit the material and exhibits in accordance with the submission requirements table.

d. ***Budget Submitting Offices***

(1) The Naval Supply Systems Command (NAVSUP) is responsible for the preparation and submission of Navy supply management activity group justification material.

(2) Marine Corps stockage requirements and budget estimates are prepared by the Marine Corps Inventory Control Point at Albany, Georgia. These requirements are based on the same considerations as for the Navy and submitted to HQMC (RF) for consolidation and submission to FMB.

e. Submission Requirements

(1) The DON budget review submission consists of narrative justification and exhibits contained in backup books as well as other exhibits submitted separately by the Navy and Marine Corps.

(2) Definitions of terms for the supply management activity groups are contained in pages 9-20/23 of the FMR.

(3) The methodology formerly contained in DOD Instruction 4140.24, “Requirements Priority and Asset Application for Secondary Items,” will be used to develop budgetary requirements until updated. Stratification products will be submitted on a routine basis. A copy of the transition from the stratification to the budget will be provided for each wholesale division.

(4) Exhibit requirements are referenced to the FMR or this manual’s appendices on the submissions requirements table.

f. Automated Submission Requirements.

There are no automated submission requirements for the DON Budget review.

Supply Management Activity Groups

DON Submission Requirements

Exhibit No.	Title	Reference
SM-1	Supply Management Summary by Division	FMR 9-32/33
SM-2	General Narrative Justification by Division	FMR 9-34/36
SM-8	Collections/Disbursements	
SM-16	Total Cost Per Output Summary	FMR 9-57
Fund-1	Summary of Price, Program and Other Changes	FMR 9-58/59
Fund-1a	Details of Price, Program and Other Changes	FMR 9-60/66
Fund-2	Changes in the Costs of Operation	FMR 9-67/68
Fund-5a	Total Cost Per Output Summary	FMR 9-49/51
Fund-5b	Customer Price Change	FMR 9-52
Fund-9a	Activity Group Capital Investment Summary	FMR 9-80/83
Fund-9b	Activity Group Capital Investment Justification	FMR 9-84/86
Fund-9c	Capital Investment & Financing Summary	FMR 9-87
Fund-9d	Capital Budget Execution	FMR 9-88
Fund-11	Source of New Orders and Revenue	FMR 9-90/91
Fund-12	Performance & Quality Measures	FMR 9-92
Fund-13	Cash Management Plan	FMR 9-93
Fund-14	Revenue and Expenses	FMR 9-94/96
Fund-14a	Operating Results Worksheet	FMR 9-97/99
Fund-15	Fuel Data	FMR 9-100/101
Fund-19	Military and Civilian Personnel by End Strength and FTEs	FMR 9-105/106
Fund-20	Military Personnel Workyears by Grade (Active)	FMR 9-107

Fund-21	Civilian Personnel Costs by Activity Group	FMR 9-108/110
Fund-25	Headquarters Costs	FMR 9-116
Fund-26	Revenue and Expense Phasing Plan	FMR 9-117

3. Non-supply Activity Groups.

a. Basis of Estimates.

The budget is a translation into financial terms of workload and administrative operations planned by the activity (or activity group).

(1) The basic factors governing the preparation of non-supply activity group estimates include, but are not limited to:

(a) Anticipated workload based on planned customer programs. A distinction should be made between work accomplished and work contracted out.

(b) Expenses, categorized as Direct, Service Center, Production or General and Administrative.

(c) Civilian personnel requirements.

(d) Military personnel costs at civilian equivalency rates.

(e) Direct material requirements.

(f) Services and necessary supporting expenses planned for furnishing tenant support and other services not related to the mission of the activity.

(g) Purchases of material and supplies for inventory.

(h) Depreciation expenses.

(i) Capital investment to include ADP and non-ADP equipment, telecommunications equipment, Minor Construction, and software development.

(2) In general, resource requirements for an activity are totally financed by the NWCF; however, there are certain exceptions which are funded from appropriated funds. These exceptions to NWCF financing are detailed in the FMR, Chapter 9.

b. Pricing Guidance for Cost of Operations.

Annual FMB Budget Guidance Memoranda will provide specific pay rates, price escalation indices, NWCF rates, and fuel prices to be used in computing costs.

c. Estimates of Revenues and Customer Rates.

(1) For the prior year and current year, revenue estimates will be based on previously approved stabilized rates.

(2) For BY1 and BY2 projected costs and surcharges will determine customer rates. For the DON submission, revenue and customer order estimates will be consistent with proposed rates in the NWCF submission for BY1.

d. Accumulated Operating Results (AOR).

(1) Industrial activities should carefully forecast financial operating results for the end of PY, since the estimated AOR for end PY is an important factor in computing rates required to achieve the break-even goal in BY1.

(2) Change in AOR for CY should reflect anticipated operating results based on approved stabilized rates and surcharges, fixed price agreements and other adjustments. Change in AOR for BY1 should result in a zero AOR for BY1. No transfers or passthroughs should be incorporated in BY without direction from FMB.

e. Cash and Outlay Estimates.

The Department of the Navy retains 1517 Anti-deficiency Act responsibility for the DON portion of the NWCF. Emphasis must be placed on all facets of cash management in order for the Navy NWCF to remain solvent. Activity groups must ensure case estimates and phasing plans incorporate the best possible information available at each iteration of the budget process. Collection and disbursement should incorporate all budget decisions and, at minimum, reflect consideration of the following:

(1) Cash collections based on workload estimates priced at approved/proposed rates.

(2) Proposed operating expenses and capital outlays.

(3) The timing of payrolls, or significant outlays which may be annual in nature, like FECA or ship lease payments.

(4) The timing of the impact on cash of fixed price gains or losses.

(5) The impact on future collections of current cash advances.

f. Budget Alignment.

(1) Non-supply activity group budgeting requires a dual alignment: (1) an alignment with cost accounting and reporting systems prepared on the basis of estimates generated by the activity, and (2) an alignment with customer appropriation budgets. The following guidance applies to customer appropriation alignment.

(2) As discussed earlier, industrial customers will use FMB escalation guidance. These percentage price factors will be readjusted if necessary during the FMB review and program dollars realigned to reflect FMB approved billing rate levels for purposes of the OSD/OMB submission. Non-supply NWCF budgets serve as a baseline for customer budgets. Therefore, to the extent that non-supply budgets do not support customer budgets because of inconsistencies in submission or as a result of FMB adjustments during the DON review, non-supply budgets will be aligned to the approved customer budgets.

g. Control Totals.

At the completion of the DON Review, control totals are established by activity group. No deviations can be made after controls are issued.

Non-Supply Activity Groups

DON Submission Requirements

Exhibit No.	Title	Reference
- -	Narrative Summary of Operations	FMR 9-27
Fund-2	Changes in Costs of Operation	FMR 9-67/68
Fund-4	Summary of General and Administrative Costs	FMR 9-71
Fund-5	Total Cost Per Output Summary	FMR 9-72
Fund-7a	Summary of Sources of Revenue	FMR 9-74
Fund-7b	Customer Rate Computations	FMR 9-76/77
Fund-9a	Activity Group Capital Investment Summary	FMR 9-80/83
Fund-9b	Activity Group Capital Purchase Justification	FMR 9-84/86
Fund-9c	Capital Investment and Financing Summary	FMR 9-87
Fund-9d	Capital Budget Execution	FMR 9-88
Fund-10	Price Changes	FMR 9-89
Fund-12	Performance and Quality Measures	FMR 9-92
Fund-16	Material Inventory Data	FMR 9-102
Fund-17	Summary of Real Property Maintenance	FMR 9-103
Fund-20	Military Personnel Workyears by Grade (Active)	FMR 9-107
Fund-24	Summary of Personnel Data (Part 2)	FMR 9-114/115
Fund-25	Headquarters Cost	FMR 9-116
Fund-27	DFAS Customer Funding Summary	FMR 9-118
NC-6	Revenue by Program/Ship (MSC)	Appendix F
NC-7	Allocation of Overhead Expenses (MSC)	Appendix F
NC-8	Revenue and Expense by Program (MSC)	Appendix F
NC-9	Fleet Inventory	Appendix F

Exhibit No.	***Title***	***Reference***
CP-17	Civilian Manpower Requirements for MSC	Appendix F
CP-18	Civilian Manpower Requirements for Shipyards	Appendix F
CP-19	Civilian Manpower Requirements for NADEPS	Appendix F
--	NWCF Cash Phasing Plan	

Chapter 9

Submission Guidance for Other Accounts

This chapter prescribes the budget materials for public enterprise, management, and trust funds.

1. Public Enterprise Funds.

Public Enterprise Funds are expenditure accounts authorized by Congress to be credited with collections, primarily from the public, that are generated by, and earmarked to finance, a continuing cycle of business-type operations.

a. DON Public Enterprise Fund.

The only DON public enterprise fund is the National Defense Sealift Fund.

b. Budget Submitting Office.

CNO (N09BF) is responsible for submission to FMB of the Ready Reserve Force (RRF) exhibits. Additionally, when there are acquisition resources, Naval Sea Systems Command is also responsible for submission of these exhibits.

c. Submission Requirements.

The submission requirements table references the source of formats and instructions for the RRF exhibits. All budget material must be submitted electronically via the Justification Management System (JMS).

National Defense Sealift Fund

DON Submission Requirements

Exhibit No.	Title	Source	Reference
RRF-1	Budget Item Justification	CNO(09BF)	FMR 10-15
RRF-2	Ship Composition Funding Requirements	CNO(09BF)	FMR 10-16
RRF-3	Ship Readiness Operational Status (ROS) Composition	CNO(09BF)	FMR 10-17

2. Management Funds.

A management fund is authorized by law to credit collections from two or more appropriations or funds to finance an activity not involving a continuing cycle of business-type operations. The only activity currently financed in the Navy Management Fund is Transportation of Things. Additional background information on management funds is contained on Pages 10-1/2 of the FMR.

3. Trust, Trust Revolving and Special Funds.

There are three types of trust fund accounts: trust fund receipt accounts, trust fund expenditure accounts, and trust revolving funds. Background information on these accounts is contained in FMR, Volume 12, Chapter 1.

a. DON Trust and Special Funds.

The Department of Navy trust funds include accounts for deposits, Department of the Navy General Gift Fund; profits from Sale of Ships Stores, Navy; contributions to the United States Naval Academy Museum Fund; contributions to the United States Naval Academy General Gift Fund; and contributions to the Naval Historical Fund. The only DON Special fund is Wildlife Conservation, Military Reservation Account.

b. Budget Submitting Offices.

The U.S. Naval Academy is responsible for preparation and submission of backup material for the Naval Academy General Gift Fund and the Naval Academy Museum Fund. NAVSUP is responsible for preparation and submission of Ship's Stores Profits estimates. AAUSN prepares the necessary backup for the Navy General Gift Fund. N09BF is responsible for preparation and submission of backup material for the Naval Historical Fund. NAVFAC is responsible for the preparation and submission of backup material for the Wildlife Conservation Fund.

c. Submission Requirements.

(1) The submission requirements table references the FMR or this manual's Appendices for DON submission exhibit requirements.

(2) DON trust and special fund BSOs are required to provide a Narrative Summary of Operations. The narrative should provide a brief description of the fund's mission and operations, define all major activity components and their responsibilities, identify major funding requirements and customers, explain significant changes in financial condition between budget years, provide civilian and military manpower data, and highlight significant issues affecting the fund.

(3) Six copies of the submission material are required.

Trust and Special Funds

DON Submission Requirements

Exhibit No.	Title	Appendix
- -	Narrative Summary of Operations	
Naval Academy General Gift Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
IV	Museum & General Gift Fund IV	G
Naval Academy Museum Fund		
I	Trust Fund Exhibit I	G
II	Object Exhibit II	G
IV	Museum & General Gift Fund Exhibit IV	G
General Gift Fund, Navy		
I	Trust Fund Exhibit I	G
Ships' Stores Profits, Navy		
I	Trust Fund Exhibit I	G
Naval Historical Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
Wildlife Conservation		
OP-5	Part II (by Activity Group)	FMR 3-20
28	Statement of Receipts	G

4. Receipt Accounts.

The DON budget review also requires submission of estimates for anticipated receipts. These include offsetting receipts, intragovernmental trust funds, and civil receipts from the sale of hunting and fishing permits. These estimates are updated during the OSD/OMB review and used by OMB, OSD, and the DON in various summary budget tables. Guidance on budget justification requirements is contained in Volume 11A of the

FMR. Budget submitting offices will be contacted separately by FMB for any assistance needed on this budget submission material.

Part III

Budget Submission to the Office of the Secretary of Defense (OSD)/ Office of Management and Budget (OMB) and the OSD/OMB Review

CHAPTER 1

General Submission Guidance

This chapter provides guidance for the preparation and submission of the biennial DON budget estimates to the Office of the Secretary of Defense (OSD) and the Office of Management and Budget (OMB).

1. Scope of Submission.

The submission consists of a memorandum from the Secretary of the Navy to the Secretary of Defense describing highlights and significant items of interest and is accompanied by narrative and tabular information concerning all DON appropriations and funds. Additionally, the submission consists of summary and detailed backup material and exhibits for each appropriation, fund, civilian personnel, and military end strength . Submission of estimates via automated media is also required. Budget estimates in this material are required for the prior year (PY), current year (CY), and biennial budget years one and two (BY1 and BY2).

2. Total Obligational Authority (TOA) Controls.

Controls are issued for all years and are based on certain pricing and program factors which have been established during the DON budget review, and include any changes to the factors resulting from revised DOD budget guidance, normally received in June or July. Such changes are promulgated by Budget Guidance Memoranda usually in August of each year following receipt of guidance from USD(C).

3. Basis of Estimates.

The basis for estimates under the biennial budget concept varies for the first and second years of the biennial cycle. Accordingly, all budget exhibits in support of DON budget estimates will display data for the prior year (PY), current year (CY), biennial budget year one (BY1) and biennial budget year two (BY2). The primary basis for the preparation and submission of exhibits and backup material to OSD/OMB is prior year actual data, current year revised estimates, and budget and outyear estimates based on the Program Objectives Memoranda (POMs) as modified by SECDEF approved Program Decision Memorandum (PDM) and by SECNAV approved changes resulting from the DON budget review. During the second year of the biennial cycle the budget years are based on the PDM, SECNAV approved changes resulting from the DON budget review, and other adjustments driven by Congressional action, policy and fact-of-life changes.

4. Supplemental Appropriation Estimates.

A supplemental request is a formal budget request for additional funds for current year costs which cannot be accommodated within existing resources. Supplementals are generally limited to direct emergency requirements and must usually be accompanied by offsets of equal or greater value. Occasionally, specific guidance is received from OSD/OMB which allows the DON to submit a program supplemental requesting additional funds for high priority items which cannot be accommodated within the total funding as appropriated by Congress. In such cases, approved program supplemental estimates are included as an integral part of all appropriation exhibits for the OSD/OMB submission. Section 010306 Part A of the FMR on page 1-61 contains guidance on the submission requirements for supplemental appropriations.

5. Preparation and Submission of Justification Materials.

Chapters 3 through 10 of this Part contain guidance material tailored to each appropriation, fund, civilian personnel, and special interest area.

a. Preparation of Submission.

Submission requirements tables provide sources and references to the FMR, this manual, or to the NHBS on-line web site for exhibit formats and instructions.

b. Deadlines for Submission

(1) OSD requires that all budget submission materials be submitted by a specific date, generally around 15 September. Budget Guidance Memoranda establish submission dates in advance of that date in order to allow FMB time to consolidate, clear, and distribute the material. In order to meet the OSD submission dates, it is mandatory for budget submitting offices to submit the material on the dates set by FMB.

(2) Although the issuance of budget guidance and control totals is sometimes delayed because of late decisions, it is still necessary that budget submissions be received in accordance with the published schedule. Budget submitting offices must make every effort to submit on schedule by beginning preparation based on advanced information and controls provided by the cognizant FMB analyst, and by the judicious use of overtime and temporary manpower.

6. Automated Submission Requirements.

Automated requirements for the OSD/OMB submission include TOA estimates by appropriation, budget activity, and decision category; Procurement/RDT&E/Construction Programs Data Bases; Program and Financing information; Military Personnel end

strength and Civilian Personnel full-time equivalents; and selected budget exhibits. Most of the information required for this submission is derived from the Navy Budget Tracking System (NBTS). FMB uses this data base to develop TOA controls, and to submit the TOA estimates and Procurement/RDT&E/Construction Programs Data Bases required for the OSD/OMB submission. Requirements for automated submissions are included for each appropriation or area in this Part and are available at the NHBS on-line web site.

7. Additional Budget Submissions.

Following the initial biennial budget estimates submission additional budget submissions (ABSs) may be made, where warranted by specific changes in circumstances, within approved TOA control totals.

a. General.

Such submissions are subject to restrictions by OSD contained on Page 1-61, Part A of Section 010307 of the FMR. Only those submissions formally transmitted by the Secretary of the Navy will be considered.

b. Submission Requirements

(1) An ABS is comprised of a formal memorandum to the Secretary of Defense signed by the Secretary of the Navy accompanied by an Exhibit PB-10 which outlines the adjustments by appropriation and by line item. A complete narrative justification is required with the PB-10. The organization desiring submission of an ABS is responsible for preparing a proposed SECNAV memorandum and submitting it to FMB which prepares the Exhibit PB-10 and coordinates the package within the DON. The format for exhibit PB-10 is contained on pages 1-188/189 of the FMR.

(2) USD(C) requires the submission of all ABSs no later than 30 September.

8. Prior Year Update.

Following the initial September budget submission, OSD requires the updating of budget estimates to include prior year actual data including any appropriation transfers. This occurs after the completion of end year accounting reports in November. Included in this update are revisions to the Program and Financing schedules and obligation/outlay rates, as well as incorporation of the latest proposed reprogrammings and prior year actual data. FMB prepares the necessary data for the actual year update with input as required from budget submitting offices.

a. Program and Financing (P&F) Schedules.

Prior year budget plan, obligation, outlay, financing, and object classification estimates are updated to reflect 30 September actual data. FMB is responsible for this update and

changes the estimated PY amounts to actual values in automated format using selected accounting reports and other data as outlined below.

P&F Section	Accounting Report Used
Budget Plan	Appropriation Status by Fiscal Year Program and Subaccount (DD-1002) and selected budget submitting office information
Obligations	Appropriation Status by Fiscal Year Program and Subaccount (DD-1002)
Financing	Report on Budget Execution (DD-733) Report on Reimbursements (DD-725)
Expenditure Tail	Report on Budget Execution (DD-733) Supplemental Report on Budget Execution (NC 2232)
Obligations by Object Classification	BSO submissions to BOCS

The PY estimates must agree with the end year accounting reports. Therefore, it is important that all changes that should be included in the PY column of the BY1 budget be effected prior to 30 September so that the end year accounting reports will reflect such revisions.

b. CY and BY1 Obligations

(1) For multi-year appropriations, obligation estimates reflected on the P&F schedules are also updated as part of the actual year update.

(2) Obligation estimates are derived by the application of estimated obligation rates to TOA values of the specific program years following the development, review, and approval of these rates.

(3) In the budget submission to OSD/OMB, FMB uses obligation rates directed by OSD. Budget Submitting Offices are to review these rates and recommend changes if appropriate. Any changes are to be submitted to FMB by mid-October of each year accompanied by written justification.

(4) The proposed changes to the rates are reviewed by FMB, adjusted as necessary, and transmitted to OSD for final approval. Once approved, these rates are used to compute the obligation estimates included in the President's Budget Submission. The CY obligation estimates are also used as the obligation plan against which actual performance is measured.

c. Budget Plan.

The prior year update of estimates must include any reprogramming actions (above or below threshold) not included in the OSD/OMB budget submission. Since the prior year

column of the budget is locked up shortly after the actual year update, it is important that this update include all reprogrammings that have occurred in the prior year.

d. O&M Update.

OSD requires an update of the Summary of Price and Program Change, Exhibit OP-32, for Operation and Maintenance appropriations as part of the prior year update. Budget submitting offices provide the necessary updated information via automated submissions.

e. Deferred Maintenance on Property, Plant, and Equipment (PP&E) Update.

To enable the DON to fulfill the annual financial statement requirements, actual PY amounts of deferred maintenance for the Real Property category of General PP&E and deferred maintenance on National Defense PP&E for all appropriations and the NWCF are required. These reported amounts must be the same as those to be included in the PY column of the subsequent President's Budget. BSOs must provide data to FMB as part of the Actual (Prior Year) Update.

f. Civilian Personnel Update.

Each year by mid-November, budget submitting offices are required to submit prior year actual on-board end strength, workyears (FTEs) and associated costs in the automated format of exhibits CP-1 and CP-2. FMB42 consolidates this information for submission to OSD. This actual end year data is also used to update the Object Class and personnel summary portions of the P&F schedules.

g. Military Personnel Update.

Actual Military Personnel end strength information is required for the prior year usually in late November. The Bureau of Naval Personnel (BUPERS) and Headquarters Marine Corps (HQMC) are required to provide automated submissions of actual active and reserve military personnel strength by personnel type, Program Budget Decision (for National Foreign Intelligence Program (NFIP) and Working Capital Fund Activity Groups only) and defense component or agency, if applicable.

9. Security Classification.

Guidance on classification of budget material for the OSD/OMB submission is contained in the FMR 1-8.

CHAPTER 2

Submission Guidance for Summary Requirements

This chapter provides guidance for the preparation and submission of the material which constitutes the official Department of the Navy submission to OSD/OMB. This material includes summary data and exhibits that provide the information necessary to complete Program and Financing schedules, and to prepare the automated submission.

1. General Guidance.

The official OSD/OMB budget submission consists of a transmittal memorandum, "Blue Book," and summary exhibits for use by the Secretary of Defense and other management officials. Also included are an automated submission and detailed backup material required for review and tracking of individual programs. The summary and automated requirements are completed and submitted by FMB. Budget submitting offices prepare the detailed data, which are reviewed by FMB prior to the OSD/OMB submission.

2. Transmittal Memorandum.

The Department of the Navy budget estimates are forwarded to the Secretary of Defense by means of a transmittal memorandum signed by the Secretary of the Navy. This memorandum highlights significant programs and special interest areas in the DON budget estimates and is used by the Secretary of the Navy as a major policy document. The transmittal memorandum is prepared by FMB and coordinated within the DON prior to SECNAV signature.

3. Blue Book.

The transmittal memorandum is accompanied by a book which provides a summary of the DON budget and highlights of each appropriation request in both narrative and tabular form. The Blue Book is prepared by FMB with copies provided to various OSD, DON and other interested offices. All supporting data are required to be consistent with Blue Book estimates.

4. Exhibit PB-1, Summary of Budget Estimates.

This exhibit displays TOA, Budget Authority, and Outlays for the prior, current, and budget years and is prepared by FMB using the PB-2/2a, Program and Financing (P&F) schedules. No input is required from budget submitting offices.

5. Exhibits PB-2/2a, Program and Financing (P&F) Schedules.

FMB prepares these exhibits which display direct and reimbursable program and obligations, the method of financing these requirements, and related expenditures for the prior, current and budget years.

6. Exhibit PB-4, Schedule of Military and Civilian Personnel.

This exhibit displays military officer and enlisted end strength and civilian full-time equivalents by U.S. and Foreign Direct and Indirect Hire personnel for the prior, current and budget years. FMB prepares this exhibit ensuring that the numbers in this exhibit agree with those contained in the automated submission.

7. Exhibit PB-8, CY Supplemental Appropriation Requirements.

This exhibit displays supplemental requirements by appropriation. It is prepared by FMB; no input is required from budget submitting offices.

8. Automated Submission Requirements.

OSD requires submission of certain exhibits and other electronic data in automated format for this submission.

a. Exhibit Submissions from BSOs.

Specific guidance for automated submissions is provided in Budget Guidance Memoranda with additional detailed instructions available at the NHBS on-line web site.

b. TOA

(1) OSD requires that TOA estimates be submitted for PY through BY6.

(a) For PY through BY2 these estimates must include the following information:

- Appropriation
- Budget Activity
- Budget Subactivity (PBD)

(b) For the third, fourth, fifth and sixth years of the Future Years Defense Program (FYDP) (BY3 through BY6), these estimates must include the following information:
- Appropriation
- Budget Subactivity (PBD)

(2) This submission is prepared by FMB from the Navy Budget Tracking System (NBTS) which is also used to produce control totals for the OSD/OMB submission.

c. Military and Civilian Personnel Data

(1) OSD requires that military end strength and civilian personnel end strength and full-time equivalents (FTEs) be submitted in automated format for PY through BY6 as follows:
- Appropriation
- Defense Component or Agency, as applicable
- Budget Subactivity (PBD)(for NFIP and WCF Activity Group)
- Personnel Category

(2) BUPERS and HQMC are responsible for providing these data for Navy and Marine Corps military personnel to FMB for subsequent submission to the OUSD(Comptroller) control data base (Budget Resources System (BRS)).

d. Procurement/RDT&E/Construction Programs Data Bases

OSD requires automated data submissions for the Procurement, Research and Development, and Military Construction appropriations. These data provide line item (procurement) and program element (R&D) and project (MILCON) detail. The P-1, R-1, and C-1 exhibits are prepared and distributed by OSD from the information contained in these data bases.

CHAPTER 3

Submission Guidance for All Budget Submitting Offices

1. General Guidance.

This chapter provides guidance applicable to all Budget Submitting Offices (BSOs) for submission of budget materials. Some exhibit requirements contained in this chapter are satisfied by BSO submissions while others are satisfied by FMB using automated submissions received from BSOs. Many of these exhibits involve multiple appropriations and are not required for justification of a particular appropriation or fund request. These exhibits provide information about certain programs or elements of expense which also cross BSO multiple budget lines. Included in this category are exhibits for Management Headquarters; Environmental; Morale, Welfare, and Recreation (MWR); Combating Terrorism resources, among others. Information on automated submissions also are included.

2. Special Interest/Multi-Appropriation Exhibit Requirements.

BSOs will prepare budget materials in accordance with the instructions contained in the FMR, Budget Guidance Memoranda and this manual. The submission requirements table shows sources and references for individual exhibit formats and instructions.

3. Civilian Personnel.

Estimates will reflect final civilian resource controls (end strength, workyears, and costs) as a result of the DON review by appropriation, fund, budget line item, resource sponsor, program element, and type hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect; direct and reimbursable). The submission requirements table shows sources and references for individual exhibit formats and instructions.

4. Information Technology (IT).

Special interest information technology budget exhibits are submitted by budget submitting offices (BSOs) to FMB and the Department of the Navy Chief Information Officer (DON-CIO); and by the DON CIO to higher authority.

a. General.

(1) The DON CIO may issue supplemental guidance covering submission requirements which may supersede the guidance contained in Appendix H of this manual due to annual changes in Office of the Secretary of Defense (OSD) IT budget exhibit reporting requirements. DON CIO supplementary guidance, when issued, is considered an extension of the guidance contained herein.

(2) Scope. The scope of IT budget reporting covers all IT resources, defined in the Clinger-Cohen Act (Information Technology Reform Act (ITMRA)) of 1996).

b. Submission Requirements.

(1) The IT submission consists of budget materials as specified in the submission requirements table.

(2) IT budget estimates are an extract of BSOs' appropriated and Navy Working Capital Fund (NWCF) budgets and, therefore, reflect approved IT resources funded within budget controls.

(3) Submissions must reflect all changes resulting from the DON Review and any other action affecting the IT estimates.

(4) Include copies of procurement exhibits and NWCF capital budget authority exhibits showing IT capital investments in the IT budget package submitted to DON CIO.

5. Morale, Welfare and Recreation (MWR) Activities.

Specific guidance and requirements applicable to the submission of MWR budget estimates is contained in this section.

a. General.

(1) Budget submissions are to be made through a budget submitting office, reflecting MWR estimates for all appropriations under that BSO's cognizance.

(2) Submissions must reflect all changes resulting from the DON Review and any other action affecting the MWR estimates.

b. Submission Requirements.

(1) The MWR submission consists of backup material as specified in the submission requirements table.

(2) MWR data on forces afloat is not required.

(3) Formats and instructions for preparation of the exhibits are referenced in the MWR requirements table.

(4) Definitions for MWR activities will be promulgated separately by USD(C).

(5) All budget material must be submitted electronically to the Justification Management System (JMS).

6. Environmental.

Specific guidance and requirements applicable to the submission of Environmental related exhibits is contained in this section.

a. General.

(1) Budget exhibits in support of the Environmental Restoration program are to be provided to FMB by the Naval Facilities Engineering Command (NAVFAC).

(2) Budget submitting offices are required to submit budget exhibits for Environmental Quality and Environmental Security Technology, PB-28 and PB-28A.

(3) NAVFAC is also required to submit Installation Level Detail.

b. Submission Requirements.

(1) The Environmental submission consists of backup material as specified in the submission requirements table.

(2) Submissions must reflect all changes resulting from the DON Review and any other action affecting Environmental issues.

(3) Formats and instructions for preparation of the exhibits required for Environmental exhibits are referenced in the Environmental requirements table. Detailed formats and instructions for some of these exhibits are available at the NHBS on-line web site.

(4) All budget material must be submitted electronically to the Justification Management System (JMS).

c. Automated Submission Requirements.

(1) NAVFAC is required to submit the Summary of Price and Program Change Exhibit (OP-32).

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for the Environmental Restoration, Navy appropriation by object class. Detailed instructions and formats are available at the NHBS on-line web site.

7. Financial Management Activities.

OMB Circular A-11 requires preparation and submission of budget material to fulfill Section 40, Data on Financial Management Activities. Further information is available in the FMR 19-6.

8. Submission Requirements Tables.

The submissions requirements tables for this submission for Special Interest/Multi-Appropriation exhibits; Civilian Personnel; Information Technology; Morale, Welfare, and Recreation; and Environmental exhibits follow.

Special Interest/Multi-Appropriation Exhibits

OSD/OMB Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
PB-2	Appropriation by Object Classification	All	BOCS	NHBS on-line
PB-11B 1/	Cost of Medical Activities - DEPMED	O&M	SUP/PAC/ LANT	FMR 12-15/18
PB-15	Advisory and Assistance Services	All	BOCS	FMR 19-38/40
PB-18	Foreign Currency Exchange Data	O&M	BSO	FMR 19-43
PB-22	Management Headquarters	Various	BSO	NHBS on-line
PB-34	Revenue from Leasing Out of Department of Defense Assets	Various	NAVFAC	FMR 8-19
PB-41	Administrative Motor Vehicle Operations	Various	NAVFAC/ HQMC	FMR 19-57
PB-42	Competition and Privatization	All	BSO	FMR 19-58/61
PB-50	Child Development, Family Centers and Family Advocacy	O&M	BSO	FMR 19-62/66
PB-52A	DOD Aeronautics Program	RDTEN,OPN	BSO	FMR 19-67/68
PB-52B	DOD Space Budget	RDTEN, OPN	BSO	FMR 19-69/72
PB-53	Budgeted Military and Civilian Pay Raise Amounts	Various	BSO	FMR 19-73
PB-55	International Military Headquarters	Various	BSO	FMR 19-75
OP-26	POL Consumption Costs	Various	BOCS	NHBS on-line
OP-29	Overseas Military Facility Investment Recovery Account	N/A	NAVFAC	FMR 8-19

Exhibit No.	Title	Approp.	Source	Reference
OMBP-01	Overseas Military Banking Program	O&M	EUR/PAC	FMR 19-76/77
NC-2	Audit Findings and Recommendations	All	BSO	Appendix H
Cbt-1	Combating Terrorism Resources	Various	BSO	FMR 19-16/21

1/ The PB-11B, Deployable Medical Activities, should be submitted whenever deployable assets are used by NAVSUP, LANTFLT, and PACFLT to CNO (N931) who will coordinate a submission to FMB. The PB-11 and PB-11A Cost of Medical Activities exhibits are prepared by BUMED and submitted directly to Defense, Health Affairs.

Civilian Personnel

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
CP-7	Civilians by Activity	BSO	NHBS on line
CP-9	FTE Changes Year-to-Year	BSO	NHBS on line
CP-10	Civilians Outside the 50 States	BSO	NHBS on line
CP-23	Sources of Funding for Reimbursable Civilians	BSO	NHBS on line
CP-24	SIP-RIF Budget Plan	BSO	NHBS on line
PB-17	Employee Relocation Expenses	BSO	NHBS on line
PB-22	Management Headquarters	BSO	NHBS on line
PB-54	Civilian Personnel Hiring Plan	BSO	FMR 19-71

Note: These requirements are data loads (except PB-54) with templates available on the NHBS on-line web site.

Information Technology

OSD/OMB Submission Requirements

Exhibit No.	Title	NITE/STAR	Hard Copy	Appendix
- -	Naval IT Exhibits/Standard Reporting (NITE/STAR) System Update (Bulletin Board System(BBS), e-mail, or diskette	X		I
ES	IT Executive Summary		X	
NC-33	Justification of Increases and Decreases	X	X	I
NC-36	NITE/STAR Worksheets (For Each ADPS Code)	X	X	I
NC-37	NITE/STAR Appropriation Summary	X	X	I
P-40*	Budget Item Justification Sheet		X	FMR 4-75/77
P-5 *	Weapon Systems Cost Analysis		X	FMR 4-22
P-5a*	Program History and Planning		X	FMR 4-30/33
Fund-9a*	Capital Budget Authority		X	FMR 9-80/83
Fund-9b*	Capital Purchases Justification		X	FMR 9-84/88
IT-300b	Capital Investment Justification Exhibit		X	FMR 18-23/29

* Include copies of these procurement exhibits and NWCF capital budget authority exhibits showing IT capital investments in the IT budget package submitted to DON CIO.

Morale, Welfare, and Recreation

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
OP-34	Appropriated Fund Support for Morale, Welfare and Recreation Activities (MWR)	BSO	FMR 3-96/101
PB-50	Child Development, Family Centers and Family Advocacy Programs	BSO	FMR 19-59/63

Environmental

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
Environmental Restoration, Navy			
ENV-30A	Funding by Priorities	NAVFAC	FMR 13-7
ENV-30B	Summary by Phase	NAVFAC	FMR 13-8/9
ENV-30C	Reconciliation of Increases and Decreases	NAVFAC	FMR 13-10
ENV-30D	Outyear Funding by Priorities	NAVFAC	FMR 13-11
ENV-30E	Outyear Funding by Phase	NAVFAC	FMR 13-12
OP-32	Summary of Price and Program Change	NAVFAC	NHBS on-line
PB-2	P & F Schedules (Object Class)	BOCS	NHBS on-line
Project Listing	Installation Level Detail	NAVFAC	N/A
Environmental Quality			
PB-28	Summary of Funds Budgeted for Environmental Projects-Environmental Quality	BSO	NHBS on-line
PB-28A	Environmental Security Technology	BSO	NHBS on-line
EQR	Environmental Quality	BSO	NHBS on-line

CHAPTER 4

Submission Guidance for Military Personnel Appropriations

1. General Guidance.

This chapter provides guidance and prescribes the justification materials required to support budget estimates for the military personnel appropriations.

a. Military Personnel Appropriations.

The Department of the Navy military personnel appropriations include Military Personnel, Navy (MPN), Military Personnel, Marine Corps (MPMC), Reserve Personnel, Navy (RPN) and Reserve Personnel, Marine Corps (RPMC).

b. Subsistence-in-Kind.

For the OSD/OMB submission, subsistence-in-kind average daily food allowances for the military personnel appropriations will be developed using guidance contained in the FMR Page 2-1 (Part D).

c. Budgeting for Inflation.

Anticipated inflation will be included in the OSD/OMB submission for clothing, subsistence-in-kind, the commercial portions of permanent change of station travel, and temporary lodging allowances overseas. To ensure adequate funding for variable housing allowances, anticipated housing cost inflation will be added. The inflation rates to be used will be based upon approved price indices provided in Budget Guidance Memorandum.

d. Control Totals.

Control totals are established by budget activity and PBD. No changes can be made after controls are issued. Budget submitting offices (BSOs) should coordinate with the cognizant FMB analyst if it is necessary to shift funds before control totals are finalized. BSOs should adjust funding within the control level as necessary to reflect decisions made during the DON review and to properly price and justify the budget estimates. These changes should also be coordinated with the cognizant FMB analyst.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with all summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) Submission of automated data in support of estimates is required for both active and reserve Navy and Marine Corps military end strength by officer and enlisted and defense component or agency, if applicable. Data are also required by budget sub-activity (PBD) for the National Foreign Intelligence Program (NFIP) and the Working Capital Fund Activity Group. BUPERS and HQMC are responsible for providing these data to FMB for subsequent submission to the OUSD(Comptroller) Budget Resources System (BRS).

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for military personnel appropriations by object class.

Military Personnel, Navy and Marine Corps

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
PB-30A	Summary of Requirements by Budget Program	BUPERS/HQMC	FMR 2-48
PB-30B to PB-30F	Personnel Summaries	BUPERS/HQMC	FMR 2-49/54
PB-30F-1	Total Officer Gains Phased by Month	BUPERS/HQMC	FMR 2-55
PB-30F-2	Enlisted NPS Accessions Phased by Month	BUPERS/HQMC	FMR 2-56
PB-30J	Summary of Entitlements by Sub-activity	BUPERS/HQMC	FMR 2-57/60
PB-30K	Analysis of Appropriation Changes and Supplemental Requirements	BUPERS/HQMC	FMR 2-61/64
PB-30Q	Schedule of Increases and Decreases	BUPERS/HQMC	FMR 2-65
PB-30P	Schedule of Increases and Decreases/Pay and Allowances	BUPERS/HQMC	FMR 2-66
PB-30Q	Military Personnel Assigned Outside DOD (End Strength)	BUPERS/HQMC	FMR 2-67/68
PB-30R	Reimbursable Program	BUPERS/HQMC	FMR 2-69
PB-30V	Incentive/Bonus Payment Stream	BUPERS/HQMC	FMR 2-70/71
MP-1	Reconciliation of Fund Changes With Prior Year	BUPERS/HQMC	FMR 2-72/73
MP-2	Dependents, Housing, and BAH Estimates	BUPERS/HQMC	FMR 2-74/75
MP-3	Summary of Outyear Data	BUPERS/HQMC	FMR 2-76
MP-4	Military Personnel by Region and Country (End Strength)	BUPERS/HQMC	FMR 2-77/81

Exhibit No.	Title	Source	Reference
MP-5	Active Duty Stationed Ashore by Regional Area	BUPERS/HQMC	FMR 2-82
MP-6	Education Benefits - Additional Basic Benefits	BUPERS/HQMC	FMR 2-83
MP-7	Aviation Retention Bonus	BUPERS/HQMC	FMR 2-84/85
MP-9	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/HQMC	FMR 2-86
MP-10	Summary of MILPERS Separation Payments	BUPERS/HQMC	FMR 2-87
OP-33	Reconciliation in Average Strength/ FTEs in NATO Countries	BUPERS	FMR 3-95
MP-11	Clothing Allowance Initial Costs	BUPERS/HQMC	Appendix A
MPERS-1	Monthly Obligation Phasing Plan	BUPERS/HQMC	Appendix A
MPERS-4	Reenlistments within 3 months of Release from Active Duty	BUPERS/HQMC	Appendix A
MPERS-6	PCS Moves/Obligations by Type/Category (CY)	BUPERS/HQMC	Appendix A
OP-44	Military Assigned to Ships and Aircraft Squadrons	BUPERS/HQMC	FMR 3-104
PB-22	Management Headquarters	BUPERS/HQMC	FMR 19-45

Reserve Personnel, Navy and Marine Corps

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
PB-30A	Summary of Requirements by Budget Program	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-88
PB-30F	Schedule of Gains and Losses to Selected Reserve Strength	BUPERS/CNRF/HQMC	FMR 2-89/90
PB-30G	Summary of Personnel	BUPERS/CNRF/HQMC	FMR 2-91
PB-30H	Reserves on Active Duty-Strength by Grade	BUPERS/HQMC	FMR 2-92
PB-30I	Strength by Month	BUPERS/CNRF/HQMC	FMR 2-93
PB-30J	Summary of Entitlements by Subactivity	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-94/97
PB-30K	Analysis of Appropriation Changes	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-98/102
PB-30L	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/BUMED CNRF/HQMC	FMR 2-103/104
PB-30M	Summary of Basic Allowance for Housing (BAH) Costs	BUPERS/CNRF/HQMC	FMR 2-105/106
PB-30N	Summary of Travel Costs	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-107/108
PB-30Q	Schedule of Increases and Decreases-Summary	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-65
PB-30P	Schedule of Increases and Decreases	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-66
PB-30R	Reimbursable Program	CNRF/HQMC	FMR 2-69
PB-30S	Reserve Officer Candidates	CNET/HQMC	FMR 2-109

Exhibit No.	Title	Source	Reference
PB-30T	Reserve Officer Candidates (ROTC) Enrollment	CNET/HQMC	FMR 2-110
PB-30U	Reserve Officer Candidates (ROTC) Program	CNET/HQMC	FMR 2-111
PB-30V	Incentive/Bonus Payment Stream	BUPERS/CNRF/HQMC	FMR 2-70/71
PB-30W	Full-time Support Personnel	BUPERS/HQMC	FMR 2-112
MPR-1	Initial Active Duty for Training Program and Prior Service Enlistments	BUPERS/CNRF/HQMC	FMR 2-113/114
MPR-2	Additional Training Assemblies	CNRF/HQMC	FMR 2-115
MPR-3	Reconciliation of Fund Changes with Prior Year	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-116/117
MPR-4	Education Benefits (Title 10, Chapter 106)	BUPERS/CNRF/HQMC	FMR 2-118
MPR-5	Summary of Basic Pay and Retired Pay Accrual costs	BUPERS/CNRF BUMED/HQMC	FMR 2-119
MPR-6	Active Reserve/Guard (AGR) Personnel Costs	BUPERS/HQMC	FMR 2-120
MPERS-1a	Monthly Obligation Phasing Plan (Reserves)	BUPERS/BUMED CNET/CNRF/HQMC	Appendix A

CHAPTER 5

Submission Guidance for Operation and Maintenance Appropriations

1. General Guidance.

This chapter prescribes the justification materials required to support budget estimates for the operation and maintenance (O&M) appropriations.

a. Operation and Maintenance Appropriations.

The Department of the Navy O&M appropriations include Operation and Maintenance, Navy (OMN), Operation and Maintenance, Marine Corps (OMMC), Operation and Maintenance, Navy Reserve (OMNR), and Operation and Maintenance, Marine Corps Reserve (OMMCR).

b. Budget Estimates/TOA Controls.

Control totals are established by budget activity, PBD (National Foreign Intelligence Program only), claimant, activity/sub-activity group and special interest category. No changes can be made after controls are finalized. Budget submitting offices (BSOs) should coordinate with the cognizant FMB analyst if it is necessary to shift funds before the control totals are published. BSOs should adjust funding within the control level as necessary to reflect decisions made during the DON review and to properly price and justify the budget estimates. These changes should also be coordinated with the cognizant FMB analyst.

c. FTE and Military End Strength.

Civilian full-time equivalent (FTE) and active duty military end strength and workyears will be included in active O&M appropriation exhibits and supporting material, where applicable. BSOs are to maintain close liaison with the various program and resource sponsors regarding manpower requirements.

d. Funding Policies, Definitions and Expense/Investment Criteria.

Chapter 1 of the FMR, pages 1-25/37, contains policies and definitions concerning costs that are to be financed by the O&M appropriations as opposed to other appropriations. Pages 1-9/12 of the FMR provide policies and definitions regarding the application of expenses and investment criteria for budgetary purposes.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with all summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) The following automated submissions are required:

OP-32	Summary of Price and Program Change
OP-5	Automated Reporting System (OARS)
BS-1	Base Support

(2) Data submitted to the Budgetary Object Classification System (BOCS) is used to prepare a consolidated OP-32.

(3) OARS is an automated system utilized to manage and review Operation and Maintenance budget information and to prepare budget justification materials. Detailed instructions and related information on this system is available at the NHBS on-line web site.

(4) Information provided in the BS-1 automated submission is used to prepare the Backlog of Maintenance and Repair (OP-27) and the Summary of Major Repair Projects (OP-28) exhibits for OMN only. The OP-27 and OP-28 exhibits for OMNR are submitted by COMNAVRESFOR in lieu of a BS-1. For OMMC and OMMCR, these exhibits are submitted by HQMC.

Operation and Maintenance Appropriations

OSD/OMB Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
O-1	O&M Funding by Budget Activity and Activity Group	All	NBTS	NHBS on-line
PB-2		All	BOCS	NHBS on-line
OP-5	Part 1 (Budget Activity) Part 2 (Sub-Activity Group) Attachments 1-5, as applicable	All	OARS	NHBS on-line
OP-8	Civilian Personnel Costs	All	NBTS	NHBS on-line
OP-9	Analysis of Changes in FTE Costs	All	FMB	FMR 3-49/53
OP-14	Individual Training Data	OMN/MC	CNET CNO BUPERS HQMC	FMR 3-54/67
OP-20	Analysis of Navy Flying Hour Program-Summary	OMN/R	N889	FMR 3-85
OP-20A	Analysis of Navy Flying Hour Program-TACAIR	OMN/R	N889	FMR 3-86
OP-20B	Analysis of Navy Flying Hour Program-Fleet Training	OMN/R	N889	FMR 3-87
OP-20C	Analysis of Navy Flying Hour Program-Fleet Support	OMN/R	N889	FMR 3-88
OP-24	Emergency and Extraordinary Expense Limitation	OMN	AAUSN	FMR 3-92
OP-26	POL Consumption and Costs	All	BOCS	NHBS on-line
OP-27	Real Property Maintenance Activities	All	BSOs with MRP	FMR 8-9/10

Exhibit No.	Title	Approp.	Source	Reference
OP-27P	Real Property Maintenance & Minor Const-Projects over $500,000	All	BSO	FMR 8-11/12
OP-28	Summary of Major Repair Projects	All	BSO	FMR 8-13/14
OP-30*	Depot Maintenance Program	All	BSO	FMR 3-98/107
OP-31	Funding for NWCF Depot Level Reparables(DLRs)	All	FMB	FMR 3-108
OP-32	Appropriation Summary of Price/Program Change	All	BOCS	NHBS on-line
OP-34	Appropriated Fund Support for MWR Activities	All	BSO	FMR 3-118/123
OP-40	Ship Fuel Data & Operating Tempo Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-124
OP-41	Ship Operating Cost Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-125
EQR	Environmental Quality	OMN	All BSOs	
BS-1	Base Support	OMN	All BSOs	NHBS on-line
OP-30S	Ship Depot Maintenance	OMN/OMNR LANTFLT/ PACFLT/ NAVSEA		Appendix B
NC-10	Naval Shipyard Workload Summary	OMN	BSO	Appendix H
NC-50S	Mandays at Naval Shipyards	All	NAVSEA/ SPAWAR	Appendix H

*For BSOs with Depot Maintenance in more than one SAG, an OP-30 exhibit is required to be submitted at the SAG level vice the claimant level.

CHAPTER 6

Submission Guidance For Procurement Appropriations

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required to support budget estimates for the procurement appropriations.

a. Procurement Appropriations.

The Department of the Navy procurement appropriations include Aircraft Procurement, Navy (APN), Weapons Procurement, Navy (WPN), Shipbuilding and Conversion, Navy (SCN), Other Procurement, Navy (OPN), Procurement, Marine Corps (PMC), and Procurement of Ammunition, Navy and Marine Corps (PANMC).

b. Control Totals.

Control totals are established by P-1 line item. No changes can be made at the line item level after controls are issued. Budget submitting offices (BSOs) should coordinate with the cognizant FMB analyst if it is necessary to shift funds between line items before the control totals are published. BSOs should adjust funding below the line item level as necessary to reflect decisions made during the OSD/OMB review and to properly price and justify the budget estimates. These changes should also be coordinated with the cognizant FMB analyst.

c. Reserve Procurement.

The Department of the Navy is required to identify separately the quantities and costs of procurement items planned for the Navy Reserve and the Marine Corps Reserve. For major systems, a separate, non-add cost estimate exhibit (P-5 or P-5A) should be prepared for Reserve procurement. For non-major systems, the appropriate exhibit should be annotated to identify quantity and cost of equipment for both Reserve Components. In every case, such data must be consistent with the P-1R exhibits. Note that the P-1R should include a line for the Navy Reserve and one for the Marine Corps Reserve for each applicable P-1 line item.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) Procurement Programs Data Base. The Department of the Navy is required to maintain an automated Procurement Programs Data Base to supplement the procurement justification materials. The Procurement Programs Data Base is also used by OSD to track Program Budget Decisions (PBDs) at the line item level, track Congressional action on the President's budget submission, and provide the baseline data required for special analyses. The Procurement Programs Data Base is prepared by FMB.

(2) Budgetary Object Classification System (BOCS). BSOs are required to provide an automated submission to BOCS. This information reflects planned obligations for all procurement appropriations.

Procurement Appropriations

OSD/OMB Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
P-1	Procurement Program	All	NBTS	NHBS on-line
P-1M	Procurement Program Mod Summary	All	NBTS	NHBS on-line
P-1R	Procurement Programs for the Reserves	All but SCN	NBTS	NHBS on-line
P-3a	Individual Modification Program	All but SCN	BSO	FMR 4-18/21
P-5	Weapon System Cost Analysis	All	BSO	FMR 4-22
P-5a	Weapon System Procurement History and Planning	All	BSO	FMR 4-30/33
P-5b	Analysis of Ship Cost Estimate-Basic Escalation	SCN	NAVSEA	FMR 4-34
P-8a	Analysis of Ship Cost Estimates-Major Equipment	SCN	NAVSEA	FMR 4-35
P-10	Advance Procurement Requirements Analysis	All but OPN	BSO	FMR 4-36/43
P-17	Layaway and/or Distribution	As applicable	BSO	FMR 4-44
P-18	Initial and Replenishment Spares and Repair Parts Justification	All, but SCN	BSO*	FMR 4-46/47
P-20	Requirements Study	All	BSO	FMR 4-48
P-21	Production Schedule	All but SCN	BSO	FMR 4-51/52
P-21a	Production Schedule, All Types	All but SCN	BSO	FMR 4-53
P-22	Ammunition Inventory	PANMC	BSO	FMR 4-54/55

*Note: No longer coordinated by NAVSUP

Exhibit No.	Title	Approp.	Source	Reference
P-23	Time Phased Requirements Schedule	All but SCN	BSO	FMR 4-56
P-23a	Installation Data	All but SCN	BSO	FMR 4-57
P-25	Production Support and Industrial Facilities Cost Analysis	As applicable	BSO	FMR 4-60/61
P-27	SCN-Ship Production Schedule	SCN	NAVSEA	FMR 4-64
P-29	SCN Outfitting Costs	SCN	NAVSEA	FMR 4-65
P-29a	SCN Outfitting Costs Summary	SCN	NAVSEA	FMR 4-66
P-30	SCN Post Delivery Costs	SCN	NAVSEA	FMR 4-67
P-30a	SCN Post Delivery Costs Summary	SCN	NAVSEA	FMR 4-68
P-32	Purchases from WCF	All	BOCS	NHBS on-line
PB-32B	Comparison of CY Program Requirements	As applicable	BSO	FMR 4-90
P-35	Major Ship Component Fact Sheet	SCN	NAVSEA	FMR 4-72/73
P-36	Depot Level Ship Maintenance Schedule	OPN	BSO	FMR 4-74
P-40	Budget Item Justification Sheet	All	BSO	FMR 4-75/77
P-40a	Budget Item Justification for Aggregated Items	All	BSO	FMR 4-78/79
P-45	Summary of Reimbursables	As applicable	BSO	FMR 4-80
MYP-1	Multiyear Procurement Criteria	As applicable	BSO	FMR 4-82/83
MYP-2	Total Program Funding Plan	As applicable	BSO	FMR 4-84
MYP-3	Contract Funding Plan	As applicable	BSO	FMR 4-85
MYP-4	Present Value Analysis	As applicable	BSO	FMR 4-86/89

CHAPTER 7

Submission Guidance for the Research, Development, Test and Evaluation, Navy (RDT&E,N) Appropriation

1. General Guidance.

This chapter prescribes the justification materials required in support of budget estimates for the RDT&E,N appropriation.

2. Control Totals.

Control totals are established by program element/project. No changes can be made at the project level after controls are issued. The budget submitting office should coordinate with the cognizant FMB analyst if it is necessary to shift funds between projects before the control totals are published. Budget submitting offices should adjust funding below the project level as necessary to reflect decisions made during the DON review and to properly justify the budget estimates. These changes should be coordinated with the cognizant FMB analyst.

3. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) R&D Programs Data Base. The Department of the Navy is required to establish an automated R&D Programs Data Base to supplement the justification materials. The R&D Programs Data Base is also used by OSD to track Program Budget Decisions (PBDs) at the line item level, track Congressional action on the President's budget

submission, and provide the baseline data required for special analyses. The R&D Programs Data Base is prepared by FMB.

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for the RDT&E, N appropriation by object class.

Research, Development, Test and Evaluation, Navy

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
- -	Project Listing by Budget Activity	NBTS	NHBS on-line
R-1	RDT&E Programs	NBTS	NHBS on-line
R-2	RDT&E Budget Item Justification Sheet	BSO	FMR 5-14
R-2a	RDT&E Project Justification	BSO	FMR 5-15/17
R-3	RDT&E Project Cost Analysis	BSO	FMR 5-18/21
R-33	Program Element Comparison Summary	NBTS	NHBS on-line
DD-1391	Military Construction Project Data	BSO	FMR 6-38/46
MRTFB-1	Installation Financial Summary	BSO	FMR 19-22/25
MRTFB-2a	Element of Expense Listing	BSO	FMR 19-26
MRTFB-2b	MRTFB Activity Schedule of Increases/Decreases	BSO	FMR 19-27
MRTFB-2c	Workyears	BSO	FMR 19-28
MRTFB-2d	Source of Direct Funds	BSO	FMR 19-29
MRTFB-3a	Improvement & Modernization Funds Summary	BSO	FMR 19-30
MRTFB-3b	Military Construction and BRAC projects	BSO	FMR 19-31
MRTFB-3c	Improvement and Modernization Detail	BSO	FMR 19-32
T&E-1	Test and Evaluation	BSO	FMR 19-33/36

CHAPTER 8

Submission Guidance for the Military Construction, Base Realignment and Closure (BRAC), and Family Housing Appropriations

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required to support budget estimates for the Military Construction, Base Realignment and Closure, and Family Housing appropriations.

a. Appropriations.

The Department of the Navy Military Construction appropriations are Military Construction, Navy (MCN) and Military Construction, Naval Reserve (MCNR). Family Housing appropriations are Family Housing, Operations and Debt (FHOPS) and Family Housing, Construction, Navy and Marine Corps (FHCON). Base Realignment and Closure (BRAC) is also included in this chapter.

b. Control Totals.

Control totals are established by PBD and by project. No changes can be made at the project level after controls are issued. The budget submitting office should coordinate with the cognizant FMB analyst if it is necessary to shift funds between projects before the control totals are published. The budget submitting office should adjust funding below this level as necessary to reflect decisions made during the DON review and to properly justify the budget estimates. These changes should be coordinated with the cognizant FMB analyst.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should

be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) Construction Programs Data Base. The Department of the Navy is required to maintain an automated Construction Programs Data Base to supplement the military construction justification materials. The Construction Programs Data Base is also used by OSD to track Program Budget Decisions (PBDs) at the project level, track Congressional action on the President's budget submission, and provide the baseline data required for special analyses. The Construction Programs Data Base is prepared by FMB for submission to OSD.

(2) Budgetary Object Classification System (BOCS). BSOs are required to provide an automated submission to BOCS. This information reflects planned obligations for all appropriations. Detailed instructions are available at the NHBS on-line web site.

Military Construction, Navy
Military Construction, Naval Reserve

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
C-1	Construction Program	NBTS	
DD-1390	Military Construction Program (by state only)	NAVFAC	FMR 6-38/41
DD-1390 S/1/2	Guard and Reserve Military Construction	NAVFAC	FMR 6-42/45
DD-1391/ 1391/C	Military Construction Project Data (by state only)	NAVFAC	FMR 6-46/52

Base Realignment and Closure

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
BC-01	BRAC Service Overview	NAVFAC	FMR 7-12
BC-02	BRAC Implementation Costs and Savings	NAVFAC	FMR 7-13/14
BC-03	BRAC Package Description	NAVFAC	FMR 7-15/16
DD-1391/ 1391C	Military/Family Housing Construction Project Data	NAVFAC	FMR 7-17/23

Family Housing, Navy and Marine Corps

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
FH-1	Tri-service Family Housing Cost Model	NAVFAC	FMR 6-54
FH-2	Family Housing Operation and Maintenance	NAVFAC	FMR 6-55
FH-3	Furnishings Summary	NAVFAC	FMR 6-56/57
FH-4	Analysis of Leased Units	NAVFAC	FMR 6-58
FH-5	Historic Housing Costs	NAVFAC	FMR 6-59
FH-10	Reprogramming Proposed Funding Realignment	NAVFAC	Appendix E
PPV	Family Housing Privatization	NAVFAC	Appendix E
FHIF	Family Housing Improvement Fund	NAVFAC	Appendix E

CHAPTER 9

Submission Guidance for the Navy Working Capital Fund

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required for the Navy Working Capital Fund (NWCF) which includes supply management activity groups and non-supply (industrial) activity groups. Additional guidance on policy, rate setting, and definitions for Defense Working Capital Fund (DWCF) activities is contained in Pages 9-1/16 of the FMR.

2. Supply Management Activity Groups.

a. Control Totals.

Control totals are established by budget project. No changes can be made between the budget projects or material categories after controls are issued. Budget submitting offices should coordinate with the cognizant FMB analyst if it is necessary to shift funds before the control totals are published.

b. Basis of Estimates.

Supply management activity group estimates are based on inventory levels, usage, estimated maintenance capabilities, planned tempo of operations, and other factors as adjusted during the DON review.

c. Budget Submitting Offices

The Naval Supply Systems Command (NAVSUP) is responsible for the preparation and submission of Navy supply management activity group justification material. Marine Corps stockage requirements and budget estimates are prepared by the Marine Corps Inventory Control Point at Albany, Georgia. These requirements are based on the same considerations as for the Navy.

d. Submission Requirements

(1) Definitions of terms for the supply management activity groups are contained on pages 9-20/23 of the FMR.

(2) The methodology formerly contained in DOD Instruction 4140.24, “Requirements Priority and Asset Application for Secondary Items,” will be used to develop budgetary requirements until updated.

(3) The BSO will provide an electronic file for each budget exhibit and narrative as part of the budget submission.

Supply Management Activity Groups

OSD/OMB Submission Requirements

Exhibit No.	Title	Reference
SM-1	Supply Management Summary by Division	FMR 9-32/33
SM-2	General Narrative Justification by Division	FMR 9-34/36
SM-3a	Operating Budget	FMR 9-37/41
SM-3b	Operating Requirement by Weapon System by Division	FMR 9-42/43
SM-3c	Mobilization by Division	FMR 9-44/45
SM-4	Inventory Status	FMR 9-46/48
SM-5a	Surcharge Calculation	FMR 9-49/51
SM-5b	Customer Price Change	FMR 9-52
SM-10	Commodity Summary	FMR 9-55/56
SM-16	Total Cost Per Output Summary	FMR 9-57
Fund-1	Summary of Price, Program and Other Changes	FMR 9-58/59
Fund-1a	Details of Price, Program and Other Changes	FMR 9-60/66
Fund-9a	Activity Group Capital Investment Summary	FMR 9-80/83
Fund-9b	Activity Group Capital Investment Justification	FMR 9-84/86
Fund-9c	Capital Investment & Financing Summary	FMR 9-87
Fund-9d	Capital Budget Execution	FMR 9-88
Fund-11	Source of New Orders and Revenue	FMR 9-90/91
Fund-12	Performance & Quality Measures	FMR 9-92
Fund-13	Cash Management Plan	FMR 9-93
Fund-14	Revenue and Expenses	FMR 9-94/96

Exhibit No.	Title	Reference
Fund-14a	Operating Results Worksheet	FMR 9-97/99
Fund-15	Fuel Data	FMR 9-100/101
Fund-19	Military and Civilian Personnel by End Strength and FTEs	FMR 9-105/106
Fund-20	Military Personnel Workyears by Grade(Active)	FMR 9-107
Fund-21	Civilian Personnel Costs by Activity Group	FMR 9-108/110
Fund-22	Summary of Base Support	FMR 9-111
Fund-23	Statement of Financial Condition	FMR 9-112
Fund-25	Headquarters Cost	FMR 9-116
Fund-26	Revenue and Expense Phasing Plan	FMR 9-117
Fund-27	DFAS Customer Funding Summary	FMR 9-118

3. Non-supply Activity Groups.

a. Control Totals.

Control totals are established by activity group. Budget submitting offices should adjust the budget backup material within the activity groups as necessary to reflect decisions made during the DON review and to properly justify the budget estimates. These changes must be coordinated with the cognizant FMB analyst.

b. Automated Submission Requirements.

DONIBIS automated submission is required.

Non-Supply Activity Groups

OSD/OMB Submission Requirements

Prepared by BSOs:

Exhibit No.	***Title***	***Reference***
- -	Narrative Summary of Operations	FMR 9-27
Fund-2	Changes in Costs of Operation	FMR 9-67/68
Fund-4	Summary of General and Administrative Costs	FMR 9-71
Fund-5	Total Cost Per Output Summary	FMR 9-72
Fund-7a	Summary of Sources of Revenue	FMR 9-74
Fund-7b	Customer Rate Computations	FMR 9-76/77
Fund-9a	Activity Group Capital Investment Summary	FMR 9-80/83
Fund-9b	Activity Group Capital Purchase Justification	FMR 9-84/86
Fund-9c	Capital Investment and Financing Summary	FMR 9-87
Fund-9d	Capital Budget Execution	FMR 9-88
Fund-10	Price Changes	FMR 9-89
Fund-12	Performance and Quality Measures	FMR 9-92
Fund-15	Fuel Data	FMR 9-100
Fund-16	Material Inventory Data	FMR 9-102
Fund-17	Summary of Real Property Maintenance	FMR 9-103
Fund-20	Military Personnel Workyears by Grade (Active)	FMR 9-107
Fund-24	Summary of Personnel Data (Part 2)	FMR 9-114/115
Fund-25	Headquarters Cost	FMR 9-116
Fund-27	DFAS Customer Funding Summary	FMR 9-118
NC-6	Revenue by Program/Ship (MSC)	Appendix F
NC-7	Allocation of Overhead Expenses (MSC)	Appendix F

NC-8	Revenue and Expense by Program (MSC)	Appendix F
NC-9	Fleet Inventory	Appendix F
CP-17	Civilian Manpower Requirements for MSC	Appendix F
CP-18	Civilian Manpower Requirements for Shipyards	Appendix F
CP-19	Civilian Manpower Requirements for NADEPS	Appendix F
--	NWCF Cash Phasing Plan	

Prepared by FMB:

Fund-1	Summary of Price, Program and Other Changes (from IBIS IF-4)	FMR 9-58/59
Fund-1a	Details of Price, Program and Other Changes	FMR 9-60/66
Fund-3	Labor Cost Breakdown	FMR 9-69/70
Fund-11	Source of New Orders and Revenue (from IBIS SOR)	FMR 9-90/91
Fund-13	Cash Management Plan	FMR 9-93
Fund-14	Revenue and Expenses	FMR 9-94/96
Fund-18	Fund Summary by Component	FMR 9-104
Fund-19	Military and Civilian Personnel by End Strength and FTEs	FMR 9-105/106
Fund-21	Civilian Personnel Costs by Activity Group	FMR 9-108/110
Fund-23	Statement of Financial Condition	FMR 9-112
Fund-24	Summary of Personnel Data - Part 1	FMR 9-114/115
Fund-26	Revenue and Expense Phasing Plan	FMR 9-117

Chapter 10

Submission Guidance for Other Accounts

This chapter prescribes the OSD/OMB submission budget materials for public enterprise, management, and trust funds.

1. Public Enterprise Funds.

Public Enterprise Funds are expenditure accounts authorized by Congress to be credited with collections, primarily from the public, that are generated by, and earmarked to finance, a continuing cycle of business-type operations.

a. DON Public Enterprise Fund.

The only DON public enterprise fund is the National Defense Sealift Fund.

b. Budget Submitting Office.

CNO (N09BF) is responsible for submission to FMB of the Ready Reserve Force (RRF) exhibits. Additionally, when there are acquisition resources, Naval Sea Systems Command is also responsible for submission of these exhibits.

c. Submission Requirements.

The submission requirements table references the source of formats and instructions for the RRF exhibits. All budget material must be submitted electronically via the Justification Management System (JMS).

National Defense Sealift Fund

OSD/OMB Submission Requirements

Exhibit No.	Title	Source	Reference
RRF-1	Budget Item Justification	CNO(09BF)	FMR 10-15
RRF-2	Ship Composition Funding Requirements	CNO(09BF)	FMR 10-16
RRF-3	Ship Readiness Operational Status (ROS) Composition	CNO(09BF)	FMR 10-17

2. Management Funds.

A management fund is authorized by law to credit collections from two or more appropriations or funds to finance an activity not involving a continuing cycle of business-type operations. Additional background information on management funds is contained on Pages 10-1/2 of the FMR.

a. Navy Management Funds.

The only activity currently financed in the Navy Management Fund is Transportation of Things.

b. Submission Requirements.

FMB prepares the PB-2, Program and Financing Schedule.

3. Trust, Trust Revolving and Special Funds.

There are three types of trust fund accounts: trust fund receipt accounts, trust fund expenditure accounts, and trust revolving funds.

a. DON Trust and Special Funds.

The Department of Navy trust funds include accounts for deposits, Department of the Navy General Gift Fund; profits from Sale of Ships Stores, Navy; contributions to the United States Naval Academy Museum Fund; contributions to the United States Naval Academy General Gift Fund; and contributions to the Naval Historical Fund. The only DON Special fund is Wildlife Conservation, Military Reservation Account.

b. Budget Submitting Offices.

The U.S. Naval Academy is responsible for preparation and submission of backup material for the Naval Academy General Gift Fund and the Naval Academy Museum Fund. NAVSUP is responsible for preparation and submission of Ship's Stores Profits estimates. AAUSN prepares the necessary backup for the Navy General Gift Fund. N09BF is responsible for preparation and submission of backup material for the Naval Historical Fund. NAVFAC is responsible for the preparation and submission of backup material for the Wildlife Conservation Fund.

c. Submission Requirements.

(1) DON trust and special fund BSOs are required to provide a Narrative Summary of Operations. The narrative should provide a brief description of the fund's mission and operations, define all major activity components and their responsibilities, identify major funding requirements and customers, explain significant changes in

financial condition between budget years, provide civilian and military manpower data, and highlight significant issues affecting the fund.

(3) Six copies of the submission material are required.

Trust and Special Funds

OSD/OMB Submission Requirements

Exhibit No.	Title	Appendix
- -	Narrative Summary of Operations	
Naval Academy General Gift Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
IV	Museum & General Gift Fund	G
Naval Academy Museum Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
IV	Museum & General Gift Fund Exhibit IV	G
General Gift Fund, Navy		
I	Trust Fund Exhibit I	G
Ships' Stores Profits, Navy		
I	Trust Fund Exhibit I	G
Naval Historical Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
Wildlife Conservation		
OP-5	Part II (by Activity Group)	FMR 3-20
28	Statement of Receipts	G

4. Receipt Accounts.

The DON budget review also requires submission of estimates for anticipated receipts. These include offsetting receipts, intragovernmental trust funds, and civil receipts from the sale of hunting and fishing permits. These estimates are updated during the OSD/OMB review and used by OMB, OSD, and the DON in various summary budget tables. Guidance on budget justification requirements is contained in Volume 11A of the FMR. Budget submitting offices will be contacted separately by FMB for any assistance needed on this budget submission material.

PART IV

President's Budget and Congressional Review

CHAPTER 1

General Submission Guidance

This chapter provides guidance for the preparation and submission of DON budget estimates as part of the annual President's Budget submission to the Congress.

1. Scope of Submission.

The President's budget submission consists of the Budget Message from the President and material prepared by OMB, OSD, and the Department of the Navy (DON). Summary material prepared by OMB, OSD and the DON is described in Chapter 2. Department of the Navy documents submitted in support of the President's budget include Justification Books, backup books and various supporting exhibits outlined in this manual. FMB is responsible for the review, approval, printing and distribution of all justification material provided to the Congress. Budget estimates in this material are required for the prior year (PY), current year (CY), and biennial budget years one and two (BY1 and BY2), and for certain exhibits, the outyears (BY3, BY4, BY5, BY6).

2. Total Obligational Authority (TOA) Controls.

Controls are issued for all years and are based on certain pricing and program factors which have been established during the OSD/OMB budget review in Program Budget Decisions (PBDs), and include changes to pricing factors contained in USD(C) inflation guidance, normally received in late December. Revised pricing factors are promulgated by Budget Guidance Memoranda.

3. Basis of Estimates.

The basis for the preparation and submission of exhibits and justification material to the Congress under the biennial budget cycle are prior year (PY) actual data, current year (CY) revised estimates, biennial budget year one (BY1) and biennial budget year two (BY2), and outyear estimates. The budget years of the biennial cycle are based on SECDEF approved changes resulting from the Program Budget Decisions (PBD) process, adjustments driven by Congressional action, policy and fact-of-life changes, and controls issued by FMB. Submissions must be in accordance with policies contained in the FMR, this manual, applicable DOD Directives and DON Instructions, the Department of the Navy Financial Management Policy Manual, and any policy revisions promulgated by Budget Guidance Memoranda.

4. Preparation and Submission of Justification Materials.

Chapters 3 through 10 of this Part contain guidance material tailored to each appropriation, fund, civilian personnel, and special interest area. Submission requirements tables in each chapter provide page references to the FMR, Appendices to this manual or to the NHBS on-line web site for exhibit formats and instructions.

a. Deadlines for Submission

(1) The President's Budget is transmitted to Congress in early February and all budget justification material is required to be delivered as soon thereafter as possible, usually within 30 days. Budget Guidance Memoranda establish specific submission dates. In order to provide this material promptly to the Congress, it is mandatory for budget submitting offices to submit the material on the dates set by FMB.

(2) Although the issuance of budget guidance and control totals is sometimes delayed because of late decisions, it is still necessary that budget submissions be received in accordance with the published schedule. Budget submitting offices must make every effort to submit on schedule by beginning preparation based on advanced information and controls provided by the cognizant FMB analyst, and by the judicious use of overtime and temporary manpower. Parts of justification material may be submitted for preliminary FMB approval as they become available.

b. FMB/OSD Review of Materials.

Budget materials must be submitted in accordance with instructions contained in the FMR and this manual. Budget submitting offices should compile budget materials and provide to FMB for final review, unless otherwise specified in this manual. All materials are provided to FMB for review and approval prior to submission of the material to the USD(C) staff for review. Upon receipt, OSD reviews the material for conformance to guidance, but more importantly, for congruence with the data being presented in the Secretary of Defense's posture statement.

c. Security Review Process.

The originator of the budget material has the responsibility to ensure that classified material is properly identified, bracketed, and marked with the correct level of classification. The Security Review Guide for Congressional Matters, OPNAVINST 5510.1H of 29 April 1988, provides definitions and explicit guidance for determining the correct level of classification and for bracketing material. Concurrent with the review by FMB and OSD, all justification material is forwarded to OSD Directorate for Freedom of Information and Security (DOFISR) to ensure adherence to security classification policies. DOFISR is the final authority for clearance of material to be printed.

d. Printing and Distribution of Congressional Material.

Following completion of the review of material by FMB and OSD and incorporation of required changes, justification materials are submitted to FMB via the Justification Management System (JMS). As each level of review is completed and appropriate changes are made, corrected submits are included in JMS until all levels of review are satisfied. FMB prepares the material for printing and submits it to the Defense Printing Service for limited reproduction. Certain justification books are printed by budget submitting offices (Military Construction justification books). Following reproduction, FMB distributes the material to the House and Senate Appropriations Committees and the DON Office of Legislative Affairs, who then makes distribution to the House and Senate Armed Services Committees. FMB also distributes paper copies to the Library of Congress, General Accounting Office, and Office of Management and Budget.

5. Budget Amendments, Supplemental Requests and Rescission Proposals.

While the President is required annually to submit a budget to the Congress, the President may amend that request at any time before the Congress has enacted appropriations. This amendment may take the form of off-setting changes, or an increase or a decrease to the original budget request. If the Congress has already enacted appropriations, the President may request additional appropriations in the form of supplemental appropriation requests or the President may propose that funds previously appropriated be rescinded. Normally, the President transmits supplemental requests and proposes rescissions for the current fiscal year along with annual budget requests. However, the President may also submit supplemental requests at any time, and must submit proposed rescissions as soon as it is determined that funds are no longer required. In all cases the Congress requires a formal transmittal from the President before recognizing an Executive Department amendment, supplemental request, or rescission. Proposed amendments are the prerogative and responsibility of the President. The Congress can initiate a supplemental appropriation or rescind or reapply previous appropriations without a request from the Executive Branch.

a. Budget Amendments

(1) All Budget Amendments affecting the Department of Defense must be submitted by the Secretary of Defense to the Director of the Office of Management and Budget. The Director of OMB must then formally recommend approval of the amendment to the President. Finally, the President signs a budget message to the Congress which constitutes the formal amendment to his budget request.

(2) The President's message is accompanied by appropriate language changes and supporting justification material. Specific guidance for preparing the required justification material is contained in Chapter 11.

b. Supplemental Requests

(1) Supplemental estimates are normally submitted to cover changes which constitute a large part of an appropriation and cannot be accommodated within enacted appropriations. All other increases, specifically including legislated changes which are a relatively small part of the appropriation involved, are accommodated within enacted appropriations by reprogramming, including transfers between appropriations where necessary.

(2) Occasionally, approval is granted for a program supplemental requesting additional funds for high priority items which cannot be accommodated within the total funding as appropriated by the Congress.

(3) When supplemental requests for the current year are transmitted with the President's budget, separate justification books supporting the supplemental estimates are required. Specific guidance for preparing this material is contained in Chapter 11.

c. Rescission Proposals.

OMB includes a separate program and financing schedule in the President's Budget Appendix for each appropriation in which rescissions are proposed. Normally, no special justification material is required.

6. Appeals on Congressional Action.

The process for appeals to action taken by congressional committees during consideration of the DOD authorization and appropriation bills is contained in Chapter 12.

7. Automated Submission Requirements.

Automated requirements for the submission include TOA estimates by appropriation, budget activity, and decision category; Procurement/RDT&E/Construction Programs Data Bases; Program and Financing information; Military Personnel end strengths and Civilian Personnel full-time equivalents; and selected budget exhibits. Selected information required for this submission is derived from the Navy Budget Tracking System (NBTS). FMB uses this data base to submit Procurement/RDT&E/Construction Programs Data Bases required for the submission. Requirements for automated submissions are included under the Automated Submission Requirements for each appropriation or area in this Part and are available at the NHBS on-line web site.

CHAPTER 2

Documents Prepared by OMB, OSD, and FMB

This chapter contains a description of budget and related documents produced by the Office of Management and Budget, the Office of the Secretary of Defense, and the Assistant Secretary of the Navy (Financial Management and Comptroller). These documents are a ready source of information and data on a wide variety of budgetary, economic, and programmatic subjects used to support the President's budget submission to the Congress.

1. General Guidance.

The documents produced by OMB and OSD are generally prepared without direct submission of data from budget submission offices. Whenever the DON is involved in the preparation of material, appropriate guidance is provided.

2. Office of Management and Budget (OMB) Published Documents.

The following documents are prepared and distributed by the Office of Management and Budget (OMB). Copies of these documents are distributed within the Department of the Navy by FMB.

a. The Budget of the United States Government. There are five documents representing the President's Budget:

(1) **Budget of the United States Government** contains the Budget Message of the President; an overview of the President's budget proposals by agency as well as by program terminations, reductions and increases; an explanation of programs in terms of broad categories of such as National Defense and International Affairs; and various summary tables;

(2) **Analytical Perspectives** contains analyses that are designed to highlight specified program areas including economic and accounting analyses; Federal receipts and collections, including user fees and tax expenditures; analyses of Federal spending; Federal borrowing and debt; the Budget Enforcement Act preview report; current services estimates and other technical analyses such as the national income and product accounts;

(3) **Historical Tables** provides data on budget receipts, outlays, surpluses or deficits, and Federal debt since FY 1940;

(4) **Appendix** provides detailed information on the various appropriations and funds. It includes the proposed text of appropriation language, budget schedules for each account; new legislative proposals, explanation of the work to be performed and the funds needed; proposed general provisions applicable to the appropriations of entire agencies or group of agencies; supplemental and rescission proposals; and,

(5) **Automated Sources of Budget Information** provides budget number data in electronic form and is obtained from the U.S. Department of Commerce National Technical Information Service.

b. *The Economic Report of the President*.

This publication details the current economic state of affairs in the United States, together with plans and forecasts for the future. The publication contains both the President's report to the Congress and the more detailed Annual Report of the Council of Economic Advisers.

3. Department of Defense (DOD) Published Documents.

The OSD staff prepares various documents which provide additional justification and data in support of the President's Budget Submission. Copies of these documents are distributed within the DON by FMB except as otherwise noted.

a. *Press Release on the BY1 and BY2 Department of Defense Budget*.

This DOD press release provides brief narrative highlights of the Department's budget and selected tables and graphs which summarize the Department's budget. The press release is prepared by OSD and distributed at a press briefing conducted by the Secretary of Defense or the USD(C).

b. *Financial Summary Tables*.

This publication contains a number of financial tables displaying by appropriation title and account TOA, budget authority, outlays, obligations, and unobligated and unexpended balances. It provides recaps by Military Department for many of the tables. It is prepared by USD(C) from its automated budget data base and prior year accounting reports.

c. *The Budget of the United States Government, Department of Defense Extract*.

This publication contains selected extracts from three of the budget documents—the Budget, Analytical Perspectives, and the Appendix. USD(C) prepares the extract and distributes copies to the Military Departments.

d. The Annual Report To The Congress.

This report is the Secretary of Defense's posture statement containing the defense policy, resource, and program justification in support of the submission of budget estimates to the Congress. The statement generally outlines national security objectives and the threat to these objectives, U.S. Defense strategy, current capabilities, the Defense budget, and program justification. It is prepared by the Under Secretary of Defense (Policy) (USD(P)) and coordinated with all OSD staff offices and the Military Departments. Both classified and unclassified versions are published.

e. National Defense Budget Estimates for FY BY1 and FY BY2.

This document serves as a convenient source of budget related information for National Defense. It provides a comprehensive statistical overview of the defense budget. It contains extensive data relating to pay raises, price increases, and a series of tables comparing the defense budget with the Federal Budget and the national economy. This document is prepared by USD(C) and is published approximately two months after the President's Budget is submitted to the Congress.

f. Program Acquisition Costs by Weapon System.

This book is compiled by USD(C) for the convenience and information of the public and the press. The publication contains program descriptions, mission statements, procurement quantities, and procurement, RDT&E, and Military Construction funding data for PY, CY, BY1 and BY2 for the major weapon systems contained in the BY1 and BY2 budget for the Military Departments. The DON information used in this document is prepared by FMB during the final stages of budget development and is based on the most current budget information available. The information is submitted to USD(C) where it is consolidated, printed, and distributed.

g. Operation and Maintenance Overview.

This publication provides narrative and tabular highlights of all DOD operation and maintenance appropriations. It contains highlights of each appropriation and a summary description of major activities, such as flying hours and depot maintenance, which cross appropriation lines. It also provides other data such as POL prices, foreign currency exchange rates used in developing the budget estimates, and civilian personnel data. This document is prepared by USD(C) with input from the Department of the Navy. The DON's contribution is provided by FMB with assistance from budget submitting offices as requested.

h. O-1/M-1P-1/R-1/C-1.

These documents consist of O&M activity group summaries (O-1), military personnel data (M-1), procurement line item (P-1), R&D program element (R-1), and military construction project (C-1) listings. They are prepared by USD(C) from the automated data bases which contain the O&M, military personnel, procurement, R&D, and military

construction programs. At the completion of the budget review, FMB assists OSD in updating the data bases. OSD provides copies of these documents to the Congress and the Military Departments.

i. P-1R.

This document reflects quantities and costs of procurement line items (P-1) budgeted for the Reserves. It is prepared by USD(C) using input from the three Military Departments. The DON information used in this document is submitted by the appropriate budget submitting offices to FMB and is based on the most current information available. The information is consolidated by FMB and submitted to USD(C) where it is consolidated, printed and distributed.

4. Department of the Navy (DON) Summary Publications.

FMB prepares two summary documents in support of the Department of the Navy's portion of the President's budget. The documents are described below.

a. Highlights of the BY1 and BY2 Department of the Navy Budget.

This booklet provides a brief overview of the DON budget. It is aimed at members of Congress, their staffs, and key personnel within DOD. Since it is an unclassified publication, it is also available to the public.

b. BY1 and BY2 Budget Data.

This book contains data on the various appropriations which comprise the Department of the Navy budget, historical data on ship and aircraft force levels, and other significant factors supporting the DON portion of the President's budget. It is usually available in March.

CHAPTER 3

Submission Guidance for All Budget Submitting Offices

1. General Guidance.

This chapter provides guidance applicable to all Budget Submitting Offices (BSOs) for submission of budget materials. Some exhibit requirements contained in this chapter are satisfied by BSO submissions while others are satisfied by FMB using automated submissions received from BSOs. Many of these exhibits involve multiple appropriations and are not required for justification of a particular appropriation or fund request. These exhibits provide information about certain programs or elements of expense which also cross BSO multiple budget lines. Included in this category are exhibits for Management Headquarters; Environmental; Morale, Welfare, and Recreation (MWR); Combating Terrorism resources, among others.

2. Special Interest/Multi-Appropriation Exhibit Requirements.

BSOs will prepare budget materials in accordance with the instructions contained in the FMR, Budget Guidance Memoranda and this manual. The submission requirements table shows sources and references for individual exhibit formats and instructions.

3. Civilian Personnel.

Estimates will reflect final civilian resource controls approved by the Secretary of Defense as identified in Program Budget Decisions (PBDs). Estimates will be consistent by appropriation, fund, budget line item, resource sponsor, program element, and type hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect; direct and reimbursable). Submitting offices will revise current year civilian resource estimates to reflect actual execution. Civilian end strength actual execution adjustments will be consistent with Defense Civilian Personnel Data System (DCPDS) reported execution for 30 September. The submission requirements table shows sources and references for individual exhibit formats and instructions.

4. Information Technology (IT).

Special interest information technology budget exhibits are submitted by budget submitting offices (BSOs) to FMB and the Department of the Navy Chief Information Officer (DON-CIO); and by the DON CIO to higher authority.

a. General.

(1) The DON CIO may issue supplemental guidance covering submission requirements which may supersede the guidance contained in Appendix H of this manual due to annual changes in Office of the Secretary of Defense (OSD) IT budget exhibit reporting requirements. DON CIO supplementary guidance, when issued, is considered an extension of the guidance contained herein.

(2) Scope. The scope of IT budget reporting covers all IT resources, defined in the Clinger-Cohen Act (Information Technology Reform Act (ITMRA)) of 1996).

b. Submission Requirements.

(1) The IT submission consists of budget materials as specified in the submission requirements table.

(2) IT budget estimates are an extract of BSOs' appropriated and Navy Working Capital Fund (NWCF) budgets and, therefore, reflect approved IT resources funded within budget controls.

(3) Submissions must reflect all changes resulting from the PBDs and any other action affecting IT estimates.

(4) Include copies of procurement exhibits and NWCF capital budget authority exhibits showing IT capital investments in the IT budget package submitted to DON CIO.

5. Morale, Welfare and Recreation (MWR) Activities.

Specific guidance and requirements applicable to the submission of MWR budget estimates is contained in this section.

a. General.

(1) Budget submissions are to be made through a budget submitting office, reflecting MWR estimates for all appropriations under that BSO's cognizance.

(2) Submissions must reflect all changes resulting from the OSD/OMB review and any other action affecting the MWR estimates.

b. Submission Requirements.

(1) The MWR submission consists of backup material as specified in the submission requirements table.

(2) MWR data on forces afloat is not required.

(3) Formats and instructions for preparation of the exhibit required for submission of MWR estimates is referenced in the submissions requirements table.

(4) Definitions for MWR activities will be promulgated separately by USD(C).

(5) All budget material must be submitted electronically to the Justification Management System (JMS).

6. Environmental.

Specific guidance and requirements applicable to the submission of Environmental related exhibits is contained in this section.

a. General.

(1) Budget exhibits in support of the Environmental Restoration program are to be provided to FMB by the Naval Facilities Engineering Command (NAVFAC).

(2) NAVFAC is also required to submit Installation Level Detail.

(3) Budget submitting offices are required to submit budget exhibits for Environmental Quality and Environmental Security Technology, PB-28 and PB-28A.

(4) Budget submitting offices are required to submit exhibits for the Environmental Quality Report (EQR).

b. Submission Requirements.

(1) The Environmental submission consists of backup material as specified in the submission requirements table.

(2) Submissions must reflect all changes resulting from the OSD/OMB review and any other action affecting the Environmental issues.

(3) Formats and instructions for preparation of the exhibits required for Environmental exhibits are referenced in the budget submissions requirements table. Detailed formats and instructions for some of these exhibits are available at the NHBS on-line web site.

(4) All budget material must be submitted electronically to the Justification Management System (JMS).

c. Automated Submission Requirements.

(1) NAVFAC is required to submit the Summary of Price and Program Change Exhibit (OP-32) for the Environmental Restoration Program.

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for the Environmental Restoration, Navy appropriation by object class. Detailed instructions and formats are available at the NHBS on-line web site.

7. Financial Management Activities.

OMB Circular A-11 requires preparation and submission of budget material to fulfill Section 40, Data on Financial Management Activities. Further information is available in the FMR 19-6.

8. Submission Requirements Tables.

The submissions requirements tables for this submission for Special Interest/Multi-Appropriation exhibits; Civilian Personnel; Information Technology; Morale, Welfare, and Recreation; and Environmental exhibits follow.

Special Interest/Multi-Appropriation Exhibits

President's Budget Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
PB-2	Appropriation by Object Classification	All	BOCS	NHBS on-line
PB-11B 1/	Cost of Medical Activities - DEPMED	O&M	SUP/PAC/ LANT	FMR 12-15/18
PB-15	Advisory and Assistance Services	All	BOCS	FMR 19-38/40
PB-18	Foreign Currency Exchange Data	O&M	BSO	FMR 19-43
PB-19	Contract Reporting by Appropriation	All	FMB	FMR 19-44
PB-22	Management Headquarters	Various	BSO	NHBS on-line
PB-24	Professional Military Education Schools		BSO	FMR 19-46/48
PB-25	Host Nation Support		BSO	FMR 19-49/53
PB-34	Revenue from Leasing Out of Department of Defense Assets	Various	NAVFAC	FMR 8-19
PB-41	Administrative Motor Vehicle Operations	Various	NAVFAC/ HQMC	FMR 19-57
PB-50	Child Development, Family Centers and Family Advocacy	Various	BSO	FMR 19-62/66
PB-52A	DOD Aeronautics Program	RDTEN,OPN	BSO	FMR 19-67/68
PB-52B	DOD Space Budget	RDTEN,OPN	BSO	FMR 19-69/72
PB-53	Budgeted Military and Civilian Pay Raise Amounts	Various	FMB	FMR 19-73

Exhibit No.	Title	Approp.	Source	Reference
PB-55	International Military Headquarters	Various	FMB	FMR 19-75
OP-26	POL Consumption Costs	Various	BOCS	NHBS on-line
OP-29	Overseas Military Facility Investment Recovery Account	N/A	NAVFAC	FMR 8-19
OP-53	Overseas Funding	Various	BSO	FMR 15-6/12
OP-53A	Basing Costs	Various	BSO	FMR 15-13/14
OMBP-01	Overseas Military Banking Program	O&M	FMB	FMR 19-73/74
NC-2	Audit Findings and Recommendations	Various	BSO	Appendix H
Cbt-1	Combating Terrorism Resources	Various	BSO	FMR 19-16/21

1/ The PB-11B, Deployable Medical Activities, should be submitted whenever deployable assets are used by NAVSUP, LANTFLT, and PACFLT to CNO (N931) who will coordinate a submission to FMB. The PB-11 and PB-11A Cost of Medical Activities exhibits are prepared by BUMED and submitted directly to Defense, Health Affairs.

Civilian Personnel

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
CP-7	Civilians by Activity	BSO	NHBS on line
CP-9	FTE Changes Year-to-Year	BSO	NHBS on line
CP-10	Civilians Outside the 50 States	BSO	NHBS on line
CP-23	Sources of Funding for Reimbursable Civilians	BSO	NHBS on line
CP-24	SIP/RIF Budget Plan	BSO	NHBS on line
PB-17	Employee Relocation Expenses	BSO	FMR 19-42
PB-22	Management Headquarters	BSO	NHBS on line
PB-54	Civilian Personnel Hiring Plan	BSO	FMR 19-74

Note: These requirements are data loads with templates available on the NHBS on-line web site.

Information Technology

President's Budget Submission Requirements

Exhibit No.	Title	NITE/STAR	Hard Copy	Reference
ES*	IT Executive Summary		X	
IT-300b	IT Capital Asset Plan and Justification		X	FMR 18-23/29
NC-33	Justification of Increases and Decreases		X	Appendix H
NC-36	NITE/STAR Worksheets	X	X	Appendix H
NC-37	NITE/STAR Appropriation Summary	X	X	Appendix H
P-40/40a*	Budget Item Justification Sheet		X	FMR 4-75/79
Fund-9a*	Capital Investment Summary		X	FMR 9-80/83
Fund-9b*	Capital Investment Justification		X	FMR 9-84/88

* Include copies of these procurement exhibits and NWCF capital budget authority exhibits showing IT capital investments in the IT budget package submitted to DON CIO.

Morale, Welfare, and Recreation

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
OP-34	Appropriated Fund Support for Morale, Welfare and Recreation Activities (MWR)	BSO	FMR 3-96/101
PB-50	Child Development, Family Centers and Family Advocacy Programs	BSO (Former NC-15)	FMR 19-59/63

Environmental

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
	Environmental Restoration, Navy		
ENV-30A	Funding by Priorities	NAVFAC	FMR 13-7
ENV-30B	Summary by Phase	NAVFAC	FMR 13-8/9
ENV-30C	Reconciliation of Increases and Decreases	NAVFAC	FMR 13-10
ENV-30D	Outyear Funding by Priorities	NAVFAC	FMR 13-11
ENV-30E	Outyear Funding by Phase	NAVFAC	FMR 13-12
OP-32	Summary of Price and Program Change	NAVFAC	NHBS on-line
PB-2	P & F Schedules (Object Class)	BOCS	NHBS on-line
Project Listing	Installation Level Detail	NAVFAC	N/A
	Environmental Quality		
PB-28	Summary of Funds Budgeted for Environmental Projects-Environmental Quality	BSO	NHBS on-line
PB-28A	Environmental Security Technology	BSO	NHBS on-line
EQR	Environmental Quality Report	BSO	NHBS on-line

CHAPTER 4

Submission Guidance for Military Personnel Appropriations

1. General Guidance.

This chapter provides guidance and prescribes the justification materials required to support budget estimates for the military personnel appropriations.

a. Military Personnel Appropriations.

The Department of the Navy military personnel appropriations include Military Personnel, Navy (MPN), Military Personnel, Marine Corps (MPMC), Reserve Personnel, Navy (RPN) and Reserve Personnel, Marine Corps (RPMC).

b. Detailed Budget Justification Material.

The primary justification material provided to the Congress is a Justification book for each appropriation. Selected information is included in the Operation and Maintenance (O&M) Data Book as well as the O&M Justification books for submission to Congress. In addition, backup books for each appropriation are required for DOD internal use. Some exhibits also must be submitted to FMB for DON internal use.

c. Control Totals.

Control totals are established by budget activity and Program Budget Decision (PBD). No changes can be made after controls are issued. Budget submitting offices (BSOs) should coordinate with the cognizant FMB analyst if it is necessary to shift funds before control totals are finalized. BSOs should adjust funding within the control level as necessary to reflect decisions made during the OSD/OMB review and to properly price and justify the budget estimates. These changes should also be coordinated with the cognizant FMB analyst.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) Submission of automated data in support of estimates is required for both active and reserve Navy and Marine Corps military end strength by officer and enlisted and defense component or agency, if applicable. Data are also required by budget sub-activity (PBD) for the National Foreign Intelligence Program (NFIP) and the Working Capital Fund Activity Group.

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for military personnel appropriations by object class.

Military Personnel, Navy and Marine Corps

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
PB-30A	Summary of Requirements by Budget Program	BUPERS/HQMC	FMR 2-48
PB-30B to PB-30F	Personnel Summaries	BUPERS/HQMC	FMR 2-49/54
PB-30F-1	Total Officer Gains Phased by Month	BUPERS/HQMC	FMR 2-55
PB-30F-2	Enlisted NPS Accessions Phased by Month	BUPERS/HQMC	FMR 2-56
PB-30J	Summary of Entitlements by Sub-activity	BUPERS/HQMC	FMR 2-57/60
PB-30K	Analysis of Appropriation Changes and Supplemental Requirements	BUPERS/HQMC	FMR 2-61/64
PB-30Q	Schedule of Increases and Decreases	BUPERS/HQMC	FMR 2-65
PB-30P	Schedule of Increases and Decreases/Pay and Allowances	BUPERS/HQMC	FMR 2-66
PB-30Q	Military Personnel Assigned Outside DOD (End Strength)	BUPERS/HQMC	FMR 2-67/68
PB-30R	Reimbursable Program	BUPERS/HQMC	FMR 2-69
PB-30V	Incentive/Bonus Payment Stream	BUPERS/HQMC	FMR 2-70/71
MP-1	Reconciliation of Fund Changes With Prior Year	BUPERS/HQMC	FMR 2-72/73
MP-2	Dependents, Housing, and BAH Estimates	BUPERS/HQMC	FMR 2-74/75
MP-3	Summary of Outyear Data	BUPERS/HQMC	FMR 2-76

Exhibit No.	Title	Source	Reference
MP-4	Military Personnel by Region and Country (End Strength)	BUPERS/HQMC	FMR 2-77/81
MP-5	Active Duty Stationed Ashore by Regional Area	BUPERS/HQMC	FMR 2-82
MP-6	Education Benefits - Additional Basic Benefits	BUPERS/HQMC	FMR 2-83
MP-7	Aviation Retention Bonus	BUPERS/HQMC	FMR 2-84/85
MP-9	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/HQMC	FMR 2-86
MP-10	Summary of MILPERS Separation Payments	BUPERS/HQMC	FMR 2-87
MP-11	Clothing Allowance Initial Costs	BUPERS/HQMC	Appendix A
MPERS-1	Monthly Obligation Phasing Plan	BUPERS/HQMC	Appendix A
MPERS-4	Reenlistments within 3 months of Release from Active Duty	BUPERS/HQMC	Appendix A
MPERS-6	PCS Moves/Obligations by Type/Category (CY)	BUPERS/HQMC	Appendix A
OP-33	Reconciliation in Average Strength/ FTEs in NATO European Countries	BUPERS	FMR 3-95
OP-44	Military Assigned to Ships and Aircraft Squadrons	BUPERS/HQMC	FMR 3-104
PB-22	Management Headquarters	BUPERS/HQMC	FMR 19-45
PBA-20A	Manpower Tables	BUPERS/HQMC	FMR

Reserve Personnel, Navy and Marine Corps

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
PB-30A	Summary of Requirements by Budget Program	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-88
PB-30F	Schedule of Gains and Losses to Selected Reserve Strength	BUPERS/CNRF	FMR 2-89/90
PB-30G	Summary of Personnel	BUPERS/CNRF/HQMC	FMR 2-91
PB-30H	Reserves on Active Duty-Strength by Grade	BUPERS/HQMC	FMR 2-92
PB-30I	Strength by Month	BUPERS/CNRF/HQMC	FMR 2-93
PB-30J	Summary of Entitlements by Subactivity	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-94/97
PB-30K	Analysis of Appropriation Changes	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-98/102
PB-30L	Summary of Basic Pay and Retired Pay Accrual Costs	BUPERS/BUMED CNRF/HQMC	FMR 2-103/104
PB-30M	Summary of Basic Allowance for Housing (BAH) Costs	BUPERS/CNRF/HQMC	FMR 2-105/106
PB-30N	Summary of Travel Costs	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-107/108
PB-30Q	Schedule of Increases and Decreases-Summary	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-65
PB-30P	Schedule of Increases and Decreases	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-66
PB-30R	Reimbursable Program	CNRF/HQMC	FMR 2-69
PB-30S	Reserve Officer Candidates	CNET/HQMC	FMR 2-109

Exhibit No.	Title	Source	Reference
PB-30T	Reserve Officer Candidates (ROTC) Enrollment	CNET/HQMC	FMR 2-110
PB-30U	Reserve Officer Candidates (ROTC) Program	CNET/HQMC	FMR 2-111
PB-30V	Incentive/Bonus Payment Stream	BUPERS/CNRF/HQMC	FMR 2-70/71
PB-30W	Full-time Support Personnel	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-112
MPR-1	Initial Active Duty for Training Program and Prior Service Enlistments	BUPERS/CNRF/HQMC	FMR 2-113/114
MPR-2	Additional Training Assemblies	CNRF/HQMC	FMR 2-115
MPR-3	Reconciliation of Fund Change with Prior Year	BUPERS/BUMED CNET/CNRF/HQMC	FMR 2-116/117
MPR-4	Education Benefits (Title 10, Chapter 106)	BUPERS/CNRF/HQMC	FMR 2-118
MPR-5	Summary of Basic Pay and Retired Pay Accrual costs	BUPERS/CNRF BUMED/HQMC	FMR 2-119
MPR-6	Active Reserve/Guard (AGR) Personnel Costs	BUPERS/HQMC	FMR 2-120
MPERS-1a	Monthly Obligation Phasing Plan (Reserves)	BUPERS/BUMED CNET/CNRF/HQMC	Appendix A

CHAPTER 5

Submission Guidance for Operation and Maintenance Appropriations

1. General Guidance.

This chapter prescribes the justification materials required to support budget estimates for the operation and maintenance (O&M) appropriations.

a. Operation and Maintenance Appropriations.

The Department of the Navy O&M appropriations include Operation and Maintenance, Navy (OMN), Operation and Maintenance, Marine Corps (OMMC), Operation and Maintenance, Navy Reserve (OMNR), and Operation and Maintenance, Marine Corps Reserve (OMMCR).

b. Budget Estimates/TOA Controls.

Control totals are established by budget activity, PBD, claimant, and activity/sub-activity group. No changes may be made after controls are finalized. Budget submitting offices (BSOs) should coordinate with the cognizant FMB analyst if it is necessary to shift funds between activity/sub-activity groups before the control totals are published. BSOs should adjust funding within the activity/sub-activity group level as necessary to reflect decisions made during the OSD/OMB review and to properly price and justify the budget estimates. These changes should be coordinated with the cognizant FMB analyst.

c. FTE and Military End Strength.

Civilian full-time equivalent (FTE) and active duty military end strength and workyears will be included in active O&M appropriation exhibits and supporting material, where applicable. BSOs are to maintain close liaison with the various program and resource sponsors regarding changes in manpower requirements.

2. Detailed Budget Justification Material.

The primary justification material provided to the Congress includes the Justification of Estimates book for each O&M appropriation, supplemented by the O&M Data Book, the Real Property Maintenance and Minor Construction Book, and the O&M Overview Book. Guidance on the preparation and organization of these books is provided on Pages 3-10/14 of the FMR.

a. Data Book for the Operation and Maintenance Appropriations.

FMB prepares the O&M data book from the exhibits submitted by BSOs in accordance with the instructions contained on Pages 3-10/11 of the FMR and this manual.

b. Real Property Maintenance and Minor Construction Book.

Material for the Real Property Maintenance and Minor Construction Book is provided to USD(C) by FMB. BSOs will assist in the preparation of required material as necessary.

c. 0verview Book.

Material for the O&M overview book is provided to USD(C) by FMB. BSOs will assist in the preparation of required material as necessary.

d. Additional Accompanying Exhibits.

Other accompanying exhibits are required for this submission. BSOs will assist in the preparation of required material as necessary.

3. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) The following automated submissions are required:

OP-32	Summary of Price and Program Change
OP-5	OP-5 Automated Reporting System (OARS)
BS-1	Base Support

(2) Data submitted to the Budgetary Object Classification System (BOCS) is used to prepare a consolidated OP-32.

(3) OARS is an automated system utilized to manage and review Operation and Maintenance budget information and to prepare budget justification materials. Detailed instructions and related information on this system is available at the NHBS on-line web site.

(4) Information provided in the BS-1 automated submission is used to prepare the Backlog of Maintenance and Repair (OP-27) and the Summary of Major Repair Projects (OP-28) exhibits for OMN only. The OP-27 and OP-28 exhibits for OMNR are submitted by COMNAVRESFOR in lieu of a BS-1. For OMMC and OMMCR, these exhibits are submitted by HQMC.

Operation and Maintenance Appropriations

President's Budget Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
O-1	O&M Funding by Budget Activity and Activity Group	All	NBTS	NHBS on-line
OP-5	Part 1 (Budget Activity) Part 2 (Sub-Activity Group) Attachments 1-5, as applicable	All	OARS	NHBS on-line
Justification Books - Volume II - Data Book				
OP-30	Depot Maintenance Program (Page 1 and 2)	All	FMB	FMR 3-96/97
OP-30**	Depot Maintenance Program	All	BSO	FMR 3-98/107
OP-32*	Appropriation Summary of Price/Program Growth	All	BSO	FMR 3-106/116
OP-34	Appropriated Fund Support for MWR Activities	All	BSO	FMR 3-118/123
PB-15	Advisory and Assistance Services	All	BOCS	FMR 19-58/61
PB-22	DOD Management Headquarters	All	FMB	FMR 19-45
PB-24	Professional Military Education	MP/O&M	FMB	FMR 19-46/48
PB-28	Summary of Funds Budgeted for Environmental Projects-Environmental Quality	All	BSO	NHBS on-line
PB-28A	Environmental Security Technology		BSO	NHBS on-line
PB-31D	Summary of Increases and Decreases	All	FMB	FMR 3-185
PB-31M	Military Bands	MP/O&M	BUPERS	FMR 3-187
PB-31Q	Manpower Changes in Full-time Equivalent	All	FMB	FMR 3-188
Cbt-1	Combating Terrorism Resources	All	FMB	FMR 19-16/21

Exhibit No.	Title	Approp.	Source	Reference
PB-55	International Military Headquarters	OMN/MP	FMB	FMR 19-75/76
ENV-30	Defense Environmental Restoration Program	OMN	NAVFAC	FMR 13-7/10
Justification Books				
Volume III - Real Property Maintenance and Minor Construction				
OP-27	Backlog of Maintenance and Repair	All	FMB (Prepared from from BS-1 for OMN)	FMR 8-9/10
OP-27P	Projects Costing More than $500,000	All	BSO	FMR 8-12/13
PB-34	Revenue from Transfer or Disposal of DOD Real Property and Revenue from Leasing Out DOD Assets	All	NAVFAC	FMR 8-19
Other Accompanying Exhibits				
OP-8	Civilian Personnel Costs	All	FMB	FMR 3 42/48
OP-9	Analysis in FTEs	All	FMB	FMR 3-49/53
OP-14	Individual Training Data	OMN/MC	CNET CNO BUPERS HQMC	FMR 3-54/67
OP-20	Analysis of Navy Flying Hour Program-Summary	OMN/R	N889	FMR 3-85
OP-20A	Analysis of Navy Flying Hour Program-TACAIR	OMN/R	N889	FMR 3-86
OP-20B	Analysis of Navy Flying Hour Program-Fleet Training	OMN/R	N889	FMR 3-87
OP-20C	Analysis of Navy Flying Hour Program-Fleet Support	OMN/R	N889	FMR 3-88
OP-24	Emergency and Extraordinary Expense Limitation	OMN	AAUSN	FMR 3-92

Exhibit No.	Title	Approp.	Source	Reference
OP-26	POL Consumption and Costs	All	BOCS	NHBS on-line
OP-28	Summary of Major Repair Projects	All	BSO	FMR 8-13/14
OP-31	Funding for NWCF Depot Level Reparables(DLRs)	All	FMB	FMR 3-108
OP-34	Appropriated Support for MWR	All	BSO	FMR 3-118/123
OP-40	Ship Fuel Data & Operating Tempo Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-124
OP-41	Ship Operating Cost Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-125
OP-44	MilPers Assigned to Ships and Aircraft	MilPers	FMB	FMR 3-126
OP-53/A	Overseas Cost Report	Various	FMB	FMR 15-6/14
PB-14	Functional Transfers	All	FMB	FMR 19 6/14
PB-17	Employee Relocation Expenses	O&M	FMB	FMR 19-42
PB-18	Foreign Currency Exchange Data	Various	FMB	FMR 19-43
PB-25	Host Nation Support	OMN	BSO	FMR 19 46/48
PB-41	Administrative Motor Vehicle Operations	Various	NAVFAC/ HQMC	FMR 19-57
PB-42	Competition and Privatization	Various	BSO	FMR 19-58/61
PB-50	Child Development, SAC, Family Centers and Family Advocacy	Various	BSO	FMR 19-62/66
PB-54	Civilian Personnel Hiring Plan	Various	BSO	FMR 19-74
O&M Overview*				
PBA-2	Air Operations	OMN/R	FMB	FMR 3-137/139
PBA-3	Ship Operations	OMN/R	FMB	FMR 3-140/143

Exhibit No.	Title	Approp.	Source	Reference
PBA-4	Land Forces	OMMC	FMB	FMR 3-144/145
PBA-5	Depot Maintenance Program	All	FMB	FMR 3-146
PBA-7	Real Property Maintenance	All	FMB	FMR 3-147
PBA-8	Training and Education	OM,N/MC	FMB	FMR 3-148/151
PBA-9	Defense Health Program	All	FMB	FMR 3-152/153
PBA-10	Base Operations Support	All	FMB	FMR 3-154/155
PBA-11	Reserve Forces	OMNR, OMMCR	FMB	FMR 3-156/158
PBA-12	Command, Control and Communications	All	FMB	FMR 3-159/160
PBA-13	Transportation	All	FMB	FMR 3-161/162
PBA-15	Commissary Support	OMN/ OMMC	FMB	FMR 3-163
PBA-16	Management Headquarters	OMN, OMMC, OMNR	FMB	FMR 3-164/165
PBA-17	Recruiting, Advertising, and Examining	All	FMB	FMR 3-166/167
PBA-19	Appropriation Highlights	All	FMB	FMR 3-168
PBA-20	Manpower Data	MilPers	FMB	FMR 3-168
PBA-21	Key Activity Indicators	All	FMB	FMR 3-174/177
PBA-22	Mobilization Programs	OMN	FMB	FMR 3-178/181
PBA-25	Functional Transfers and Realignments	All	FMB	FMR 3-182

*FMB prepares these exhibits with assistance as required from budget submitting offices.

CHAPTER 6

Submission Guidance For Procurement Appropriations

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required to support budget estimates for the procurement appropriations.

a. Procurement Appropriations.

The Department of the Navy procurement appropriations include Aircraft Procurement, Navy (APN), Weapons Procurement, Navy (WPN), Shipbuilding and Conversion, Navy (SCN), Other Procurement, Navy (OPN), Procurement, Marine Corps (PMC), and Procurement of Ammunition, Navy and Marine Corps (PANMC).

b. Control Totals.

Control totals are established by P-1 line item. No changes can be made at the line item level after controls are issued. Budget submitting offices should coordinate with the cognizant FMB analyst if it is necessary to shift funds between line items before the control totals are published. Budget submitting offices should adjust funding below the line item level as necessary to reflect decisions made during the OSD/OMB review and to justify the budget estimates properly. These changes should be coordinated with the cognizant FMB analyst.

c. Reserve Procurement.

The Department of the Navy is required to identify separately the quantities and costs of procurement items planned for the Navy Reserve and the Marine Corps Reserve. For major systems, a separate, non-add cost estimate exhibit (P-5 or P-5A) should be prepared for Reserve procurement. For non-major systems, the appropriate exhibit should be annotated to identify quantity and cost of equipment for both Reserve Components. In every case, such data must be consistent with the P-1R exhibits. Note that the P-1R should include a line for the Navy Reserve and one for the Marine Corps Reserve for each applicable P-1 line item.

d. Detailed Budget Justification Material.

The primary justification material submitted to the Congress for the procurement appropriations consists of the P-1 Exhibit and Committee Staff Procurement Backup

Books (which also includes a P-1 extract). Selected information is also provided in the O&M Data Book, the Research and Development Budget Item Justification Book, and special justification books including those prepared in support of Multiyear Procurement and Spares/Repair Parts.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) Procurement Programs Data Base. The Department of the Navy is required to maintain an automated Procurement Programs Data Base to supplement the procurement justification materials. The Procurement Programs Data Base is also used by OSD to track Program Budget Decisions (PBDs) at the line item level, track Congressional action on the President's budget submission, and provide the baseline data required for special analyses. The Procurement Programs Data Base is prepared by FMB.

(2) Budgetary Object Classification System (BOCS). BSOs are required to provide an automated submission to BOCS. This information reflects planned obligations for all procurement appropriations.

Procurement Appropriations

President's Budget Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
P-1	Procurement Program	All	NBTS	NHBS on-line
P-1M	Procurement Program Mod Summary	All	NBTS	NHBS on-line
P-1R	Procurement Programs for the Reserves	All but SCN	NBTS	NHBS on-line
P-3a	Individual Modification Program	All but SCN	BSO	FMR 4-18/21
P-5	Weapon System Cost Analysis	All	BSO	FMR 4-22
P-5a	Weapon System Procurement History and Planning	All	BSO	FMR 4-30/33
P-5b	Analysis of Ship Cost Estimate-Basic Escalation	SCN	NAVSEA	FMR 4-34
P-8a	Analysis of Ship Cost Estimates-Major Equipment	SCN	NAVSEA	FMR 4-35
P-10	Advance Procurement Requirements Analysis	All but OPN	BSO	FMR 4-36/43
P-17	Layaway and/or Distribution	All, as applic	BSO	FMR 4-44
P-18	Initial and Replenishment Spares and Repair Parts Justification	All but SCN	BSO*	FMR 4-46/47
P-20	Requirements Study	All	BSO	FMR 4-48
P-21	Production Schedule	All but SCN	BSO	FMR 4-51/52
P-21a	Production Schedule, All Types	All but SCN	BSO	FMR 4-53
P-22	Ammunition Inventory	PANMC	BSO	FMR 4-54/55

*Note: No longer coordinated by NAVSUP

Exhibit No.	Title	Approp.	Source	Reference
P-23	Time Phased Requirements Schedule	All but SCN	BSO	FMR 4-56
P-23a	Installation Data	All but SCN	BSO	FMR 4-57
P-25	Production Support and Industrial Facilities Cost Analysis	As applicable	BSO	FMR 4-60/61
P-27	SCN-Ship Production Schedule	SCN	NAVSEA	FMR 4-64
P-29	SCN Outfitting Costs	SCN	NAVSEA	FMR 4-65
P-29a	SCN Outfitting Costs Summary	SCN	NAVSEA	FMR 4-66
P-30	SCN Post Delivery Costs	SCN	NAVSEA	FMR 4-67
P-30a	SCN Post Delivery Costs Summary	SCN	NAVSEA	FMR 4-68
P-32	Purchases from WCF	All	BOCS	NHBS on-line
PB-32B	Comparison of CY Program Requirements	As applicable	BSO	FMR 4-90
P-35	Major Ship Component Fact Sheet	SCN	NAVSEA	FMR 4-72/73
P-36	Depot Level Ship Maintenance Schedule	OPN	BSO	FMR 4-74
P-40	Budget Item Justification Sheet	All	BSO	FMR 4-75/77
P-40a	Budget Item Justification for Aggregated Items	All	BSO	FMR 4-78/79
P-45	Summary of Reimbursables	As applicable	BSO	FMR 4-80
MYP-1	Multiyear Procurement Criteria	As applicable	BSO	FMR 4-82/83
MYP-2	Total Program Funding Plan	As applicable	BSO	FMR 4-84
MYP-3	Contract Funding Plan	As applicable	BSO	FMR 4-85
MYP-4	Present Value Analysis	As applicable	BSO	FMR 4-86/89

CHAPTER 7

Submission Guidance for the Research, Development, Test and Evaluation, Navy (RDT&E,N) Appropriation

1. General Guidance.

This chapter prescribes the justification materials required in support of budget estimates for the RDT&E,N appropriation. These materials include the RDT&E Budget Item Justification Book and selected information provided in the O&M Data Book, and the Communications and Intelligence justification books.

2. Control Totals.

Control totals are established by program element/project. No changes can be made at the project level after controls are issued. The budget submitting office should coordinate with the cognizant FMB analyst if it is necessary to shift funds between projects before the control totals are published. Budget submitting offices should adjust funding below the project level as necessary to reflect decisions made during the OSD/OMB review and to properly justify the budget estimates. These changes should be coordinated with the cognizant FMB analyst.

3. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS). Security classifications must be reflected on all materials.

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) R&D Programs Data Base. The Department of the Navy is required to establish an automated R&D Programs Data Base to supplement the justification materials. The R&D Programs Data Base is also used by OSD to track Program Budget Decisions (PBDs) at the line item level, track Congressional action on the President's budget submission, and provide the baseline data required for special analyses. The R&D Programs Data Base is prepared by FMB.

(2) Submission of automated data to the Budgetary Object Classification System (BOCS) is required. These data reflect planned obligations for the RDT&E, N appropriation by object class.

Research, Development, Test and Evaluation, Navy

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
- -	Project Listing by Budget Activity	NBTS	NHBS on-line
R-1	RDT&E Programs	NBTS	NHBS on-line
R-2	RDT&E Budget Item Justification Sheet	BSO	FMR 5-14
R-2a	RDT&E Project Justification	BSO	FMR 5-15/17
R-3	RDT&E Project Cost Analysis	BSO	FMR 5-18/21
R-33	Program Element Comparison Summary	NBTS	NHBS on-line
DD-1391	Military Construction Project Data	BSO	FMR 6-38/46
MRTFB-1	Installation Financial Summary	BSO	FMR 19-22/25
MRTFB-2a	Element of Expense Listing	BSO	FMR 19-26
MRTFB-2b	MRTFB Activity Schedule of Increases/Decreases	BSO	FMR 19-27
MRTFB-2c	Workyears	BSO	FMR 19-28
MRTFB-2d	Source of Direct Funds	BSO	FMR 19-29
MRTFB-3a	Improvement & Modernization Funds Summary	BSO	FMR 19-30
MRTFB-3b	Military Construction and BRAC projects	BSO	FMR 19-31
MRTFB-3c	Improvement and Modernization Detail	BSO	FMR 19-32
T&E-1	Test and Evaluation	BSO	FMR 19-33/36

CHAPTER 8

Submission Guidance for the Military Construction, Base Realignment and Closure (BRAC), and Family Housing Appropriations

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required to support budget estimates for the Military Construction, Base Realignment and Closure, and Family Housing appropriations.

a. Appropriations.

The Department of the Navy Military Construction appropriations are Military Construction, Navy (MCN) and Military Construction, Naval Reserve (MCNR). Family Housing appropriations are Family Housing, Operations and Debt (FHOPS) and Family Housing, Construction, Navy and Marine Corps (FHCON). Base Realignment and Closure (BRAC) is also included in this chapter.

b. Control Totals.

Control totals are established by PBD and by project. No changes can be made at the project level after controls are issued. The budget submitting office should coordinate with the cognizant FMB analyst if it is necessary to shift funds between projects before the control totals are published. The budget submitting office should adjust funding below this level as necessary to reflect decisions made during the OSD/OMB review and to properly justify the budget estimates. These changes should be coordinated with the cognizant FMB analyst.

2. Submission Requirements.

The submission requirements table includes information regarding the sources for exhibits as well as references for instructions and formats for each exhibit. Budget exhibits should be submitted electronically via the Justification Management System (JMS).

a. General Guidance.

Detailed exhibits must be consistent with summary budget exhibits, budget justification materials, automated submissions and funding controls. Automated submissions should

be in accordance with the automated submission guidance provided at the NHBS on-line web site.

b. Automated Submission Requirements.

(1) Construction Programs Data Base. The Department of the Navy is required to maintain an automated Construction Programs Data Base to supplement the military construction justification materials. The Construction Programs Data Base is also used by OSD to track Program Budget Decisions (PBDs) at the project level, track Congressional action on the President's budget submission, and provide the baseline data required for special analyses. The Construction Programs Data Base is prepared by FMB for submission to OSD.

(2) Budgetary Object Classification System (BOCS). BSOs are required to provide an automated submission to BOCS. This information reflects planned obligations for all appropriations.

Military Construction, Navy
Military Construction, Naval Reserve

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
DD-1390	Military Construction Program (by state only)	NAVFAC	FMR 6-38/41
DD-1390 S/1/2	Guard and Reserve Military Construction	NAVFAC	FMR 6-42/45
DD-1391/ 1391/C	Military Construction Project Data (by state only)	NAVFAC	FMR 6-46/52

Base Realignment and Closure

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
BC-01	BRAC Service Overview	NAVFAC	FMR 7-12
BC-02	BRAC Implementation Costs and Savings	NAVFAC	FMR 7-13/14
BC-03	BRAC Package Description	NAVFAC	FMR 7-15/16
DD-1391/ 1391C	Military/Family Housing Construction Project Data	NAVFAC	FMR 7-17/23

Family Housing, Navy and Marine Corps

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
FH-1	Tri-service Family Housing Cost Model	NAVFAC	FMR 6-54
FH-2	Family Housing Operation and Maintenance	NAVFAC	FMR 6-55
FH-3	Furnishings Summary	NAVFAC	FMR 6-56/57
FH-4	Analysis of Leased Units	NAVFAC	FMR 6-58
FH-5	Historic Housing Costs	NAVFAC	FMR 6-59
FH-10	Reprogramming Proposed Funding Realignment	NAVFAC	Appendix E
PPV	Family Housing Privatization	NAVFAC	Appendix E
FHIF	Family Housing Improvement Fund	NAVFAC	Appendix E

CHAPTER 9

Submission Guidance for the Navy Working Capital Fund

1. General Guidance.

This chapter provides general guidance and prescribes the justification materials required for the Navy Working Capital Fund (NWCF) which includes supply management activity groups and non-supply (industrial) activity groups. Additional guidance on policy, rate setting, and definitions for Defense Working Capital Fund (DWCF) activities is contained in Pages 9-1/16 of the FMR.

2. Supply Management Activity Groups.

a. Control Totals.

Control totals are established by budget project. No changes can be made between the budget projects or material categories after controls are issued. Budget submitting offices should coordinate with the cognizant FMB analyst if it is necessary to shift funds before the control totals are published.

b. Basis of Estimates.

Supply management budget area estimates are based on inventory levels, usage, estimated maintenance capabilities, planned tempo of operations, and other factors as adjusted during the OSD/OMB review.

c. Budget Submitting Offices

The Naval Supply Systems Command (NAVSUP) is responsible for the preparation and submission of Navy supply management activity group justification material. Marine Corps stockage requirements and budget estimates are prepared by the Marine Corps Inventory Control Point at Albany, Georgia. These requirements are based on the same considerations as for the Navy.

e. Submission Requirements

(1) The methodology formerly contained in DOD Instruction 4140.24, “Requirements Priority and Asset Application for Secondary Items,” will be used to develop budgetary requirements until updated.

(2) The BSO will provide an electronic file for each budget exhibit and narrative as part of the submission.

Supply Management Activity Groups

President's Budget Submission Requirements

Exhibit No.	Title	Reference
SM-1	Supply Management Summary by Division	FMR 9-32/33
SM-3b	Operating Requirement by Weapon System by Division	FMR 9-42/43
SM-4	Inventory Status	FMR 9-46/48
SM-5b	Customer Price Change	FMR 9-52
Fund-9a	Activity Group Capital Investment Summary	FMR 9-80/83
Fund-9b	Activity Group Capital Investment Justification	FMR 9-84/86
Fund-9d	Capital Budget Execution	FMR 9-88
Fund-11	Source of Revenue	FMR 9-90/91
Fund-14	Revenue and Expenses	FMR 9-94/96
Fund-15	Fuel Data	FMR 9-100/101

3. Non-supply Activity Groups.

a. Control Totals.

Control totals are established by activity group. Budget submitting offices should adjust the budget backup material within the activity groups as necessary to reflect decisions made during the OSD/OMB review and to properly justify the budget estimates. These changes must be coordinated with the cognizant FMB analyst.

b. Automated Submission Requirements.

DONIBIS automated submission is required.

Non-Supply Activity Groups

President's Budget Submission Requirements

Prepared by BSOs:

Exhibit No.	Title	Reference
- -	Narrative Summary of Operations	FMR 9-27
Fund-2	Changes in Costs of Operation	FMR 9-67/68
Fund-5	Total Cost Per Output Summary	FMR 9-72
Fund-7a	Summary of Source of Revenue	FMR 9-74
Fund-9a	Activity Group Capital Investment Summary	FMR 9-80/83
Fund-9b	Activity Group Capital Purchase Justification	FMR 9-84/86
Fund-9c	Capital Investment and Financial Summary	FMR 9-87
Fund-9d	Capital Budget Execution	FMR 9-88
Fund-16	Material Inventory Data	FMR 9-102
--	NWCF Cash Phasing Plan	
NC-6	Revenue by Program/Ship (MSC)	Appendix F
NC-7	Allocation of Overhead Expenses (MSC)	Appendix F
NC-8	Revenue and Expense by Program (MSC)	Appendix F
NC-9	Fleet Inventory	Appendix F
CP-17	Civilian Manpower Requirements for MSC	Appendix F
CP-18	Civilian Manpower Requirements for Shipyards	Appendix F
CP-19	Civilian Manpower Requirements for NADEPS	Appendix F

Prepared by FMB:

Fund-1	Summary of Price, Program and Other Changes (from IBIS IF-4)	FMR 9-58/59
Fund-11	Source of New Orders and Revenue (from IBIS SOR)	FMR 9-90/91

Exhibit No.	***Title***	***Reference***
Fund-13	Cash Management Plan	FMR 9-93
Fund-14	Revenue and Expenses	FMR 9-94/96
Fund-21	Civilian Personnel Costs by Activity Group	FMR 9-108/110
Fund-26	Revenue and Expenses Phasing Plan	FMR 9-117

CHAPTER 10

Submission Guidance for Other Accounts

This chapter prescribes the submission budget materials required for public enterprise, management, and trust funds.

1. Public Enterprise Funds.

Public Enterprise Funds are expenditure accounts authorized by Congress to be credited with collections, primarily from the public, that are generated by, and earmarked to finance, a continuing cycle of business-type operations.

a. DON Public Enterprise Fund.

The only DON public enterprise fund is the National Defense Sealift Fund.

b. Budget Submitting Office.

CNO (N09BF) is responsible for submission to FMB of the Ready Reserve Force (RRF) exhibits. Additionally, when there are acquisition resources, Naval Sea Systems Command is also responsible for submission of these exhibits.

c. Submission Requirements.

The submission requirements table references the source of formats and instructions for the RRF exhibits. All budget material must be submitted electronically via the Justification Management System (JMS).

National Defense Sealift Fund

President's Budget Submission Requirements

Exhibit No.	Title	Source	Reference
RRF-1	Budget Item Justification	CNO(09BF)	FMR 10-15
RRF-2	Ship Composition Funding Requirements	CNO(09BF)	FMR 10-16
RRF-3	Ship Readiness Operational Status (ROS) Composition	CNO(09BF)	FMR 10-17

2. Management Funds.

A management fund is authorized by law to credit collections from two or more appropriations or funds to finance an activity not involving a continuing cycle of business-type operations. Additional background information on management funds is contained on Pages 10-1/2 of the FMR.

a. Navy Management Funds.

The only activity currently financed in the Navy Management Fund is Transportation of Things.

b. Submission Requirements.

FMB prepares the PB-2, Program and Financing Schedule.

3. Trust, Trust Revolving and Special Funds.

There are three types of trust fund accounts: trust fund receipt accounts, trust fund expenditure accounts, and trust revolving funds. Background information on these accounts is contained in FMR, Volume 12, Chapter 1.

a. DON Trust and Special Funds.

The Department of Navy trust funds include accounts for deposits, Department of the Navy General Gift Fund; profits from Sale of Ships Stores, Navy; contributions to the United States Naval Academy Museum Fund; contributions to the United States Naval Academy General Gift Fund; and contributions to the Naval Historical Fund. The only DON Special fund is Wildlife Conservation, Military Reservation Account.

c. Budget Submitting Offices.

The U.S. Naval Academy is responsible for preparation and submission of backup material for the Naval Academy General Gift Fund, the Naval Academy Museum Fund. NAVSUP is responsible for preparation and submission of Ship's Stores Profits estimates. AAUSN prepares the necessary backup for the Navy General Gift Fund. N09BF is responsible for preparation and submission of backup material for the Naval Historical Fund. NAVFAC is responsible for the preparation and submission of backup material for the Wildlife Conservation Fund.

d. Submission Requirements.

(1) The submission requirements table references either the FMR or this manual's Appendices for submission requirements.

(2) DON trust and special fund BSOs are required to provide a Narrative Summary of Operations. The narrative should provide a brief description of the fund's mission and operations, define all major activity components and their responsibilities, identify major funding requirements and customers, explain significant changes in financial condition between budget years, provide civilian and military manpower data, and highlight significant issues affecting the fund.

(3) Six copies of the submission material are required.

Trust and Special Funds

President's Budget Submission Requirements

Exhibit No.	Title	Appendix
- -	Narrative Summary of Operations	
Naval Academy General Gift Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
IV	Museum & General Gift Fund	G
Naval Academy Museum Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
IV	Museum & General Gift Fund Exhibit IV	G
General Gift Fund, Navy		
I	Trust Fund Exhibit I	G
Ships' Stores Profits, Navy		
I	Trust Fund Exhibit I	G
Naval Historical Fund		
I	Trust Fund Exhibit I	G
II	Object Class Exhibit II	G
Wildlife Conservation		
OP-5	Part II (by Activity Group)	FMR 3-20
28	Statement of Receipts	G

4. Receipt Accounts.

The DON budget review also requires submission of estimates for anticipated receipts. These include offsetting receipts, intragovernmental trust funds, and civil receipts from the sale of hunting and fishing permits. These estimates are updated during the OSD/OMB review and used by OMB, OSD, and the DON in various summary budget tables. Guidance on budget justification requirements is contained in Volume 11A of the FMR. Budget submitting offices will be contacted separately by FMB for any assistance needed on this budget submission material.

CHAPTER 11

Submission Guidance for Amended and Supplemental Requests

This chapter prescribes the justification materials required to support budget estimates for Budget Amendments and Supplemental Requests.

1. Amended Appropriations Requests.

a. Budget Submitting Offices.

Budget submitting offices for each appropriation affected by an amended budget request are responsible for preparation and submission of amended estimates and supporting backup material.

b. Submission Requirements

(1) Pages 1-68/69 of the FMR provide general guidance on submission requirements for amended requests. Justification books in support of Amended Appropriations Requests are normally required separate from the justification books prepared in support of the President's Budget. The standard exhibits required are listed on the submission requirements table. Any changes to these submission requirements, including additional exhibits, are provided by Budget Guidance Memoranda.

(2) Guidance is also provided by FMB as to which offices are required to submit amended justification material.

(3) All information included in justification books must be unclassified.

(4) Depending on the size of the amendment and the number of appropriations affected, one or more justification books may be prepared. When only one book is prepared for the Department of Defense, USD(C) is responsible for its final preparation. In all other cases, FMB is responsible for the final preparation.

(5) All books require review and approval by FMB, USD(C), Navy Security Review, and Defense Security Review. After these clearances, the preparing office then makes required revisions and submits the original package to FMB. After printing by FMB or USD(C), amended budget justification books are distributed to all appropriation sponsors and budget submitting offices affected by the amended request. Additionally, the following offices receive copies of all amended budget justification material.

Congress	49	N092	1
OSD	33	N095	1
SECNAV	1	N1	1
UNSECNAV	1	N2	2
ASN(FM)	1	N3/5	1
ASN(M&RA)	1	N4	1
ASN(RD&A)	1	N6	1
ASN(I&E)	1	CMC	4
FMB	20	NAVCOMTELCOM	1
FMO	1	BUPERS	2
CNO:		OCNR	1
N09B	1	OPA	1
N091	1	GAO	2

(6) All material must be delivered to FMB32, Room 4C640, Pentagon.

Amended Appropriations Requests

President's Budget Submission Requirements

Exhibit	Title	FMR
PB-37A	Justification of Supplemental Requirements	1-191
PB-37R	Budget Amendment Summary	1-192
PB-37S	Program and Financing Schedule (abbreviated)	1-193
PB-37T	Narrative Justification by Budget Activity	1-194
P-1	Procurement Program (available through FMB)	4-12/17
P-40	Budget Item Justification Sheet	4-75/79
R-1	RDT&E Program (available through FMB)	5-12/13
R-2	Budget Item Justification Book	5-14/17
R-3	RDTEN Program Element/Project Cost Breakdown	5-18/21

2. Supplemental Requests.

a. Budget Submitting Offices.

Budget submitting offices for each appropriation affected by a supplemental request are responsible for preparation and submission of supplemental estimates and supporting backup material.

b. Submission Requirements

(1) Page 1-68 of the FMR contains specific instructions for supplemental requests. Justification Books in support of Supplemental Appropriations Requests are normally required separate from the justification books prepared in support of the President's Budget. The required exhibits for these books are listed on the submission requirements table following Item (5) below.

(2) Supporting narrative justifications should indicate the methodologies by which pay increase costs for military personnel, classified civilian, U. S. wage-board employees, and foreign national direct personnel have been computed.

(3) A description of offsets or why offsets are not required should be provided.

(4) All information included in justification books must be unclassified.

(5) Depending on the size of the supplemental and the number of appropriations involved, one or more justification books may be prepared. When only one book is prepared for the Department of Defense, USD (C) is responsible for its final preparation. In all other cases, FMB is responsible for the final preparation.

(4) All books require review and approval by FMB, OSD, Navy Security Review, and Defense Security Review. The preparing office then makes required revisions and submits the original package to FMB. After printing by USD(C) or FMB, supplemental justification books are distributed to all appropriation sponsors and budget submitting offices affected by the supplemental request. Additionally, the following offices receive copies of all supplemental justification material.

Congress	49	FMO	1
OSD	33	CNO:	
SECNAV	1	N09B	1
UNSECNAV	1	N091	1
ASN(FM)	1	N095	1
ASN(M&RA)	1	N1	2
ASN(RD&A)	1	N2	1
ASN(I&E)	1	N3/5	1
FMB	20	BUPERS	2
N4	1	OCNR	1
N6	1	OPA	1
N8	1	GAO	2
CMC	4	NAVCOMTELCOM	1

(5) All material must be delivered to FMB32, Room 4C640, Pentagon.

Supplemental Appropriations Requests

President's Budget Submission Requirements

Exhibit No.	Title	FMR
PB-37A	Justification of Supplemental Requirements by Budget Activity (Program Supplementals Only)	1-191

CHAPTER 12

Congressional Appeals

1. General Guidance.

Each year the actions taken by Congressional Defense committees during consideration of the authorization and appropriation bills are reviewed by the DON. An overview of the appeal process is contained in Part I, Chapter 5, and in the FMR, Volume 2A, Chapter 1

a. Appeal Submission Package.

The DON usually submits a package of high priority appeals to the USD(C) as opposed to appeals covering each committee change to the budget request. The DON's appeal package is transmitted to USD(C) with a letter highlighting critical changes to the DON budget and/or changes involving DOD-wide programs with a significant DON impact.

b. Appeal Narrative.

Appeals should be written in clear, concise, and non-technical language, directed towards a reader not familiar with the technology of the program. When paragraphs are submitted on more than one item, the respective priorities of the individual paragraphs are to be indicated. Appeals should be unclassified and never extend beyond one page.

c. House and Senate actions which can/cannot be appealed to Conferees

(1) Programs in which both the House and Senate agree on the amount approved may not be appealed, notwithstanding any change from the President's Budget (or Amended Budget).

(2) In those cases where there is a difference between the House and Senate recommendation for a program decrease, the appeal may support any intermediate position between the two actions, but in no case will the appeal exceed the higher amount approved by either body.

(3) Generally, the Secretary of Defense is not supportive of an additive amount in those instances where an increase to the President's Budget has been made. In those cases where there is a difference between the House and Senate recommendations for a program increase, the appeal will support the lower amount; that is, the one closer to the President's Budget. In those cases where there is a difference between the House and the Senate with one recommending the President's Budget, or a program decrease, and one recommending a program increase, appeals will be submitted supporting the President's Budget. For either case, however, Department

of the Navy sponsors who believe the higher amount is necessary may submit a separate appeal supporting the higher amount for consideration and possible inclusion in the appeals package.

e. Guidelines on Appeal Arguments

(1) Avoid dramatic "worst case" impact statements unless such impacts are certain since use of such a statement could result in additional restrictions or cancellations or lead to a reduction in other DON or DOD programs.

(2) Avoid emotional appeals.

(3) Since the DON appeals will be included as part of the DOD appeal package, paragraphs and appeals are to be written in the context of the Secretary of Defense requesting reconsideration by Congress. These appeals are not to be written as internal DOD or DON documents.

(4) While appeals are often prepared prior to House or Senate floor action on committee recommendations, paragraphs should refer to House or Senate action, not "HASC", "SASC", "HAC" or "SAC" action. DOD will update the appeals for floor action prior to submission to Congress.

(5) On each issue, the positions of both House and Senate are to be discussed. The appeal should conclude with a specific reference to the Department's support for the President's budget when only one chamber has acted and the Department's support for the other chamber's position prior to conference.

2. Submission Requirements.

a. Formats and Instructions.

There are two types of appeals, program adjustments and bill language. Exhibit PB-39A-1 (Page 1-195 of the FMR) gives general guidance for appeals to Congressional committees on program adjustments and the PB-39A-2 gives general guidance for appeals to Congressional committees on bill language items. Appeals are not made regarding committee report language.

b. Preparation and Delivery of Material.

Budget submitting offices will be given specific guidance on submissions and specific formats in the FMB memorandum which tasks the BSOs for particular appeals.

Military Personnel Appropriations

Appendix A

Introduction

Military Personnel Appropriations

This Appendix contains preparation instructions, exhibit formats, and supplementary information for use by submitting offices in preparing DON unique budget submission material for the military personnel appropriations. Exhibits are to be prepared in accordance with guidance contained in Parts II, III, and IV of this manual.

Questions concerning these exhibits may be referred to FMB-14 telephone (703) 695-5528 or FMB-32 (703)695-5843.

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MPERS-1a Monthly Obligation Phasing Plan (Reserves). A-3

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MPERS-8 Drills A-18

MP-11 Clothing Allowance Initial Costs. A-22

Instructions for the Preparation of Exhibits MPERS - 1/1a

Obligation Phasing Plan

Purpose: To reflect planned monthly obligation phasing for the current year for the Military Personnel and Reserve appropriations.

Submission: Exhibits MPERS-1/1a are required for OSD/OMB and President's Budget submissions.

Instructions: Exhibit MPERS-1 is required for MPN and MPMC. Complete for each budget activity/subactivity for the current year. Exhibit MPERS-1a is required for RPN and RPMC. Complete for each pay group/category for the current year.

Exhibit MPERS-1
Obligation Phasing Plan
Military Personnel, _____
CY
(Dollars in Tenths of Millions)

Direct Obligations Budget Activity/Line Item	Total	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP
1 Pay and allowances of Officer													
1-A Basic Pay													
Note: List all 6 BA's by line item													
Total Direct Obligation Authority													
Plus Reimbursables (List all GBA's by line item if applicable)													

Exhibit MPERS-1
Obligation Phasing Plan
Military Personnel, _____
CY
(in Thousands of Dollars)

Pay Group/Category	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
BA 1													
Pay Group A													
Pay Group B													
Pay Group C													
Pay Group F													
Pay Group P													
Pay Group D													
Total BA-1													
BA-2													
Mobilization Training													
School Training													
Special Training													
Administration & Support													
PLC													
Reserve Officer Candidates													

Exhibit MPERS-1
Obligation Phasing Plan
Military Personnel, _____
CY
(in Thousands of Dollars)

Pay Group/Category	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
JR ROTC													
Total BA-2													
Total													
Reimbursements Included	(memo)	(memo)	(memo)										

Instructions for the Preparation of Exhibit MPERS-4

Reenlistments within 3 Months of Release from Active Duty by Pay Grade and Contract Period Active Duty By Pay Grade and Contract Period

Purpose: To provide reenlistment data in support of manpower budget requests.

Submission: Exhibit MPERS-4 is required for the DON submission.

Instructions: Display appropriate reenlistment data for the prior year, current year, budget year one and budget year two.

Military Personnel, Navy
xhibit MPERS-4
Reenlistments Within 3 Months of Release from Activity Duty by Pay Grade and Contract Period

Fiscal Year _____				Reenlistments					Losses Not Eligible to Reenlist	
					Contract Periods					
Paygrade	Total Losses	Eligible to Reenlist	Total Reenlistment	Percentage of Eligible	2 Years	3 Years	4 Years	6 Years	Number	Percent
E-9										
E-8										
E-7										
E-6										
E-5										
E-4										
E-3										
E-2										
E-1										
Total										
Total Includes										
Career Regulars:										
First Termers:										

Military Personnel, Navy
xhibit MPERS-4
Reenlistments Within 3 Months of Release from Activity Duty by Pay Grade and Contract Period

Fiscal Year _____				Reenlistments					Losses Not Eligible to Reenlist	
					Contract Periods					
Paygrade	Total Losses	Eligible to Reenlist	Total Reenlistment	Percentage of Eligible	2 Years	3 Years	4 Years	6 Years	Number	Percent
Inductees:										
Reserve Personnel:										
Total										

Instructions for the Preparation of Exhibit MPERS-6

PCS Moves/Costs by Month by Type/Category

Purpose: To provide detailed obligation phasing plan for the current year permanent change of station (PCS) program.

Submission: Exhibit MPERS-6 is required for the DON, OSD/OMB, and President's Budget submissions.

Instructions: The exhibit will reflect the execution plan by the number of moves and associated estimated obligations by month for the current year only.

Exhibit MPERS-6
Appropriation: Military Personnel, Navy
PCS Moves/Costs by Month by Type/Category
(in Thousands of Dollars)

Type of Travel	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
a. Accession													
Officer													
Number of Moves													
Costs $													
Enlisted													
Number of Moves													
Costs $													
Midshipmen													
Number of Moves													
Total													
Number of Moves													
Costs $													
b. Training													
Officer													
Number of Moves													

Exhibit MPERS-6
Appropriation: Military Personnel, Navy
PCS Moves/Costs by Month by Type/Category
(in Thousands of Dollars)

Type of Travel	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
Costs $													
Enlisted													
Number of Moves													
Total													
Number of Moves													
Costs $													
c. Operational													
Officer													
Number of Moves													
Costs $													
Enlisted													
Number of Moves													
Costs $													
Total													
Number of Moves													
Costs $													

Exhibit MPERS-6
Appropriation: Military Personnel, Navy
PCS Moves/Costs by Month by Type/Category
(in Thousands of Dollars)

Type of Travel	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
d. Rotational													
Officer													
Number of Moves													
Costs $													
Enlisted													
Number of Moves													
Total													
Number of Moves													
Costs $													
e. Separation													
Officer													
Number of Moves													
Costs $													
Enlisted													
Number of Moves													
Costs $													

Exhibit MPERS-6
Appropriation: Military Personnel, Navy
PCS Moves/Costs by Month by Type/Category
(in Thousands of Dollars)

Type of Travel	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
Midshipmen													
Number of Moves													
Costs $													
Totals													
Number of Move													
Costs $													
f. Orginazational Units													
Officer													
Number of Moves													
Costs $													
Enlisted													
Number of Moves													
Costs $													
Number of Moves													
Costs $													

Exhibit MPERS-6
Appropriation: Military Personnel, Navy
PCS Moves/Costs by Month by Type/Category
(in Thousands of Dollars)

Type of Travel	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		AUG	SEP	Total
Total													
Number of Moves													
Costs $													
Grand Total													
Costs $													

Instructions for the Preparation of Exhibit MPERS-7

Annual Training (AT)

Purpose: To identify budgeted costs of active duty training and full time support personnel by entitlement.

Submission: Exhibit MPERS-7 is required for the DON submission.

Instructions: Complete for each applicable Pay Group for the prior, current, budget year one and budget year two. Pay raise data will be folded into the detail and identified separately as a memo entry. Add entitlement categories as required.

Exhibit MPERS-7
FY ___
Appropriation: _____
Annual Training

Rank Structure	Number of Personnel	Number of Personnel Participating	Basic Pay	Incentive Pay	Special Pay	BAH Partial	BAH Full		BAS	FICA	Total	Pay Raise (memo entry)
Officers												
O-8												
O-7												
O-6												
O-5												
O-4												
O-3												
O-2												
O-1												
W-4												
W-3												
W-2												
W-1												
Total Officers												

Exhibit MPERS-7
FY ___
Appropriation: _____
Annual Training

Rank Structure	Number of Personnel	Number of Personnel Participating	Basic Pay	Incentive Pay	Special Pay	BAH Partial	BAH Full		BAS	FICA	Total	Pay Raise (memo entry)
Enlisted												
E-9												
E-8												
E-7												
E-6												
E-5												
E-4												
E-3												
E-2												
E-1												
Total Enlisted												
Total Officers/Enlisted												

Note: Complete for both Annual Training and Reserves on Full-time Active Duty

Instructions for the Preparation of Exhibit MPERS-8

Drills

Purpose: To identify budgeted costs of inactive duty training by entitlement.

Submission: Exhibit MPERS-8 is required for the DON submission.

Instructions: Complete for each applicable Pay Group for the prior, current, budget year one and budget year two. Pay raise data will be folded into the detail and identified separately as a memo entry.

Exhibit MPERS-8
Appropriation: _____
Pay Group: _____
Drills

Rank Structure	Number of Personnel	Number of Personnel Participating	Basic Pay	Incentive Pay	Special Pay	Partial	Full		BAS	FICA	Total	Pay Raise (memo entry)
Officers												
O-8												
O-7												
O-6												
O-5												
O-4												
O-3												
O-2												
O-1												
W-1												
W-2												
W-3												
W-4												
Total Officers												

Exhibit MPERS-8
Appropriation: _____
Pay Group: _____
Drills

Rank Structure	Number of Personnel	Number of Personnel Participating	Basic Pay	Incentive Pay	Special Pay	Partial	Full		BAS	FICA	Total	Pay Raise (memo entry)
Enlisted												
E-9												
E-8												
E-7												
E-6												
E-5												
E-4												
E-3												
E-2												
E-1												
Total Enlisted												
Total Officer/Enlisted												

Note: Complete for both Annual Training and Reserves on Full-time Active Duty. One consolidated exhibit should be submitted for FTS personnel.

Exhibit MP-11 Clothing Allowance Initial Costs New Items (In Thousands of Dollars)							
	CY	**BY1**	**BY2**	**BY3**	**BY4**	**BY5**	**BY6**
Item Advance - Belt (1) (5)							
Nonrecoverable Stockage							
Costs (2)							
Liquidation of Adv. (3)							
Clothing Bag (4)							
Item Advance - Hat (1) (6)							
Nonrecoverable Stockage							
Costs (2)							
Liquidation of Adv. (3)							
Clothing Bag (4)							
Item Advance - Shirt (1)							
Totals							
Item advance							
Nonrecoveable Stockage							
Costs (2)							

Exhibit MP-11
Clothing Allowance Initial Costs
New Items
(In Thousands of Dollars)

	CY	BY1	BY2	BY3	BY4	BY5	BY6
Liquidation of Adv. (3)							
Clothing Bag (4)							

Notes:
(1) List each new item separately. Amount reflects total advance funding budgeted to support initial stockage of new item. At the total level, this amount must equal amount in detailed justification (Clothing Allowances (Budget Subactivity 2-K)) in a new subactivity line entry under Initial Clothing to be titled "Advance Funding for New Clothing Items."
(2) Identify amount of advance to support initial stockage levels that will not be recouped (Non-add memo entry.
(3) Yearly requirement for issuing new item that is covered by prior year advance funding (Non-add memo entry). At the total level, this amount must equal amount in detailed justification in a new subactivity line entry under Initial Clothing to be titled "Liquidation of Prior Year Advances." This will be a minus entry in the detailed justification.
(4) Funding requirement for fiscal year for new item minus the amount being liquidated (Note 3).
(5) Example shows display when up-front stockage requirement is greater than first year issue.
(6) Example shows display when up-front stockage requirement is less than first year issue.

Operation and Maintenance Appropriations

Appendix B

Introduction

This Appendix contains preparation instructions and exhibit formats for use by submitting offices in preparing DON unique budget submission material for the Operation and Maintenance appropriations. Exhibits are to be prepared in accordance with guidance contained in Parts II, III, and IV of this manual.

Questions concerning these exhibits may be referred to FMB-12, telephone (703) 697-1342, FMB-13, (703) 697-0434, FMB-14, (703) 614-5527 or FMB-324 (703) 695-5843.

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Appendix B

OM-1Q Quarterly Obligation Authority B-3

OM-4 MSC Charter by Ship Hull B-5

OP-30S Ship Depot Maintenance B-6

Instructions for Preparation of Exhibit OM-1Q

Quarterly Obligation Authority

Purpose: To reflect planned quarterly obligation authority for direct and unfunded reimbursable authority.

Submission: Exhibit OM-1Q is required for all Operation and Maintenance appropriations claimants for the DON, OSD/OMB, and President's Budget submissions.

Instructions: Complete by budget activity for Direct Program. Include an additional line for Unfunded Reimbursables.

Exhibit OM-1Q Quarterly Obligation Authority				
	Fiscal Year CY Cumulative by Qtr.			
Direct Program by Budget Activity	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**Annual**
Total Direct Program				
Add: Unfunded Requirements				
Total Operating Budget				

Exhibit OM-4 Operation and Maintenance, Navy MSC Charter (In Thousands of Dollars)								
Budget Activity: _____	**PY**		**CY**		**BY1**		**BY2**	
	Units	**Dollars**	**Units**	**Dollars**	**Units**	**Dollars**	**Units**	**Dollars**
FOS								
ROS								
Deactivation								

Exhibit OP-30 Supplemental
Ship Depot Maintenance and Inactivation Programs

Claimant:
Appropriation:
Budget Activity:

FY
Date:

CL	FY	RS	Hull No.	Ship Name	Start Date	End Date	Prev. Avail (3) End Date	Prev. Avail Type	Yard (4)	Budgeted Mandays	Manday Rate	Costs ($000)	Labor Material Unit Costs	Material Costs ($000)	Other (PERA) (FIFO)	Total Reqt.	Prior Yr (IY-2&3) Funding	Prior Yr (IY-1) Funding	Induct. Year Reqt.	Unfunded Avails	Induct Year Funded
Number Of Digits Per Field / Justified Left(L) Or Right(R):																					
3 L	3 L	3 L	8L	10L	15L	10 L	10L	15 L	8L	6L	10T	8R	10R	10R	10R	8R	10R	10R	10R	10R	10R

Note:

1/ The term “Inactivation” is a generic term which should incorporate all work performed in Public or Private shipyards. For submarines, separate lines should be used for each type of Inactivation evolution (i.e., Recycling, Inactivation with/without reactor core disposal, etc.).

2/ SRA, SRA(D), SRA(ED), SA(E), PIA, PIA(D), PMA, PMA(D), OH(R), OH(C), OH(RF), OH(E), DMP, SCO, etc... For submarine SRA(D) and aircraft carrier PIA/PIA(D) availability indicate` the availability number in the maintenance cycle. For example: (SRA(D1 OR PIA(2).

3/ Not required for Inactivation availabilities.

4/ If the availability is to be accomplished off-site indicate with a (R). For example: PTSMH(R)

Because BSOs are required to submit this document in automated format, it is imperative that proper format be followed.

DEFINITION/DATA REQUIREMENT:
CL - Claimant. PACFLT (P) or LANTFLT (L)
FY - Fiscal Year availability starts (i.e., 92).
RS - Resource Sponsor.
TYPE OF AVAIL - Type of maintenance availability (i.e., OH(R),OH(C), OH(RF), OH(RC), DMP, SRA, PMA, SRA(D), PMA(D), INACT W/RC, RECYCLE, etc.).
HULL NO. - Hull number of ship to receive maintenance/Inactivation work with one space between hull type and number (i.e., AD 42, CGN 38, DD 963).
SHIP NAME - Name of ship to receive maintenance/in activation work (i.e., 25 Aug-93)
START DATE - Date Beginning of the scheduled availability (i.e., 25 Aug-93)
END DATE - End of the scheduled availability (E. 25 Aug 93)
PREVIOUS AVAIL END DATE - End date of previous depot level availability (i.e., 25 Aug 93)
PREVIOUS AVAIL TYPE - Type of previous depot level availability (i.e., OH(R), OH(RF), DMP< SRA< PMA< SRA(D)< PMA(D). etc.).
YARD - Shipyard at which availability will be conducted. If the maintenance/Inactivation is to be conducted at more than one location, two separate line entries should be made. Standard public shipyard abbreviations should be used. For private shipyard availabilities, the location abbreviation should be preceded by an “S” to indicate Supervisor of Shipbuilding cognizance.
BUDGET MANDAYS - The number of shipyard mandays scheduled and budgeted for the availability (for example: 14,000)

*** IF A FUNDING CATEGORY IS NOT APPLICABLE ENTER ZERO. ***

Procurement Appropriations

Appendix C

Introduction

This Appendix contains preparation instructions and exhibit formats for use by submitting offices in preparing DON unique budget submission material for the procurement appropriations. Exhibits are to be prepared in accordance with guidance contained in Parts II, III, and IV of this manual.

Questions concerning these exhibits may be referred to FMB21, telephone (703) 695-8080, FMB22, (703) 697-1607, FMB23, (703) 697-8082 or FMB32, (703) 695-5841.

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Appendix C

NC-50 Ship Modernization Installation C-3

NC-53 Non-Equipment Nuclear Alterations C-5

NC-61 Non-Aircraft Mod/Ship Modernization Installation C-7

NC-62 Advanced Questions C-8

Instructions for the Preparation of Exhibit NC-50

This exhibit will be completed for all ship installation funding directly tied to a P-1 line item for which the equipment is required to modernize ships/subs. This exhibit should be completed for non-nuclear equipment being procured. This exhibit should be completed for all procurement appropriations which procure equipment to modernize ships/subs.

Details for Preparation for Exhibit NC-50	
List.	the appropriation which procures the end item which is to be installed on a ship
P-1 Line Item	List the non-numeric title of the line item, as it appears on the P-40, which will procure equipment to be installed on a ship. Do not list subhead numbers.
Cost Code/ Procurement Cost	The cost code, if identifiable, from the P-22 exhibit which is associated with modernizing a ship. If cost code column is not used for an appropriation, then list the procurement cost of the end item.
Quantity	List the quantity budgeted to install the ship alt.
Hull Number	Annotate the ship hull number (e.g. DDG 79).
Ship Alt Number	List the applicable ship alteration number which drives the need for the equipment.
FY of Installation/Availability Dates	Annotate the fiscal year in which the installation will occur and the start and end dates of the availability (e.g., FY 03, 12 Oct 92 - 6 Feb 03)
Installation Method	If the installation requires a maintenance availability, annotate the type of availability (SRA, DMP, etc), and the availability start and end dates. If the installation is to be performed by some other method, annotate the method of installation.
Installing Activity	List the activity that will perform the install (SupShip Norfolk, NSY Pearl Harbor, TRF Kings Bay, etc).
Manday Rate	List the manday rate of the performing activity.
	List the mandays required to install the alteration.
Incidental Material	Display any applicable incidental material costs required to install the alteration.
Total Installation Cost	This column should include the cost, associated with the P-1 line item, to perform the ship installation including advance planning but excluding design services. A separate exhibit is required for ship design services. If a P-1 line item is required for a ship alt, and there is no calculated installation cost for that line, display the equipment being procured and under the “Total Install Cost” column, annotate the P-1 line and the FY for which the installation costs are budgeted.

Exhibit NC-50
DEPARTMENT OF THE NAVY
SHIP MODERNIZATION INSTALL EQUIPMENTS ASSOCIATED WITH PROCUREMENT END ITEMS
FY__ OF PROCUREMENT

(Dollars in Tenth of Millions)

APPN	P-1 LI	COST CODE/ PROC COST	QTY	HULL#	SHIP ALT#	INSTALL AVAIL	FY/ DATES	INSTALL METHOD	INSTALL ACTIVITY	MAN DAY RATE	MAN DAYS	INCIDENTAL MATERIAL	TOTAL INSTALL COST

Instructions for the Preparation of Exhibit NC-53

This exhibit will be completed for non-equipment nuclear alterations required to modernize ships and subs. This exhibit will only be completed for the OPN appropriation. All other nuclear alteration information will be displayed in the procurement exhibits submitted in the backup book.

The exhibit information is self-explanatory.

Exhibit NC-53 SHIP INSTALL REQUIREMENTS NON-EQUIPMENT NUCLEAR ALTERATIONS FY__ (Dollars in Tenth of Millions)
REQUIREMENTS ANALYSIS:
Explain types of Nuclear Alterations being accomplished and why. Provide information regarding specific types of ships and availabilities to which Nuclear Alterations apply. Provide a breakout of reactor plant planning yard work.

Instructions For The Preparation Exhibit NC-61

This exhibit will be completed for installation efforts, other than aircraft mod kits and ship modernization, associated with equipment procured by the procurement appropriations. This exhibit should be completed for all procurement appropriations which procure modernization equipment being procured. A negative reply is requested.

Details for Preparation of Exhibit NC-61	
APPN	List the appropriation which procures the end item which requires installation funding.
P-1 Line Item	List the non-numeric title of the line item, as it appears on the P-40. Do not list subhead numbers.
Cost Code/Element	List the cost codes or element of expense from the budget of expense exhibit. For APN, list the line item, element of expense or item nomenclature for the equipment being procured.
Qty	List the quantity budgeted for a particular installation
FY of Installation	Annotate the quarter and fiscal year of installation.
Installation Activity	List the activity that will perform the installation.
Total Install Cost	This column should include the total cost to perform the installation.

Exhibit NC-61
DEPARTMENT OF THE NAVY
INSTALLATION REQUIREMENTS FOR
OTHER THAN AIRCRAFT MOD KIT & SHIP MODERNIZATION EFFORTS
FY__ OF PROCUREMENT
(Dollars in Tenth of Millions)

APPN	P-1 LI	P-1 COST CODE/ FY OF INSTALLATION INSTALL	QTY	FY OF INSTALLATION	INSTALLATION ACTIVITY	TOTAL INSTALL COST

Instructions for Responses to DON Review Questions For Procurement Appropriations

Responses to the following questions should be included with the initial budget submission for the internal DON budget review.

Procurement:

1. (OPN, APN, WPN) Provide a list of unobligated funds from appropriated funds in the final year of their availability (for instance unobligated FY 1998 funds would be explained during the FY 2001 budget review). Include an explanation of why the funds have not yet obligated, the month of planned obligation, as well as the period for performance of this effort (include month/year completion or number of months).

2. Provide a monthly obligation and expenditure phasing plan by cost code (for BLIs with values over: $10M for APN, and $3M for WPN, PMC, and PANMC) for current year execution (for example, FY-98 in FY-00, FY-99 in FY-00, and FY-00 in FY-00) in the following format. Provide actual obligations and expenditures through the most current month and then indicate projections through the end of the current fiscal year. Note any planned fiscal year carryovers.

   For OPN you are only required to update your most recent OPN midyear review exhibit.

   For SCN provide obligation and expenditure data for the outfitting and post delivery BLIs only.

3. From the total funding requirement displayed on exhibit P-5, breakout that amount budgeted strictly for non-recurring efforts (one time charges for production line start up, special tools required, etc.) in each current year and in the budget years. Include a description of what this non-recurring effort is and why it is required.

4. For APN, update the prior years list of ancillary equipment efforts over $2M (note that the total funding requirement is displayed on exhibit P-5), and indicate the quantity and funds required for each item, in each current year and through the entire FYDP. Provide the basis for the requirement determination for the equipment (i.e., one for each T/M/S aircraft).

5. Contract Award/Deliveries: Provide the following information for each BLI/OSIP with a value over $3M in the current year:

   a. If the most recently planned contract was not awarded on schedule (using the baseline date as that reflected in the most recent President's Budget) explain the delay and indicate the most current planned date of contract award.

   b. For your program's major hardware items, provide the financial summary pages from the last contract awarded. This is not required if the last contract award occurred more than three years ago.

   c. When the delivery schedules for items being delivered in the current year have changed by greater than 30 days or by quantities of 10% or more since the submission of the most recent

President's Budget, explain the cause of the change. (If there are extenuating factors that should be considered prior to any adjustments these may also be provided.).

d. For contracts that have been awarded in any current year, compare the contract amount to what was budgeted and explain any differences.

6. Production Support:

a. For programs with production ending in the current year or in a budget year, identify the production support funding included in each year which will carry the production line until production is complete.

b. Provide the annual phasing plan for obligation of the production support funding budgeted in the last year of procurement. For example, the last year of production of Widget X is FY 2000, which will complete delivery in FY 2002, $120K of production support is funded in FY 2000. The $120K will actually be obligated $50K in FY 2000, $50K in FY 2001 and $20K in FY 2002.

7. For all procurement program BLIs, provide an exhibit P-5 for the outyears.

DON Budget Review
Execution Status for Procurement Appropriations
($ in 000)

FY_____
BSO_____
Resource Sponsor_____
Priority #:_____
Line Item/Subhead/Nomenclature_____
P-22/P-3

Obligations/Expenditures

Cost Code	Current Program Value	Amt On Deferral	Current Alloc	Cum Thru 30 Sep XX	Avail Balance 1 Oct XX	Actual Thru May (Total)	Jun	Jul	Aug	Sep	Grand Total	Planned Carry over
OBS												
EXP												

Explain Any Carryover To The Next Fiscal Year

Research, Development, Test and Evaluation, Navy

Appendix D

Introduction

This Appendix contains preparation instructions for responses to DON Review questions for the RDT&E,N appropriation.

Questions concerning these exhibits may be referred to FMB-23, telephone (703) 695-8082 or FMB-232, (703) 695-7412.

Instructions for Preparation of Responses to DON Review Questions for Research, Development, Test & Evaluation, Navy Appropriation

Responses to the following questions should be included with the initial budget submission for the internal DON budget review.

1. Provide additional information on any elements of your program milestone charts that have changed by a quarter or more or have moved into the next fiscal year since the submission of the most recent President's Budget. Include any information on why the effort has changed and the financial impact of the change.

2. For contracts with termination liability over $1 million, provide a breakout of termination liability requirements, and funds included in the budget for termination liability (by program element, contractor, and fiscal year). Provide an explanation of how this amount was determined and why termination liability is required.

3. For each program element provide a STARS run which shows obligation and expenditure data for each project within the program element. Also provide an obligation and expenditure phasing plan which projects activity through the end of the current fiscal year and compares projections with the end of the year historical benchmarks. For those programs which are currently below the benchmarks (or projected to be below the end of the year benchmarks) for either obligations or expenditures, include an explanation of why this is so.

Military Construction,

BRAC and Family Housing Appropriations

Appendix E

Introduction

This Appendix contains preparation instructions, exhibit formats, and supplementary information for use by submitting offices in preparing DON unique budget submission material for the military construction, base realignment and closure and family housing appropriations. Exhibits are to be prepared in accordance with guidance contained in Parts II, III, and IV of this manual. Other appendices that may be useful in completing Appendix E exhibits include Appendix K, containing pricing guidelines and Appendix L, containing instructions for submitting the budget in automated format. Questions concerning these exhibits may be referred to FMB-23, telephone (703) 695-8082 or FMB-325, (703) 695-5841.

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Exhibit FH-10
FAMILY HOUSING, NAVY AND MARINE CORP
REPROGRAMING AND PROPOSED FUNDING REALIGNMENT
(In Thousands of Dollars)

Account /Subaccount	Amount FY PY	Amount FY CY	Reason Action Taken/Proposed

Instructions For The Preparation Of Exhibit FH-10

1. Provide for each account (each subaccount for the Operation account), funds reprogramed or proposed for reprograming.

2. For each losing account/subaccount, identify the reason funds are available, for example, inflation savings, foreign currency savings, or project slippage. Also, state briefly why funds are required in each gaining account/subaccount.

3. Provide the requested information for the Operation and Maintenance account, including Debt Payment.

4. Submit exhibit for the DON submission only, and as a part of the “other exhibits” package, separate from the backup book.

DEPARTMENT OF THE NAVY FAMILY HOUSING PRIVATIZATION						
YEAR OF NOTIFI-CATION	INSTALLATION	# OF UNITS	NOFIFY CONGRESS SOLICITATION)	NOTIFY CONGRESS (SELECTION)	DEAL CLOSING/ CONTRACT AWARD	FUNDING

-

Instructions For The Preparation Of Family Housing Privatization Exhibit

Details for Preparation for Family Housing Privatization Exhibit	
Year of Notification	Fiscal year in shich Congress is first notified of project. List all fiscal years and projects sequentially, for instance, first list all porjects Congress was notified of in FY 9, then all FY 99 notifications, etc.
Installation	Installation name and state.
# of Units	Number of units in the privatization initiative.
Notify Congress (solication)	Month and calendar year Congress notified of intent to solicit privatization project.
Notify Congress (selection)	Month and calendar year Congress notified of intent to award a project.
Deal Closing/Contract Award	Month and calendar year privatization contract awarded.
Funding	Identify the amount, source and fiscal year of funds to be used for the Government's cost, for instance $18.5M of FY95 Family Housing Construction or $9M of FY00 FHIF)

Exhibit FHIF FAMILY HOUSING CONSTRUCTION NAVY MARCORPS PRIVATIZATION CANDIDATES							
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
FY 1995 Family Housing Construction Projects							
Installation/Location							
Scored Amount							
Family Housing O&M Impact							
BAH Impact							
Proceeds							
Number of Units							
Number of Existing Units							
Privatized/Divest							
Deal Closing/Contract Award Date							
Description of Privatization Project							
FY 1996 Family Housing Construction Projects							
Installation/Location							
Scored Amount							

Exhibit FHIF FAMILY HOUSING CONSTRUCTION NAVY MARCORPS PRIVATIZATION CANDIDATES							
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Family Housing O&M Impact							
BAH Impact							
Proceeds							
Number of Units							
Number of Existing Units							
Privatized/Divest							
Deal Closing/Contract Award Date							
Description of Privatization Project							
FY 1997 Family Housing Construction Projects							
Installation/Location							
Scored Amount							
Family Housing O&M Impact							
BAH Impact							
Proceeds							
Number of Units							

Exhibit FHIF FAMILY HOUSING CONSTRUCTION NAVY MARCORPS PRIVATIZATION CANDIDATES							
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Number of Existing Units							
Privatized/Divest							
Deal Closing/Contract Award Date							
Description of Privatization Project							
FY 1998 Family Housing Construction Projects							
Installation/Location							
Scored Amount							
Family Housing O&M Impact							
BAH Impact							
Proceeds							
Number of Units							
Number of Existing Units							
Privatized/Divest							
Deal Closing/Contract Award Date							
Description of Privatization Project							

Exhibit FHIF FAMILY HOUSING CONSTRUCTION NAVY MARCORPS PRIVATIZATION CANDIDATES							
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
FY 1999 Family Housing Construction Projects							
Installation/Location							
Scored Amount							
Family Housing O&M Impact							
BAH Impact							
Proceeds							
Number of Units							
Number of Existing Units							
Privatized/Divest							
Deal Closing/Contract Award Date							
Description of Privatization Project							
FY 2000 Family Housing Construction Projects							
Installation/Location							
Scored Amount							
Family Housing O&M Impact							

Exhibit FHIF FAMILY HOUSING CONSTRUCTION NAVY MARCORPS PRIVATIZATION CANDIDATES							
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
BAH Impact							
Proceeds							
Number of Units							
Number of Existing Units							
Privatized/Divest							
Deal Closing/Contract Award Date							
Description of Privatization Project							
FY 2001 Family Housing Construction Projects							
Installation/Location							
Scored Amount							
Family Housing O&M Impact							
BAH Impact							
Proceeds							
Number of Units							
Number of Existing Units							
Privatized/Divest							

Exhibit FHIF FAMILY HOUSING CONSTRUCTION NAVY MARCORPS PRIVATIZATION CANDIDATES							
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Deal Closing/Contract Award Date							
Description of Privatization Project							

Instructions For The Preparation Of Family Housing Privatization Exhibit

Details for Preparation for Family Housing Privatization Exhibit	
Installation/Location	Installation and State
Scored Amount	Enter the estimated amount of funding that will be needed under OMB scoring guidelines.
Family housing O&M Impact	Ener the amount of Family Housing)&M costs assocaityed with the existing units to be privatized.
BAH Impact	Enter the addditional amount of Basic Allowance of Quarter (BAH) required when existing units are privatized or demolished.
Proceeds	Enter the amount of any proceeds anticipated from privatization.
Number of Units	Enter the number of family housing units anticipated from the privatization initiative.
Number of Existing Units	Self explanatory
Privatized/Divest	Enter the number of existing military family housing units that will be privatized/demolished
Deal Closing/Contract Award Date	Enter the quarter and fiscal year of anitcipated contract award
Description of Privatization Project	Describe the privatization project. Include information on the authorities to be used (direct or guaranteed loans, cash investments proceeds from the sale of conveyance of housing, etc.) and how the privatization deal will be structured. Include the time period over which existing units will be conveyed or new units will be constructed.

FAMILY HOUSING O&M, NAVY FY 20__/20__ OSD BUDGET POL CONSUMPTION AND COSTS															
	FY 1998 Actual			FY 1998 Actual			FY 1999 Estimate			FY 2000 Estimate			FY 2001 Estimate		
Petroleum Product	(BBLS)	Unit Costs	($000)	(BBLS)	Unit Cost	($000)	(BBLS)	Unit Cost	($000)	(BBLS)	Unit Cost	($000)	(BBLS)	Unit Cost	($000)
Other															
Distillate															

Navy Working Capital Fund

Appendix F

Introduction

This Appendix contains preparation instructions and exhibit formats for use by submitting offices in preparing DON unique budget submission material for the Navy Working Capital Fund. Exhibits are to be prepared in accordance with guidance contained in Part II, Part III, and Part IV.

Questions concerning these exhibits may be referred to FMB-41, telephone (703) 604-8277 or FMB-325, (703) 695-5841

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Navy Working Capital Fund
Exhibit NC-6
Military Sealift Command
Revenue by Program/Ship
Submission:
Date

Sponsor/Ship	Status	Per Diem Days	Pier Diem Rate $ Per Day	Per Diem Revenue $ 000	Revenue $ 000	Total Revenue $ 000
Naval Fleet Auxiliary Force (NFAF)						
list by sponsor and ship (including name and hull number)						
TOTAL NFAF						
Special Mission Ships (SMS)						
list by sponsor and ship (including name and hull number						
TOTAL SMS						
Afloat Prepositioned Force (APF))						
list by sponsor and ship (including name and hull number)						
TOTAL APF						
Other Reimbursements						
TOTAL REVENUE						

Navy Working Capital Fund
Exhibit NC-7
Military Sealift Command
Allocation of Overhead Expense
Submission
Date

	PY		CY				BY1		BY2	
			Approved Estimate		Estimate		Estimate		Estimate	
	Percent	$ 000	Percent	$ 000	Percent	$ 000	Percent	$ 000	Percent	$ 000
FLEET AUXILIARY FORCE										
Govt. Owned/Govt. Operated										
Govt. Owned/Contract Oper.										
Time Charter										
TOTAL										
SPECIAL MISSION SUPPORT										
Govt. Owned/Govt. Operated										
Govt. Owned/Contrat Oper.										
Time Charter										
TOTAL										
Govt. Owned/govt. Operated										

Navy Working Capital Fund
Exhibit NC-7
Military Sealift Command
Allocation of Overhead Expense
Submission
Date

	PY		CY				BY1		BY2	
			Approved Estimate		Estimate		Estimate		Estimate	
	Percent	$ 000	Percent	$ 000	Percent	$ 000	Percent	$ 000	Percent	$ 000

Navy Working Capital Fund
Exhibit NC-8
Military Sealift Command
Revenue and Expense by Program
Submission
Date

	FY PY	FY CY	FY BY1	BY BY2
		Approved Estimate	Estimate	Estimate
BY: NFAF/SMS/APF/TOTAL				
REVENUE ($000)				
Per Diem				
Other Tariff Rates				
Reimbursable				
Other				
Total Revenue				
EXPENSE ($000)				
Direct Operating Expense				
Maintenance and Repair				
Alterations				
Allocated Overhead				
Other Tariff Rates				
Reimbursable				
Other				
Total Expense				
REVENUE LESS EXPENSE				
Surcharges				
Prior Year Adjustments				
Accum Operating Results				
Ship Per Diem Days				

Navy Working Fund
Exhibit NC-9
Military Sealift Command
Fleet Inventory
Submission:
Date:

	FY PY		FY CY				FYBY1		BYBY2	
			Approved		Estimate					
-	Ship Years	30 Sept	Ship Years	30 Sept	Ship Years	30 Sept	30 Sept	Ship Years	30 Sept	Ship Years
FLEET AUXILIARY FORCE										
Civil Service Manned										
Nucleus Contract Operated										
Time Charter										
TOTAL										
SPECIAL MISSION SUPPORT										
Civil Service Manned										
Nucleus Contract Operated										
Time Charter										
TOTAL										

Navy Working Fund
Exhibit NC-9
Military Sealift Command
Fleet Inventory
Submission:
Date:

	FY PY		FY CY				FYBY1		BYBY2	
			Approved		Estimate					
-	Ship Years	30 Sept	Ship Years	30 Sept	Ship Years	30 Sept	30 Sept	Ship Years	30 Sept	Ship Years
AFLOAT FORCE										
Civil Service Manned										
Nucleus Contract Operated										
Time Charter										
TOTAL										
GRAND TOTAL										
Civil Service Manned										
Nucleus Contract Operated										
Time Charter										
TOTAL										

Performance Measures

The following guidance should be used by budget submitting offices to prepare Fund-12, Performance and Quality Measures. This guidance is an excerpt from the DBOF Milestone II Implementation Report of March 1993.

Activity Group Assessment

1. Base Support Activity Group

Scope of Activity Group: This Activity Group consists of the Navy Public Work Centers (PWCs) and the Naval Facilities Engineering Service Center (NFESC). The PWCs provide Navy, other DoD, and non-DoD activities in the immediate vicinity (generally considered to be within one and a half hours driving distance) of each PWC with public works services. Public works services include utilities services, facilities maintenance, family housing services, transportation support, engineering services, and shore facilities planning support. NFESC provices specialized facilities engineering and technology.

CFO Program Measures: None

Milestone II Performance Measures:

Each PWC uses performance measures to assess the multitude of services provided. The services have been aggregated into five categories and effectiveness measures developed for each category. The categories and measurement criteria follow:

a. Utilities: Products/Services include electricity, potable water, salt water, heating, steam, clean steam, sewage, natural gas, and compressed air.

   (1) Quantity: Quantities will be provided by subcategory in standard industrial units.

   (2) Quality: Service remains in compliance with government agency regulations, (federal, state, or local), where applicable.

   (3) Timeliness: Time required to restore interrupted service.

   (4) Customer Satisfaction: Corporate customer satisfaction rating will be not less than 3.9 on a five point scale. The initial goal is to increase customer satisfaction by .1 on the scale each year.

b. Sanitation: Products/Services include refuse collection, pest control, hazardous waste I and II, environmental engineering, and industrial waste.

   (1) Quantity: Quantities will be provided by subcategory in standard industrial units.

(2) Quality: Service remains in compliance with government agency regulations, (federal, state, or local) where applicable.

(3) Timeliness: Meet schedule for 95% of service delivery.

(4) Customer Satisfaction: Corporate customer satisfaction rating will be not less than 3.9 on a five point scale. The initial goal is to increase customer satisfaction by .1 on the scale each year.

c. Maintenance and Repair: Comprised of emergency work service work, minor jobs, specific projects, and recurring work. Will be aggregated into one category for the unit cost outputs.

(1) Quantity: Quantities will be provided by subcategory.

(2) Quality: Less than 2% rework.

(3) Timeliness: Average corporate response to begin job (actual work subsequent to engineering, plans, material receipt, scheduling) at site will be not more than: (1) 2.3 days for emergency work; (2) 9.5 days for service work; (3) 55 days for minor work; and (4) 280 days for specific work.

(4) Customer Satisfaction: Corporate customer satisfaction rating will be not less than 3.7 on a five point scale. The initial goal is to increase customer satisfaction by .1 on the scale each year.

d. Transportation: Vehicles and equipment rentals.

(1) Quantity: Percent of fleet hours used versus total available hours.

(2) Quality: Annual down time average not more than 5% for corporate fleet.

(3) Timeliness: Meet 95% of vehicle and operations commitments within schedule.

(4) Customer Satisfaction: Corporate customer satisfaction rating will be not less than 3.9 on a five point scale. The initial goal is to increase customer satisfaction by .1 on the scale each year.

e. All Other Services: Work ranges from planning and design for customers to inspecting contractor work to leasing of pagers/beepers. Corporate customer satisfaction rating will be not less than 3.9 on a five point scale. The initial goal is to increase customer satisfaction by .1 on the scale each year.

2. Depot Maintenance Activity Group

Scope of Activity Group: For the DON, this Activity Group consists aviation depots, shipyards and the Marine Corps depots.

CFO Program Measures: None

Milestone II Performance Measures:

The Department of Defense has established a Defense Depot Maintenance Council (DDMC) which has the responsibility of advising the Assistant Secretary of Defense (Production and Logistics) on the Services' plans to streamline the provision of depot maintenance while maintaining the required level of performance. Part of this responsibility has been exercised through establishment of the DoD Depot Maintenance Performance Measurement System (DMPMS). DMPMS generates quarterly data that assesses some aspects of depot maintenance performance effectiveness. Additional measures not reported by DMPMS have been included to reflect customer satisfaction and inventory performance.

a. Schedule Conformance: This measure expresses the percentage of units completed on-schedule compared to the number of units scheduled. Units completed are defined as major end items plus Repairables.

   Goal: Complete 95% of scheduled work on time.

b. Quality Deficiency Reports (QDRs): This measures discrepancies as reported by customers. The measure will be displayed as a percentage representing the number of QDRs compared to total work completed. Work completed will be defined in the same manner as above.

   Goal: A goal is not yet available, but will be developed pending validation of Service data.

c. Inventory turnover ratio: This measure reflects activities' success in converting inventories of supplies and materials into sales. The measure is defined by dividing the Cost of Goods Sold into the annual average balance of supplies and materials (defined in dollars).

   Goal: A goal will be established for this measure based on establishment of a consistent definition of inventory across this activity group.

3. Information Services Activity Group

Scope Of Activity Group: For the DON, the Information Services (IS) Activity Group consists of Fleet Material Support Office (FMSO), Naval Reserve Information Systems Office (NRISO), and the Naval Computer and Telecommunications Command (NCTC). These activities provide technical support services and design, development and maintenance of Navy sponsored automated systems.

CFO Program Measures: None

Milestone II Performance Measures:

(1) Timeliness: This measures the current status of project completion, from a developmental standpoint, and compares the planned project completion date against the new estimated completion date. The delta will provide information as to whether the development is completed ahead of or behind schedule.

Goal: Goals are not yet developed. There is a CDA task group that is in the process of refining the measure and collecting supporting data.

(2) Customer Satisfaction: This measures customer satisfaction based on system life cycle review (system requirements reviews, systems design reviews, systems readiness reviews, test reviews, and a final implementation review). Reviews involve the customer and supplier meeting either face to face or via video Teleconferencing and are designed to ensure that the customer and supplier agree at every phase of the life cycle that what is being developed is what the customer requested or required.

Goal: Goals are not yet developed. There is a CDA task group that is in the process of refining the measure and collecting supporting data.

(3) Quality: This measures, from an operational standpoint, the number of times a major or minor software service disruption/outage has occurred over time, and the number of assistance calls received or tracked. "Operational" refers to after deployment or implementation phase of the life cycle.

Goal: Goals are not yet developed. There is a CDA task group that is in the process of refining the measure and collecting supporting data.

4. Research and Development Activity Group

Scope of Activity Group: The Research and Development (R&D) Activity Group consists of research, development, test and evaluation (RDT&E) activities. The major activities within this Activity Group are: Naval Surface Warfare Center, Naval Air Warfare Center, Naval Undersea Warfare Centers, Naval Command, Control and Ocean Surveillance Center, and the Naval Research Lab and the test ranges associated with the warfare centers. These activities provide research and development, engineering, and test and evaluation services that ultimately support weapons systems acquisition. This support is purchased from the labs by customers such as the program managers responsible for weapons system development and acquisition.

CFO Program Measures: Currently the CFO measures for this Activity Group are narrative descriptions of major research accomplishments that address the effectiveness of research. These measures do not provide an adequate means of evaluating the operational effectiveness of the labs.

Milestone II Performance Measures:

There is much yet to be done before the Department can implement a standard, quantifiable set of effective performance measures throughout the Navy R&D Activity Group. Many of the traditional measures such as quality and timeliness that are typically applied to various aspects of the R&D program do not directly measure the output of research which is new knowledge. The search for an effective measure of research and development performance continues in the private sector as well as in the government.

At this time, definitive measures and measurement procedures have not been developed for this Activity Group. However, an approach has been developed that will soon move this activity toward effective performance measurement. The approach consists of focusing upon two important aspects of evaluating R&D support:

a. Customer evaluation: A customer evaluation process will be developed that provides an authoritative assessment of the quality of laboratory RDT&E output. The customer will then control the funding of the research and will also play a substantive role in the evaluation of laboratory performance. The close association of performance and funding will ensure a proper emphasis. It is the constant interaction between the lab and the customer throughout development of a particular research program that ensures the effort is progressing as intended. Since there is no absolute standard for good research or a consistent measure of output we must rely upon the many discrete evaluations by the customers of each research effort. Enhancing the strength of the customer in this relationship will go a long way toward managing the cost and quality of the products of research.

   Goal: Goals will be established as the measurement process develops.

b. Relevance to Defense Science and Technology Strategy: A process will be developed that assesses the extent to which a particular research program or group of programs supports the goals of the Defense Science and Technology Strategy. This strategy sets forth, in very broad terms, the major corporate goals of the DoD research program which are to address the most pressing military and operational requirements of the Services. It is important to ensure that research efforts are all directed toward these goals. It also is important to assess how the research furthers the achievement of these goals.

   Goal: Goals will be established as the measurement process develops.

5. Supply Management Activity Group

Scope of Activity Group: For the DON, this Activity Group currently consists of two separate inventory control functions, Navy and Marine Corps. The Marine Corps became an inventory control operation in FY 1994. The Supply Management Activity Group oversees the inventory management of consumable and reparable secondary items at Inventory Control Points (ICPs).

CFO Program Measures: Two measures are included on the CFO statements. They reflect operational effectiveness, and consists of the measures for Fill Rate and Stock Availability.

Milestone II Program Measures:

a. Fill Rate: This measures the percentage of demands processed by the supply systems without interruption. It is a measure of timeliness, quantity, and customer satisfaction.

   Goal: Fill 85% of requisitions without interruption.

b. Quality Deficiency Reports (QDRs): This measures the percentage of discrepancies in customer receipts in comparison to total item issuances by the ICP (in response to customer requisitions). It is a measure of customer satisfaction.

Goal: A standard goal will be developed pending validation of Service and DLA data.

c. QDR Processing Time: This measures the time interval from ICP receipt of QDR to the issuance of corrective action. It is a measure of timeliness and customer satisfaction.

Goal: A standard goal will be developed pending validation of Service and DLA data.

6. Transportation Activity Group

Scope of Activity Group: For the DON, the transportation Activity Group is headed by the Military Sealift Command (MSC). Based on Presidential approval of the Unified Command Plan the U.S. Transportation Command (USTRANSCOM) was assigned combatant command over the the Transportation Component Command in time of peace and war. The USTRANSCOM also has responsibility as the Department of Defense (DoD) single manager for transportation thereby consolidating responsibilities formerly distributed to each Service. The Service secretaries are responsible for organizing, training and equipping the TCCS for assignment to USTRANSCOM. The only functions performed by the TCCS, but not assigned to USTRANSCOM, are service-unique or theater assigned transportation functions. These responsibilities are outlined below.

MSC provides sealift support for the DOD. Military support services are provided through the Naval Fleet Auxiliary Forces which uses civilian-manned noncombatant ships for material support of the U.S. Navy, Special Mission Ships which provide unique seagoing platforms for the Military Services and other government agencies and the Afloat Prepositioning Force (APF)/Fast Sealift Ships (FSS) which are sealift platforms used for forward deployment and early on-site availability. Of these functions, Special Mission Ships and the Maritime Prepositioning Ships (part of the APF program used in support of the US Marine Corps) have been identified as service-unique.

a. Military Command (MSC):

(1) On-time Performance: This reflects movement of cargo by sea as part of the overall DoD distribution system (including petroleum) as required to meet the DoD mission. Performance is based on the percentage of shipments that meet required lift dates or delivery dates based on predetermined agreed upon lift and delivery requirements established by the DoD customer.

Goal: Meet predetermined agreed upon lift or delivery dates established by the DoD customer.

(2) Ship Availability: This measures the number of days that ships are available to perform the function for which they were contracted against the planned number of days.
Goal: Meet the number of planned days.

INSTRUCTIONS FOR PREPARATION OF EXHIBIT CP-17

CIVILIAN MANPOWER REQUIREMENTS FOR

MILITARY COMMAND

Purpose: This exhibit provides justification for civilians for the Military Sealift Command based upon manning levels for each ship to be operated plus associated shore support.

Submission: Exhibit CP-17 is required for the DON, OSD/OMB, and Congressional submissions.

Instructions:

1. List each ship by class in column (1): (1) Cargo, (2) Tankers, (3) Scientific Support, and (4) Fleet Auxiliary.

Example:

Cargo

TAKR 0007 Comet

TAK 0255 Brostrum

Subtotal Cargo

2. Columns 2, 3 and 4: Identify the Basic Manning (not including Pipeline) associated with each ship for the three fiscal years. List subtotals for each class of ship.

3. After listing all Basic Manning by the four classes of ship, summarize the total end strength for the three fiscal years by totals for: (1) Basic Manning, (2) Pipeline, (3) Ashore Support, and (4) Relief Officers/DCI.

Exhibit CP-17
Defense of the Navy
Civilian Manpower Requirements for
Military Sealift Command
Submission /Date_____

Class/Ship (1)	PY (2)	CY (3)	BY1 (4)	BY2 (5)

Instructions for Preparation of Exhibit CP-18

Civilian Manpower Requirements for Naval Shipyards

Purpose: This exhibit supports civilian work-yar estimates for Naval Shipyards, based upon planned shipwork by hull number.

Submission: Exhibit CP-18 is required for the DON, OSD/OMB, and Congressional submissions.

Instructions:

1. List the number of direct labor mandays planned for each overhaul restricted/technical availability or conversion. Distribute mandays by year in which the work will be performed by shipyards.

2. Display mandays for repairs/maintenance and alterations separately for each hull.

3. Array data within sections A/1., A2. And A3. In alphabetical/numerical order or by induction date, by hull designation, followed by the name of the ship.

4. Underline the manday number to indicate the year of induction/funding for that ship. Plan an (X) in the column "prior inductions" to indicate ships inducted/funded prior to one of the three budget years.

5. The "outyears" column is to reflect only carryover of work funded in the budget years.

6> Example:

Prior Inductions	FY PY	FY CY	FY BY1	FYBY2	
AS34-Canopus-Repairs -Alterations		-	2,000	90,000	15,000
CV43-Coral Sea-Repairs -Alterations		10,000	300,000	40,000	-
DDG18-Semmes-Repairs -Alterations	X	40,000	-	-	-

7. List any significant identifiable programs or customers separately.

8. Divide overtime mandays on line C.2. By a factor of 218.75 to determine the overtime work-year equivalent for line D.2.

9. Exhibit may be submitted by Shipyard, if so desired.

Exhibit CP-18

Defense of the Navy
Civilian Manpower Requirements for
Naval Shipyards
Submission /Date_____

		MANDAYS				
	Prior Inductions	**FY PY**	**FY CY**	**FY BY1**	**FY BY2**	**Outyears**
A. Direct Labor Mandays						
1. Scheduled Overhauls						
a. Hull #/Name - repairs - alterations						
b. Hull #/Name -maintenance - alterations						
2. Scheduled Restricted Availabilities a. Hull #/Name - maintenance - Alterations b. Hull #/Name - maintenance - alterations						
3. Conversions a. Hull #/Name b. Hull #/Name						
4. Other Workload						
B. Indirect Labor						

Exhibit CP-18

Defense of the Navy
Civilian Manpower Requirements for
Naval Shipyards
Submission /Date_____

C. Total Mandays 1. Regular 2. Overtime						
D. Total Work Year Equivalents 1. Regular 2. Overtime Equivalent						

Instructions for Preparation of Exhibit CP-19

Civilian Manpower Requirements For Naval Air Rework Facilities

Purpose: This exhibit supports civilian work-year estimates for Naval Air Rework Facilities.

Submission: Exhibit CP-19 is required for the DON, OSD/OMB, and Congressional submissions.

Instructions:

1. The hours in section A.1. are to be based on like data reflected on Exhibit OP-25, except that actual hours in the prior year column may differ to the extent that actual NARF performance deviates from the NORMs. Manpower plans and staffing requirements for the current and budget years should be based upon the NORM hours.

2. The outyears column is to reflect only carryover of work funded in the budget years.

3. Use a conversion factor of 1.750 to calculate overtime equivalent work-years for line D.2. from thousands of overtime hours on line B.2.

Exhibit CP-19
Civilian Manpower Requirements for Naval Air Rework Facilities
(Hours in Thousands)
Submission /Date_____
Submission:
Date:

	FY PY			FY CY			FYBY1			
	Carry over From Prior Year	Work Funded & Performed in FY 20BY	Total Work Performed in FY 19PY	Carry over From Prior Year	Work Funded & Performed in FY 20CY	Total Work Performed FY 20CY	Carry over From Prior Year	Work Funded & Performed in FY 20BY	Total Work Performed FY 20CY	Carry over From Prior Year
A. DIRECT LABOR HOURS										
1. Depot Maintenance O&M										
a. Airframes										
b. Engines										
c. Components										
d. Modifications										
e. Support Services										
2. Depot Maintenance O&M,NR										
3. Depot Maintenance RDT&E,N										

Exhibit CP-19
Civilian Manpower Requirements for Naval Air Rework Facilities
(Hours in Thousands)
Submission /Date_____
Submission:
Date:

	FY PY			FY CY			FYBY1			
	Carry over From Prior Year	Work Funded & Performed in FY 20BY	Total Work Performed in FY 19PY	Carry over From Prior Year	Work Funded & Performed in FY 20CY	Total Work Performed FY 20CY	Carry over From Prior Year	Work Funded & Performed in FY 20BY	Total Work Performed FY 20CY	Carry over From Prior Year
4. Other NAVAIR O&M,N										
A.										
b. Calibration										
c.										
d. Other										
5. Other										
6. Total Direct Labor Hours										
B. Indirect Labor Hours										
1. Overhead										
2. Paid Leave										

Exhibit CP-19
Civilian Manpower Requirements for Naval Air Rework Facilities
(Hours in Thousands)
Submission /Date_____
Submission:
Date:

	FY PY			FY CY			FYBY1			
	Carry over From Prior Year	Work Funded & Performed in FY 20BY	Total Work Performed in FY 19PY	Carry over From Prior Year	Work Funded & Performed in FY 20CY	Total Work Performed FY 20CY	Carry over From Prior Year	Work Funded & Performed in FY 20BY	Total Work Performed FY 20CY	Carry over From Prior Year
C. Total Hours										
1. Regular										
2. Overtime										
D. Total Work Years										
1. Regular										
2. Overtime Equivalent										

Trust and Special Funds

Appendix G

Introduction

This Appendix contains preparation instructions, exhibit formats, and supplementary information for use by submitting offices in preparing DON unique budget submission material for other DON accounts which include and trust and special funds. Exhibits are to be prepared in accordance with Parts II, III, and IV of this manual.

Questions concerning these exhibits may be referred to FMB-41, telephone (703) 604-8277, FMB-21, (703) 695-8080 or FMB-325, (703) 695-5841.

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DEPARTMENT OF THE NAVY TRUST FUND EXHIBIT I BUDGET SUBMISSION (In Thousands of Dollars)				
	PY	**CY**	**BY1**	**BY2**
A. Anticipated Cash Gifts				
B. Anticipated Interest on Investments (Including Dividends)				
C. Anticipated Trust Income				
D. Budget Authority				
E. Obligations (see note 1.)				
F. Expenditure (Payments)				
G. Anticipated Changes in Investments (Sale/Reinvestment)				

Note 1. obligations equal line 99.9 of exhibit II as applicable. If obligations exceed Budget Authority (line D), provide explanation. The sum of lines A, B and C equals line D.

Provide separate exhibit for each Trust Fund Account

DEPARTMENT OF THE NAVY FUND OBLIGATIONS OBJECT CLASS EXHIBIT II BUDGET SUBMISSION (In Thousands of Dollars)				
OBJECT CLASS	**PY ESTIMATE**	**CY ESTIMATE**	**BY1 ESTIMATE**	**BY2 ESTIMATE**
21.0 Travel & Transportation of persons				
22.0 Transportation of Things				
23.2 Communications, Utilities and Other Rent				
24.0 Printing and Reproduction				
25.0 Other Services				
26.0 Supplies and Materials				
31.0 Equipment				
32.0 Lands and Structures				
33.0 Investments and Loans				
41.0 Grants, Subsidies and Contributions				
99.9 Total Obligations 1/				

1/ Total of lines above, plus line 99.9 of Exhibit III equals line d.

DEPARTMENT OF THE NAVY MUSEUM AND GENERAL GIFT FUND EXHIBIT IV
Provide estimated summary values of Investments and Treasury Balance for each Fund by Fiscal Year. (Detail description of instruments and yield not required). (Detail description of instruments and yield not required)

Instructions for the Preparation of Exhibit 28

Statement Of Receipts

Purpose: To submit data on actual receipts for the past year and estimated receipts for the current year, the budget years and the four outyears.

Submission: The Statement of Receipts is required for the OSD/OMB submission and is prepared by Office of Budget.

Instructions:

1. General Instructions

a. A copy of a receipts history will be provided by OMB that includes accounts currently in the OMB computer data base. Revisions to the computer listing will be made by striking out any amount to be changed and entering the revised amount above it.

b. Amounts reported should include all collections credited to the Navy's receipt accounts, including "F" accounts. Receipts will be reported on the basis of collections credited to receipt accounts during the year, plus or minus any adjustments during the year, plus or minus any adjustments to those collections. Amounts for the prior year will agree with receipts reported to Treasury on the Combined Statement. The only estimate permitted in the current year and budget year for "F" accounts is zero (0). For indefinite appropriations of receipts (Wildlife Conservation, Military Reservations and trust fund accounts), the amount of estimated collections will be equal to the related estimates of appropriations (budget authority).

c. New entries will be titled in accordance with Treasury's Federal Account Symbols and Titles. Include the 2-digit Treasury agency prefix for each account, but do not include the "F" in clearing-account codes. Enter in the appropriate columns the type of receipt and applicable function and the amounts for each account involved.

d. Each receipt account will be identified as to governmental, proprietary, intragovernmental, Federal intrafund, trust intrafund, or interfund transactions, and so forth.

2. Special Instructions

Receipt account 3041, Recoveries under the Foreign Military Sales Program. A separate statement is required for this account, subdivided into the following categories for PY, CY, BY1, BY2, and the four outyears.

a. Nonrecurring RDT&E costs;

b. Nonrecurring production costs;

c. Sale of principal/major items from stock which do not require replacement;

d. Sale of excess stock fund and procurement secondary items from stock;

e. Charges for military retired pay;

f. Charges for the use of DOD assets (including asset use charges or contractor rental payments;

g. Royalty fee collections; and

h. Charges for unfunded civilian retirement costs.

This statement will be footnoted to show for each year: (1) the receipts that will come from Military Department or Defense Agency (DLA) accounts, and (2) the amount of receipts that will come from the FMS trust fund without having been recorded as an FMS order in a Military Department or Defense Agency account.

DEPARTMENT OF THE NAVY
STATEMENT OF RECEIPTS
PROPRIETARY
EXHIBIT 28
(In Thousands of Dollars)

Receipt Symbol (1)	Receipt Account Title (2)	Type (3)	Function (4)	PY Actual (5)	BY1 Estimate (6)	BY2 (7)	BY3 Estimate (8)	BY4 (9)	BY5 Estimate (10)	BY6 Estimate (11)

Special Interests, Multi-Appropriation and Information Technology

Appendix H

Introduction

This appendix contains preparation instructions and exhibit formats for use by submitting offices in preparing DON unique budget submission materials for those exhibits that cross titles required by DON. Exhibits are to be prepared in accordance with guidance contained in Parts II, III and IV of this manual.

Questions concerning these exhibits may be referred to FMB-325, telephone(703) 695-5841.

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Instructions For Preparation Of Exhibit NC-2

Audit Finding and Recommendations

Purpose: To identify potential cost savings reflected in audit reports for

possible incorporation into budget estimates.

Submission: Exhibit NC-2 is required for the DON, OSD/OMB, and President's Budget submissions.

Instructions:

1.This exhibit will reflect savings already incorporated in the budget estimates and those potential savings which have not yet been implemented.

2.List each audit by number and title. The affected appropriation, fiscal years, and command position on the savings should be provided.

3.Cost savings not previously identified in published audit reports of the General Accounting Office, Department of Defense Inspector General and Naval Audit Service should be included.

DEPARTMENT OF THE NAVY
AUDIT FINDINGS/RECOMMENDATIONS
EXHIBIT NC-2
Appropriation:_____

Audit Number/Title	Item/Savings (Narrative)	Command Position	Incorporated in Savings ($000)	Estimates (Yes/No)
GAO-LCD-81-3 (7123) Navy Electronic Depot Maintenance Capability				
DODIG 87-123 Processing invoices to take advantage of discounts				
NAVAUDSVC A41211 NAS Bermuda	#13/Mechanizing the existing manual payroll function would improve efficiency and could result in overall savings	Concur. Implementation requires installation of IBM 360/30 late 19PY-1.	FY-PY O&M $17 FY-CY O&M $65 Outyears $65 each year	Funds reapplied to: Provide AG/SAG and Amounts as appro-priated

Instructions for Preparation of Exhibit NC-10

Naval Shipyard Workload Summary

Purpose: To identify the amount of direct mandays, direct labor dollars, and direct material costs associated with work that will be accomplished by the Naval Shipyards.

Submission: Exhibit NC-10 is required for the DON, OSD/OMB, and President's Budget Submissions.

Instructions: Exhibit NC-10 must be submitted by all claimants that budget for work to be accomplished by Naval Shipyards. Values should only reflect fully funded workload, that is, scheduled but not funded workload shall not be included in the manday and dollar amounts. A separate page shall be completed by each claimant for each appropriation, and for the Prior Year (PY), Current Year (CY), and each of the budget years (BY1 and BY2). Total direct dollars should match the dollars budgeted for Naval Shipyard efforts as reflected in the Exhibits OP-32, P-32, and R-32.

DEPARTMENT OF THE NAVY
NAVAL SHIPYARD WORKLOAD SUMMARY
EXHIBIT NC-10

CLAIMANT:_____
APPROPRIATION:_____
FISCAL YEAR: _____

FY__/__
DATE:____

	Direct Mandays	Direct Labor $000	Direct Material $000	Total Direct $000
NORFOLK NAVAL SHIPYARD				
SHIPBUILDING AND CONVERSION				
INACTIVATIONS				
ALTERATIONS				
OVERHAULS				
SCHEDULED RATA				
EMERGENT REPAIR				
UNSCHEDULED RATA				
REFIT AND RESTORATION				
OTHER PRODUCTIVE WORK				

DEPARTMENT OF THE NAVY
NAVAL SHIPYARD WORKLOAD SUMMARY
EXHIBIT NC-10

CLAIMANT:_____
APPROPRIATION:_____
FISCAL YEAR: _____

FY__/__
DATE:____

	Direct Mandays	Direct Labor $000	Direct Material $000	Total Direct $000
PORTSMOUTH NAVAL SHIPYARD				
SHIPBUILDING AND CONVERSION				
INACTIVATIONS				
ALTERATIONS				
OVERHAULS				
SCHEDULED RATA				
EMERGENT REPAIR				
UNSCHEDULED RATA				
REFIT AND RESTORATION				
OTHER PRODUCTIVE WORK				
OTHER SHIPWORK				

DEPARTMENT OF THE NAVY
NAVAL SHIPYARD WORKLOAD SUMMARY
EXHIBIT NC-10

CLAIMANT:_____
APPROPRIATION:_____
FISCAL YEAR: _____

FY__/__
DATE:____

	Direct Mandays	Direct Labor $000	Direct Material $000	Total Direct $000
PUGET SOUND NAVAL SHIPYARD				
SHIPBUILDING AND CONVERSION				
INACTIVATIONS				
ALTERATIONS				
OVERHAULS				
SCHEDULED RATA				
EMERGENT REPAIR				
UNSCHEDULED RATA				
REFIT AND RESTORATION				
OTHER PRODUCTIVE WORK				
OTHER SHIPWORK				

DEPARTMENT OF THE NAVY
NAVAL SHIPYARD WORKLOAD SUMMARY
EXHIBIT NC-10

CLAIMANT:_____
APPROPRIATION:_____
FISCAL YEAR: _____

FY__/__
DATE:____

	Direct Mandays	Direct Labor $000	Direct Material $000	Total Direct $000
PEARL HARBOR NAVAL SHIPYARD AND INTERMEDIATE MAINTENANCE FACILITY				
SHIPBUILDING AND CONVERSION				
INACTIVATIONS				
ALTERATIONS				
OVERHAULS				
SCHEDULED RATA				
EMERGENT REPAIR				
UNSCHEDULED RATA				
REFIT AND RESTORATION				
OTHER PRODUCTIVE WORK				
OTHER SHIPWORK				

NOTES:
OVERHAULS INCLUDE:
OH(R) - Regular Overhaul
OH(RF) - Nuclear Refueling Overhaul (Submarines)
OH(RC) - Nuclear Refueling Complex Overhaul (Surface Ships)
OH(C) - Complex Overhaul
DMP - Depot Modernization Period (SSN-688 Class)
UNCHEDULED RATA INCLUDES:
SRA - Selected Restricted Availability
SRA(E) - Extended SRA
SRA(D) - Docking SRA
SRA(ED) - Extended DSRA
PMA - Phased Maintenance Availability
PMA(D) - Docking PMA
PIA - Planned Incremental Availability (Nuclear Carriers)
PIA(D) - Docking PIA (Nuclear Carriers)
FDD - Floating Dry Dock Overhauls
UNSCHEDULED RATA INCLUDES:
Interim Drydocking
Habitability
Submarine Battery Renewals
Other Planned RA/TA
Deep Submergence Vehicles
Post Shakedown Availabilities
Service Craft Availabilities

OTHER PRODUCTIVE WORK INCLUDES:
Base Operations Support
Family Housing
Tenant Support
OTHER SHIPWORK INCLUDES:
Components (SPCC)
Design Yard

Instructions for Preparation of Exhibit NC50s

Mandays at Naval Shipyards for Fleet Modernization Program

Purpose: To identify mandays to be performed at Naval Shipyards for the Fleet Modernization Program.

Submission: Exhibit NC-50S is required for the DON, OSD/OMB and President's Budget Submissions.

Instructions: Exhibit NC-50S must be submitted by O&MN, APN, OPN and WPN appropriations.

DEPARTMENT OF THE NAVY
NC-50 SUPPLEMENTAL EXHIBIT

MANDAYS TO BE PERFORMED AT NAVAL SHIPYARDS FOR FLEET MODERNIZATION PROGRAM

Shipyard	Fiscal Year	Type Avail	Hull	Number	NC-50 Mandays (1)	Shipyard Mandays (2)	NSY MDR (3)	NC-50 Labor $ (4)	Shipyard Labor $ (5)
EX: NORVA	1996	DSRA	CG	47	10,750	9,200	$525.50	$5,649	$4,835

NOTES:

1/ NC-50 Mandays is the NUMBER of mandays which appears on the NC-50 for a respective hull.

2/ Shipyard mandays is the number of mandays which are actually worked in the shipyard.

3/ Naval shipyard alteration manday rate

4/ The dollar amount shown on the NC-50 belongs in this column.

5/ Shipyard mandays multiplied by shipyard alteration manday rate.

Instructions for Preparation of Exhibit OM-6

Unfunded Requirements

Purpose: To identify urgent requirements which cannot be accommodated within funding constraints.

Submission: Exhibit OM-6 may be submitted for the DON submission only.

Instructions:

Current Year Unfunded Requirements - All CNO/CMC directed programs will be included in the funded envelope of the annual budget. Every effort should be made to present a balanced program within available resources. However, if responsive management and reprogramming actions between functional areas cannot accommodate requirements within funding constraints, current year unfunded requirements may be submitted for DON review in the format of Exhibit OM-6.

Budget Year Unfunded Requirements - Critical deficiencies which cannot be absorbed within controls, due to pricing and fact-of-life adjustments, may be submitted as Unfunded Requirements in the format of Exhibit OM-6. Deficiencies should be in support of the approved POM program. However, newly emergent requirements may also be identified. Deficiencies must be submitted in accordance with the annual budget submission schedule.

One page is required for each underfunded requirement. When calculating the funding requirement, be sure to include the correct amount for escalation.

Major claimants may nominate offsets/tradeoffs from within their resources that can be used to fund the deficiency. Items which have viable offsets are more likely to be funded than items with no offsets.

The format for Unfunded Requirements is largely self explanatory. However, the following additional explanation is provided for selected portions of the exhibit.

FY 20__ Unfunded Requirement. In the blank space, write the fiscal year for which funding is being requested.

Sponsor. Write the name of the sponsor who has reviewed and who supports this particular unfunded requirement.

Claimant Priority. Each priority number should be assigned to only one discrete unfunded requirement per appropriation.

Profile of Available Funding. Show current funding profile for the funded portion of the requirement.

Requirements - OP-32 Object Class Code. Break the deficiency into “OP-32 Object Class code” and “Other” as follows:

1xx xx.xx xx Civilian Personnel Compensation

3xx xx.xx xx Travel

Use only those Object Class codes from above which are applicable. All funding which does not come under those Object Class codes is shown as "Other."

Total. Show the funding total for each of the "Required", "Budgeted" and "Deficiency" columns. The total for "Budgeted" must equal the amount for the same year shown above in the Profile of Available Funding.

Civilian WY/ES and Military Off/Enl. Delete if not required.

Narrative Description of Requirement. For each AG/SAG, briefly describe what the funding is required for, how it will be executed and the impact of not providing the funding. Support the requirement with facts and numerical quantification (such as flying hours or ship OPTEMPO).

DEPARTMENT OF THE NAVY
DETAIL OF FY__ UNFUNDED REQUIREMENT
EXHIBIT OM-6

Claimant:_____
Preparers name and extension_____
Sponsor: (Name/Code/Extension _____

Appropriation/Budget Activity

Activity Group/Sub-Activity Group(s) ((AG/SAG and Title)

Unfunded Requirement Title:

Claimant Priority:

	Profile of Available Funding (In Thousands of Dollars)				
	FY PY-1	FY PR	FY CY	FY BY1	FY BY2
Table of Requirements*			**Required**	**Budgeted**	**Deficiency**
Funding (In thousands of Dollars)					
AG/SAG _____					
OP-32 Object Class Code/Title					
Total					
Civilian WY/ES					
Military Off/Enl					

Narrative Description of Requirement:

* Provide this information (Funding, Civilian WY/ES, Military Off/Enl) for each AG/SAG which has a portion of the unfunded requirement. If the unfunded requirement is entirely within one AG/SAG, then delete the "AG/SAG _____" line.

Information Technology

(1) The scope of Information Technology (IT) budget reporting covers all IT resources, defined in the Clinger-Cohen Act (Information Technology Reform Act (ITMRA)) of 1996 as:

(a) Any equipment or interconnected system or subsystem of equipment, that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information by the executive agency. For purposes of the preceding sentence, equipment is used by the executive agency directly or is used by a contractor under a contract with the executive agency which requires the use of such equipment, or requires the use, to a significant extent, of such equipment in the performance of a service or the furnishing of a product.

(b) Includes computers, ancillary equipment, software, firmware and similar procedures, services (including support services), and related resources.

(c) Notwithstanding subparagraphs (a) and (b), the term "information technology" does not include any equipment that is acquired by a Federal contractor incidental to a Federal contract.

Note: Both information system applications and computing and communications infrastructure IT resources are included.

(2) The scope of IT budget reporting does not apply to:

(a) IT resources acquired by Federal contractor which are incidental to the performance of a Federal contract;

(b) radar, sonar, radio, or television equipment;

(c) classified IT resources;

(d) the procurement by the DOD of IT equipment or services if the function, operation, or use of which:

1. involves intelligence activities in the National Foreign Intelligence Program (NFIP) and the General Defense Intelligence Program (GDIP), or the Tactical Intelligence and Related Activities (TIARA);

2. involves cryptologic activities related to national security;

3. involves the command and control of military forces which are critical to the direct fulfillment of military or intelligence missions and which is primarily acquired or designed to support the Commander after deployment. This exclusion shall not include IT Resources used for routine administrative and business applications such as payroll, finance, logistics and personnel management.

4. involves equipment which is an integral part of a weapon or weapon system. The term "integral" encompasses equipment which is:

a. physically a part of, dedicated to, or essential in real time performance of the mission of the weapon system; or

b. used for diagnostic testing and maintenance, or calibration of a weapon system; e.g., involves embedded IT equipment that would need to be substantially modified to be used other than as an integral part of a product.

NOTE: Command and control resources require validation by ASD(C3I) regarding whether they meet the definition of a command and control system and are therefore exempt from reporting in the President's IT budget exhibits only. Approval for exclusion from IT budget reporting must be obtained from ASD(C3I) during the POM process. Command and control AISs, projects, initiatives or infrastructure not specifically approved for exclusion by ASD(C3I) must be reported in IT budget exhibits.

(3) IT Budget Estimates Definitions: IT budget estimates are prepared based on several building blocks. Definitions of these building blocks are as follows:

(a) Automated Information System (AIS),project or initiative: Any IT resource (as defined by the Clinger-Cohen Act above) managed under SECNAVINST 5000.2B, "Implementation of Mandatory Procedures for Major and Non-Major Defense Acquisition Programs and Major and Non-Major Information Technology Acquisition Programs". IT resources include command and control IT resources categorized as Acquisition Category (ACAT) II programs (i.e., weapons systems). BSOs should refer to SECNAVINST 5000.2B, for DON policy on acquiring IT resources. All IT resources whether AIS, project or initiative, are identified by a unique code, acronym and title which can be found in the Naval IT Exhibits/Standard Reporting System-Program/Budget (NITE/STAR-Pro) system. When funds for a particular AIS, project or initiative are budgeted by more than one BSO, each BSO reports its portion of budgeted resources for the AIS, regardless of the amount. A current list of AISs, projects and initiatives is provided in a pull-down menu in the NC-36 Worksheet File area of NITE/STAR. The NITE/STAR system, which is administered by DON CIO, is the standard DON budget reporting system used by BSOs to electronically capture, maintain, and report IT budget estimates to DON CIO and by DON CIO to report to OSD. NITE/STAR's on-line Help area includes detailed instructions on its use and IT budget-related definitions and procedures. NITE/STAR system software is available from the DON CIO World Wide Web site at http://www.doncio.navy.mil, as follows:

Click on "Initiatives" button under Area Headings

Click on "NITE STAR" button under Initiatives

Follow prompts; save "NTSTAR.ZIP" installation package to a directory folder location **other than** "\NTSTAR"

Unzip* using Winzip 6.1 or later

run "setup.exe"

follow prompts; please read the "read me" file (readme.txt)

application and related program files installed in the NITE/STAR repository, "\NTSTAR"

initial user password = "password"

Note: A fully-functional evaluation version of WINZIP software is available from http://www.winzip.com)

1. Major AIS, project or initiative: An AIS that has anticipated program (i.e., development and modernization (DEV/MOD)) costs computed in FY 1996 constant dollars, in excess of $120 million; or that has estimated program costs, computed in FY 1996 constant dollars, in excess of $30 million in any reportable fiscal year (i.e, Prior Year, Current Year, Budget Year one, or Budget Year TWO (if

second year of biennial cycle); or that has estimated total life-cycle costs (total DEV/MOD and operations costs), computed in FY 1996 constant dollars, in excess of $360 million; or that is so designated "special interest" by OSD.

2. Non-Major AIS: An AIS that is not designated as a Major and has total costs of $2 million or more in any reportable fiscal year.

(b) Aggregate Support System: All IT resources not associated with either a major or non-major AIS project or initiative are reported under an "aggregate support system". An aggregate support system is a collection of AISs, projects or initiatives that fall below the $2 million Non-Major AIS threshold and all non-system or computing and communications infrastructure resources, e.g., activity-based costs such as voice, data, communications, infrastructure (computing and communications resources), IT organizations, and IT personnel (personnel who perform IT functions 51% or more of their time).

(c) Functional Area (FA): Each AIS, project or initiative is categorized according to the Functional Area (FA) that it supports. If a major or non-major AIS supports more than one FA on an integrated basis, BSOs are to report the AIS under the primary FA supported as determined by the program manager. Aggregate support system resources will be categorized according to the FA each component therein supports. The FA for major or non-major AISs that are used by multiple BSOs is determined by the program manager. The list of FA codes is provided under "Update Tables" in the "Utilities" area of NITE/STAR.

(d) Development/Modernization (DEV/MOD) and Current Services (Operations) cost: To accurately collect the cost of ongoing current services (that is, what the cost would be if nothing changes from the baseline) versus development and modernization efforts, BSOs are required to report IT resources in these categories. The following definitions will be used to determine distribution between Development and Modernization and Current Services:

1. Current Services. Current Services represents the cost of continuing operations at the current capability and performance level. Current services include:

   Those personnel whose duties relate to the general management and operations of information technology. General management personnel are the people who are in policy, oversight, and/or other functions such as review of AIS program plans, life-cycle management, and strategic planning.

   Maintenance of an existing AIS, as currently configured, without further changes (except for corrective software maintenance; or the replacement of broken FIP equipment needed to continue operations at the current services level).

   Corrective software maintenance includes all efforts to diagnose and correct actual errors (i.e., processing or performance errors) in a system.

   Economic replacement is not considered Current Services and shall be reported under Development and Modernization.

   Maintenance of existing voice and data communications capabilities as currently configured, without further changes.

   All other related costs not identified as development and modernization.

2. Development and Modernization. Any change or modification to an existing AIS which results in improved capability or performance of the baseline AIS (improved capability or performance achieved as a by-product of replacing broken ADPE under Current Services is not included). Development and Modernization includes:

   Program costs for new AISs that are planned or under development and any change or modification to an existing AIS which results in an improved capability or performance of the AIS. Program costs consist of development costs, procurement costs, and any construction costs which are in direct support of the system, irrespective of which DOD appropriation accounts or funds are used to finance the costs. In summary, this term encompasses costs from project initiation through deployment to all operation sites (less any operation and support costs at sites which have been activated). Included in program costs are costs for AIS concept development, design, development, and deployment financed by any appropriation or the NWCF.

   Any change or modification to an existing AIS which is intended to result in improved capability or performance of the AIS. These changes include: (1) all modifications to existing operational software (other than corrective software maintenance); (2) acquiring technologically newer IT hardware); and (3) expansion of existing capabilities to new users.

   Changes mandated by Congress or the Office of the Secretary of Defense.

   Includes personnel from the project management office and other direct support personnel involved with development and modernization.

(e) Line Item: IT resources reported under each code are further categorized by “line item” or cost element. Line item definitions are provided in the NITE/STAR on-line Help area under definitions.

Estimating Prices for Future Purchases

Appendix I

Introduction

The purpose of this appendix is to provide guidelines for pricing purchases of goods and services. These guidelines are intended to be useful to those involved both in preparation and review of Department of the Navy budget exhibits. The establishment of appropriate prices for budget purposes is a two step process. The first step requires the determination of a base price. The second step is to adjust the base price for the impact of the projected rates of inflation between the year of the base price and the actual planned year of procurement. This second step is the application of approved price escalation indices to the base price.

A base price may be developed in a number of ways. The base price can be the latest actual price charged to the government adjusted for known changes. In the absence of actual experience, the base price may be developed from an independent government cost analysis, contractor provided estimates, experience on similar procurements, or a combination of these data sources. The uninflated, or base, price of a future purchase should include those price effects which result from changes in the business environment, the physical characteristics of the product, and the production process. The base price should not reflect increases in the cost of producing the same item under the same circumstances. Such increases are properly accounted for by applying the appropriate price escalation index to the developed base price.

Chapter 1 of this Appendix provides guidelines for developing estimates of base prices. Chapter 2 provides guidance for incorporating the effects of inflation into pricing estimates.

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Chapter 1

Estimating the Base Price

1. Overview. Determining the initial base price for a future purchase can be relatively simple if the same item has been purchased recently and if the factors influencing the cost of that purchase will still apply at the planned time of procurement. On the other hand, developing a base price utilizing an independent government cost analysis, contractor provided estimates, or experience in similar is more difficult. Care must be taken to develop a realistic and reasonable estimate of the procurement base price.

   a. Complexity. Making useful cost predictions of future weapons systems varies in complexity and difficulty, depending upon the degree of definition and specification of the system. Regardless of the circumstances, every effort must be made to reduce the uncertainty and improve the quality of the estimates used to budget for these systems. All factors that impact cost must be considered. Careful attention should be given to physical changes in the product or production process which involve anticipated improvements in the production process, minor modifications in the product itself and the plans for integrating a new product into an existing system. While these factors are not likely to be mistaken for inflation, they are nevertheless frequently neglected in the determination of the base price of a future purchase.

   b. Reducing Uncertainty. Although uncertainties exist, the effects of the above factors should not be dismissed. Taken together, they represent an important reason for cost overruns, unanticipated shortfalls and the overall inability to consistently meet long-term goals. Considering carefully all the factors influencing future purchase prices is simply good budgeting. Once these influences have been assessed, the most advantageous procurement and contractual strategy can be developed and pursued. In short, these factors should be considered as early as possible in program development and updated as required. They should, above all, be regarded as non-inflationary influences and be reflected in the price of a future purchase prior to any adjustment for inflation.

   c. Steps in Estimating the Base Price.

      (1) The development of an appropriate price for use in the budget process for the procurement of an item, service, weapon system, aircraft or ship is a complex process. The following tasks should be considered when estimating the base price:

         - Describe the system/item
         - Identify factors which influence the cost of future purchases
         - Determine cost/quantity relationships
         - Coordinate estimating and accounting structures
         - Obtain and evaluate base price data
         - Select estimating methods
         - Determine the appropriation(s) affected by the purchase

      (2) The extent to which each task will be pursued will depend on the dollars involved. This is an area of judgment similar to development of a personal budget. For example, one might check the price of a

television set at two or three stores but the price of an automobile might require a review of consumer literature and checking several dealers. These steps are normally performed sequentially; however, in the case of complex systems they may be performed concurrently and .

2. System/Item Description. An adequate system description is a prerequisite to preparing valid budget estimates. It provides the basis and concept upon which the system is costed. Any lack of definition should be resolved with the program manager or the technical engineers as appropriate.

   a. Changes. The cost of planned or likely modifications of the product, however minor, must be thoroughly analyzed. Of particular importance is the point in the development or production process at which modifications of the product are likely to be made. The impact of changes must be included in the base price in the fiscal year in which the changes will impact the budget.

   b. Government Owned Material. Frequently, a new system will make use of government owned materials or components from the system that is being replaced. These items may be supplied to the manufacturer or incorporated when the new equipment is installed. But in either case, incorporating government owned material into new systems is likely to vary from case to case and from year to year. Such changes must be considered in developing the base price of future purchases.

   c. Background Information. Relevant background information may include potential contractors, information on past estimates for the system, and estimates for similar systems.

3. Factors which Influence the Cost of Future Purchases. There may be conditions which affect the ultimate cost of an item or system. Identification of these constraints is necessary in order to provide a valid estimate of the cost of an item or system. The uninflated, or base price of a future purchase should include all changes in the business environment which could affect the price, the physical characteristics of the product, and the production process.

   a. Projected Business Base.

      (1) Changes in the business environment generally involve factors such as the procurement profile (quantity or delivery schedule), the expected availability of production inputs, the number of firms involved in the contract, the capacity of those firms and the rate of production. It is often assumed that such factors are somehow accounted for by the proper use of escalation indices, but this is not the case. All factors of the business environment may vary over time and consequently must be re-examined and reflected in the base price prior to any adjustment for inflation.

      (2) The acquisition environment and the business base frequently change, and in the absence of a multi-year contract, such changes will influence the price of future purchases. The number of firms capable of and willing to supply a product may, for example, vary. An increase in competition will generally drive the cost of an item down. On the other hand, alternate production sources may drop out of the business, eliminating the competitive pressure and drive prices up. The existence of competition is especially important for controlling cost whenever fixed price contracts are used for procurement. Consequently, both competition and the proposed type of contract should be taken into consideration when the base price is developed.

      (3) Depending upon the procurement profile, the optimum level of production, the existing capacity of each firm and the forecasts of long term demand, the product may or may not be produced efficiently. Consequently, the base price for budgeting must be adjusted to reflect these impacts. Depending on the type of contract and the amount of non-defense related business a company does, the impact of

various business base factors must be considered. In cost-type contracts the impact of underutilized equipment and facilities, the overhead costs over the total business, and production rates can be significant.

b. Material Prices. Another important factor that affects the production process and the price of goods in the outyears is the availability of material. The failure to take into consideration this type of price impact is a common cause of cost overruns. It may, in certain circumstances, be difficult to separate a price increase caused by inflation from a price increase driven by a material shortage. Acute temporary shortages of specific materials which are of a limited nature (e.g., Titanium) should be considered in the base price; however, shortages that develop as part of a long-term trend which affects the economy as a whole (e.g., oil prices) are accounted for in general or specific escalation indices. In short, some attention must be given to likely changes in the microeconomic environment that will influence the price of a future purchase.

c. Schedule Impacts. Major program milestones, manufacturing plans, production plans, procurement plans, and both technical and administrative lead time affect the procurement schedule on which a budget estimate is based. While program phasing should be optimized within available funding, the budget must reflect a realistic procurement profile.

d. The Production Process. In determining a base price, the impact of investment or non-investment in production facilities must be judged and incorporated as appropriate. Inefficiencies may occur if firms do not invest in the production process because of uncertainty regarding future demand. More frequently, however, a firm will find itself with excess capacity because the procurement profile was reduced and no longer requires the utilization of high rate production equipment.

e. Summary. These are only some of the more significant factors which influence the price of future purchases. There are undoubtedly others. It will often be difficult to distinguish between inflation-related and non-inflation related influences. Additionally, it may be difficult to translate non-inflation changes into the base price of goods or services. The estimated change in the base price may, for example, be smaller than the uncertainty involved in the estimate of inflation. However, the accuracy with which such estimates can be made will ultimately improve the quality of budget estimates.

4. Cost/Quantity Relationships. Data and experience indicate that the cost of producing an item declines as additional units are produced. The cost improvement or learning curve concept expresses the relationship of the cumulative quantity of an item produced to the cost of producing it. As usually expressed, a learning curve portrays either the reduction in cost associated with each doubling of cumulative quantities produced or the decline in the cost of the item by some constant percentage factor when additional units are produced. The concept of cost improvement is applied in adjusting historical data and in developing the cost estimate.

a. Factors in Learning.

Many factors contribute to cost improvement or learning:

- The spread of certain fixed overhead costs over a larger production run.
- A reduction in engineering change costs and rework requirements as design stabilizes.
- An increase in labor efficiency and experience in the production processes.
- The efficiencies gained through the purchase of materials in larger quantities.

- The efficiencies associated with management-supplier improvements in tools and tool coordination, shop organization, engineering liaison, and subassembly parts supply systems.

b. Justification of Learning. A very important consideration in preparing or reviewing a specific production budget is that the budgeted learning curve must reflect a realistic level of learning. For example if the learning curve for the AN/SPA X repeater is projected to be 86% when similar repeater procurement programs in the past have experienced a learning curve of 92%, the analyst must determine if valid reasons exist for the greatly improved rate. A change in production methodology such as use of robotics might account for the difference. It is important to be able to justify the learning curve being used. Use of an incorrect learning curve will result in budgeting too much or not enough funds.

c. References. Numerous texts and manuals are available on application of improvement/learning curves, and applying confidence intervals to other aspects of cost estimating. One good reference is H. Asher, Cost-Quantity Relationships in the Airframe Industry R-291, RAND Corporation, Santa Monica, California.

5. Estimating and Accounting Structures. The budget, the cost estimates, and the accounting system that collects actual cost data should use the same structure. This requirement is frequently overlooked when new programs are approved and the result is the inability to compare actual costs and revised estimates to the budget. Execution problems cannot be predicted easily and corrected in advance.

a. Work Breakdown Structure (WBS). The work breakdown structure (WBS) constitutes the framework for the estimate and subsequently for the contractor's and cost collection and reporting on . Using the WBS provides a systematic approach to cost estimating and budgeting that ensures relevant costs are not omitted. Military Standard 881 provides WBS tailored to various types of procurements. Each level in the WBS consists of groups of similar items each of which is a more detailed breakdown of the preceding.

b. Level of Detail. The level of detail and depth to which an estimate is prepared is often based on the availability of data, methodology employed, and time available.

6. Base Price Data. In collecting data, the quantity, comparability, quality, and relevancy must be considered. Experience, judgment, and ingenuity must be applied when using the data to develop a valid estimate of the base price of an item. In estimating the future price of a , actual cost data are generally available. In estimating a new item or system cost, the analyst must rely heavily on actual costs of analogous programs. No new program, however novel, represents a complete departure from everything that has gone before. In fact, many new programs embody relatively modest improvements over previous programs, or are combinations of existing subsystems, equipment and components. The establishment of appropriate prices for budgetary purposes requires a thorough search for relevant data, evaluation of that data, and development of estimates based on good judgment and research.

a. Sources of Data.

(1) The sources of data may be divided into two broad categories. The first type is a record of costs for a particular program or system. Actual records, reports, and studies may be included. The second type of data provides standard cost data that applies across-the-board to many programs or systems.

(2) The first category of data sources include actual cost records, contractor provided estimates, study proposals, or industry media or electronic bulletin boards.

(a) There are several potential sources of active cost records. Contract Funds Status Reports () and Cost Performance Reports (CPR) provide actual historical cost data on in-production and analogous systems. Naval Audit Service Reports and similar reports from the other services provide cost data on some systems. Defense Contract Audit Agency () reports and records provide data on all items and systems in production. Finally, DOD plant representative offices, such as a NAVPRO, may have reports and records that also provide actual cost data.

(b) Under the Defense Acquisition Regulations major systems contractors are asked to demonstrate the validity of bids on defense . This data, after careful evaluation by government experts, provides cost information that can be used to determine future prices for budgetary purposes. Contractors also may be willing to provide price quotes for use in estimating future prices. Care should be taken in evaluating the validity of these estimates.

(c) Study proposals which report on the feasibility, system analysis, and cost-effectiveness of particular systems, can be useful in estimating the costs of analogous systems. These reports are prepared by the Military Departments, nonprofit technical support organizations, and industry. The National Technical Information Service and various military libraries as well as the information super highway can provide assistance to the analyst in locating relevant studies.

(3) The category of standard cost data includes statistical summary documents, catalogs, and estimating relationship studies.

(a) Statistical summary documents give the average historical cost experience of numerous systems or programs for a given type of cost. An example of this type of document is the Cost and Planning Factors Manual, Defense Information Systems Agency (DISA), Circular 600-60-1, March, 1983, Changes 1-6.

(b) Catalogs are especially useful for pricing standard items such as copying machines or trucks. In addition to individual manufacturer catalogs, various government procurement offices issue catalogs, such as the General Service Administration (GSA).

(c) Estimating relationship studies, where carefully documented, provide estimating equations for converting descriptive program data into cost estimates. For example, “dollars per pound” estimates for missiles or “support equipment cost as a percentage of fly away cost” for aircraft. Methods of Estimating Fixed Wing Aircraft Costs, PRC-R-547, by Planning Research Corporation is one such study.

b. Collecting Data.

(1) Use should be made of the Defense Technical Information Center (DTIC) and other facilities when historical data on analogous programs is the primary source of price estimates. Historical sources may also be used to identify individuals who are authorities in various specialized areas. These individuals’ opinions can be an invaluable additional source of information. In collecting data, quantity, comparability, quality, and relevancy must be considered.

(2) One of the important factors affecting the degree of confidence and budgetary estimate is the quantity of relevant supporting data used to develop the estimate. Increasing the size of the data sample may improve the quality of the estimate where the proposed procurement is new and the estimator must rely heavily on analogous data. When only one or two analogous historical cost data points exist, standard statistical techniques may have limited application. When considering increasing the data

base, caution must be observed to ensure that the comparability, quality and relevance of the data in the estimating base are not degraded.

(3) Care must be taken to insure comparability of data drawn from different programs. In practice a given item of cost may include different items, materials or procedures. For instance, reported radar costs for one program may include radar parts costs only, while another program includes costs of radar and repeater parts and labor to install the system. Differences must be reconciled and costs adjusted before using the data.

(4) The quality of the data being used should be evaluated. In addition, time and technology can affect relevancy. For example, World War II aircraft were so significantly different in production method and material as to be misleading as a basis for modern aircraft cost estimating.

c. Guidelines for Data Evaluation.

(1) A relatively explicit approach to evaluation has two advantages: first, it helps check the logical and internal consistency of the methods used to evaluate the data collected, and second, it permits verification of the original analysis. The initial problem is to determine if one or more data sources are to be used. When more than one source is used, how much weight to give each source in arriving at the final estimate must be decided. The following guidelines are helpful.

(2) A single source is generally used when the item being estimated represents a moderate proportion of total system cost, the item is low priced, or when there is a single, firmly established, official, documented data source.

(3) More than one source is desirable when the item represents a sizable proportion of the total cost of a system, the item has a relatively large cost, or when no single, generally accepted estimating relationship is available. Also multiple sources should generally be used when the item involves a technological advance, new operating concepts or distinctive characteristics.

(4) The characteristics of the item constituting the analogous historical data base relative to those of the item being estimated should be evaluated. The greater the similarity, the greater the weight that should be given to the data source. A source that is unbiased, representative, supported, and verifiable should be given more weight than one that is less reliable. Generally more recent historical sources should be given more weight than earlier sources, all else being equal. Historical data sources should generally receive more weight than expert opinions when the technology and program characteristics of the item are similar to those of existing systems. However, expert opinions become more important if the technology is the current state of the art.

(5) An important criterion for evaluating opinions of experts is the extent to which they are backed up by supporting evidence, logical arguments, and facts. The qualifications of the experts, their consensus or disagreement, and the currency of the information should also be considered.

d. Uncertainty and Risk.

(1) Although risk and uncertainty are frequently used as equivalent terms, a useful distinction may be made between them. A risk situation is one in which the outcome is an uncontrollable, random event stemming from a known probability distribution. For example, the toss of a coin involves a risk with a 0.5 probability of “heads” turning up. An uncertain situation is characterized by the fact that the probability distribution of the uncontrollable, random event is unknown. This distinction sometimes

leads analysts to describe risks and uncertainties as “known-unknowns” and “unknown-unknowns,” respectively. Making useful cost predictions of future weapon systems varies in complexity and difficulty, depending upon the degree of definition and specification of the system and the availability of pertinent data. But regardless of the circumstances, estimates should identify the degree of uncertainty and anticipated risks.

(2) The sources of uncertainty and risks are many, and often difficult to identify and describe. Generally, the sources of uncertainty can be grouped under two major headings: system definition and estimating. Uncertainties in system definition may be minimized by clear explanation of the specific configuration, quantities planned, procurement and production schedules, and operational concept. Changes to some of these elements include the following.

(a) Engineering changes include altering the physical or functional characteristics of a system or item after an initial baseline is established. These change orders normally occur over the life of the program and tend to have a cumulative effect on the whole program; that is, they lead to spares and spare parts obsolescence, schedule delays, and, in general, increased program costs.

(b) A quantity change may impact the total cost of the buy, as well as unit and average cost, schedule, production efficiency, and contractual agreement. Consequently, the fiscal year distribution of dollars is affected.

(c) A change in support item requirements (spare parts, training, ancillary equipment, warranty provisions, Government-furnished property/equipment, testing) may result in changes to engineering design, quantity, or logistics concepts.

(d) A change in delivery schedule, completion date, or an intermediate milestone of development or production will usually impact the total program cost and the fiscal year distribution of dollars. When a schedule changes, the estimator must consider the impact of such items as overtime, production efficiency, and inflation.

(e) A policy change may impact significantly on the cost estimates.

(3) Estimating uncertainties are often more detailed and usually just as troublesome as system definition uncertainties. The major causes of estimate uncertainty are inability to measure cost precisely, inadequacy of usable data, statistical uncertainty, errors in the data, and errors of judgment. For example, constraints may force the analyst to employ estimating relationships that are based on data with a variety of errors—all interacting to an unknown degree. The analyst has two objectives in treating cost estimating uncertainties:

- Reduce the uncertainties surrounding the estimate.
- Assess both the reasons for, and the dollar impact of, the remaining uncertainty.

7. Estimating Methods. Development of a base price for a future purchase requires interpretation of observed historical phenomena which are adjusted to reflect the future contingencies. These interpretations may be made using several different methods including:

- Estimating relationships
- Specific analogies
- Specialist estimates
- Rates, factors, and catalog prices

- Industrial engineering standards
- Cost model applications
- Trend analysis

The selection of a particular estimating method will be guided by the availability of historical data, the level of detail required, the adequacy of descriptive parameters of the item being estimated, and time constraints. More than one method to derive a base price estimate may be used if time permits and accuracy necessitates. Using a second method to derive an estimate serves to validate the base price.

a. Estimating Relationships (ER's).

(1) There are many statistical tasks that can be used to form the basis for a price estimate. The techniques range in complexity from the simple average to various forms of regression analysis. Estimating relationships are developed statistically from historical data.

(2) Procurement costs may vary with system characteristics such as weight, speed, or range, or with costs of other items. As an example of the latter, the cost of spares may vary with the cost of the equipment. Some examples of cost to non-cost ER's are airframe procurement cost estimated as a function of airframe weight, computer cost estimated as a function of core storage capacity, or missile engine cost estimated as a function of thrust. The appropriate estimating relationships must be selected and the availability of statistical information must be considered. Techniques for developing ER's can be found in standard cost analysis textbooks, as well as Army and Air Force cost analysis handbooks. In addition to the basic relationships, costs are also influenced by factors such as production rate, quantities, and plant loading. An example of this technique follows.

AN/SPA X

42 x $932 = $39,144

Experience indicates that contracted costs of containers ran about $932 per square inch in FY 1995. The AN/SPA X is 42 square inches. The estimated cost is $39,144 which is computed by multiplying the number of square inches (42) in the AN/SPA X by the average cost per square inch ($932). This FY1995 contracted cost would then require escalation for inflation based on the current inflation indices and the planned year of purchase (See Chapter 2).

b. Specific Analogies. Specific analogies depend on the known cost of an item used in prior systems as the basis for the cost of a similar item in a new system.

Adjustments must be made to known costs to account for differences in production method, performance, design, and operational characteristics. For example, a new radar repeater's cost may be estimated based on actual cost of an existing repeater. An example of this technique follows.

AN/SPA X	
Direct Labor = 3,087	
Direct Labor @ $14.00/hr	$43,218.
Overhead @ $7.14/h	$22,041.
Total	$65,259.

This estimate is based on experience with the AN/SPA 4 and AN/SPA 25 repeaters. An average of 1.5 employees per month was devoted to manufacture in the first 9 months and one employee per month for the last 12 months for the AN/SPA 4. Based on this information and the technical similarity of the AN/SPA 4 and the AN/SPA X, it is estimated that 1.5 employees per month also will be required for the first 9 months. However, because the finishing procedures will be more similar to the AN/SPA 25 it is estimated that 1.25 employees per month will be required for the last 6 months. This results in total estimated man-months of 21 man months or 3,087 man-hours. (1.5 men x 9 mo. + 1.25 men x 6 months = 21 man months x 147 hrs./mo = 3,087 hrs.) Direct labor and overhead rates were obtained from the Navy Plant Representative Office at the XYZ Company (the AN/SPA X designer). Since these rates were in effect in FY 1995, the budget analyst would have to escalate this cost based on current inflation rates and the planned budget year (See Chapter 2).

c. Specialist Estimates. This method is usually applied when ER's and other estimating methods are not available or relevant. Specialists can also be used to assist in applying analogies or ER's. This method utilizes the subjective judgment of an experienced individual or group. Estimates developed on this basis are characterized by a lack of detailed rationale and analysis. While estimates based on expert opinion are occasionally both useful and necessary, they are normally highly uncertain and should not be the sole estimating method when time permits thorough analysis. An example of this method follows.

Mark IX $120,823K

A new launcher is required for the Parrot Missile. Dr. J., Design Division, , is an accepted expert in the field of design. He judged the MARK IX to be 2.5 times as complex as the MARK I due to the need for double insulation and nuclear hardening. The current price of the MARK I is $48,329 per unit. The MARK IV is estimated to cost $120,823 (2.5 times $48,329). Dr. J. stated that the estimate was based on FY 1995 budgeted costs for the MARK I. Escalation in accordance with the guidelines in Chapter 2 using the current indices would be necessary.

d. Rates, Factors, and Catalog Prices. Rates and factors can be obtained from DCAA, DCAS and government plant representative offices for various contractors. From this data combined with estimates of engineering and manufacturing hours required, the analyst can estimate future prices for the same or similar products. Catalog prices represent published prices for standard off-the-shelf products or services. When standard off-the-shelf products are required, this method provides relatively good cost data.

e. Industrial Engineering Standards (IES).

(1) IES's define and measure, in unit man-hours or dollars, the work content of the discrete tasks to be performed in accomplishing a given operation or producing an equipment component. IES's

represent average skills, times, and rates. Their use is limited to items whose content or specification can be explicitly described.

(2) An IES is developed as follows:

(a) A work statement, set of drawings, or specification is received or developed.

(b) Each engineering or production operation required to produce the item or accomplish the designated task is specified.

(c) The work stations where each operation will be performed are designated.

(d) The kinds of labor and material required to produce the item or accomplish the operation are given in detail. Tooling requirements are identified with man-hour and material estimates.

(e) studies are conducted to determine the most economical method of performing each operation.

(f) An estimated time standard for performing each task is established using both time-and-motion studies plus experience in performing similar tasks.

(g) Labor standards for specific operations may be combined to provide a labor standard for a component, subassembly, major equipment, or subsystem. Similar standards may be developed to cover waste, rework material, tooling, and engineering.

(h) Labor efficiency factors are used to adjust standard labor hours to actual labor hours. In general, labor efficiency, utilization, or effectiveness measures represent the ratio of standard hours planned to the actual hours expended for a given work operation.

(i) Periodically, time standards are adjusted to reflect changes in production methods. Over a period of years, some standards become stabilized to such an extent that they become plant, product, or industry standards.

(j) A cost estimate for an item may be developed by combining standard hours, labor efficiencies, and labor rates as follows:

$$\text{Cost} = \frac{\text{standard hours}}{\text{labor efficiency}} \times \text{labor rate}$$

f. <u>Cost Model Applications.</u>

A cost model consists of the logic used to derive a cost estimate. The unique contribution offered by a model is the application of the cost-estimating techniques. Additionally, the speed of manipulation of computerized models may be advantageous when many design alternatives are being costed. The simplest form of a model might be a checklist of program elements, used to avoid omitting relevant elements from an estimate. Each element would be estimated by the most appropriate techniques available. The most complex form might be a life-cycle estimating program complete with ER's, factors, analogy matrices, standards, and catalog prices.

g. Trend Analysis. Information in the Cost Performance Reports is especially helpful in analyzing future purchases during Full Scale Development or Production phases when the contractor reports under a validated cost/schedule control systems interim management information system.

(e) IESstudies are conducted to determine the most economical method of performing each operation.

(f) An estimated time standard for performing each task is established using both time-and-motion studies plus experience in performing similar tasks.

(g) Labor standards for specific operations may be combined to provide a labor standard for a component, subassembly, major equipment, or subsystem. Similar standards may be developed to cover waste, rework material, tooling, and engineering.

(h) Labor efficiency factors are used to adjust standard labor hours to actual labor hours. In general, labor efficiency, utilization, or effectiveness measures represent the ratio of standard hours planned to the actual hours expended for a given work operation.

(i) Periodically, time standards are adjusted to reflect changes in production methods. Over a period of years, some standards become stabilized to such an extent that they become plant, product, or industry standards.

(j) A cost estimate for an item may be developed by combining standard hours, labor efficiencies, and labor rates as follows:

$$\text{Cost} = \frac{\text{standard hours}}{\text{labor efficiency}} \times \text{labor rate}$$

8. Appropriation Determination. The last step in developing a base price is to determine the appropriation(s) in which the item is to be budgeted. The correct appropriation must be determined before the base price for a future purchase can be adjusted for inflation. (See DON Financial Management Policy Manual regarding appropriation cognizance.)

Chapter 2

Adjusting Price Estimates for Inflation

1. General. This chapter provides guidance on how to adjust price estimates of contracted purchases and services for the effects of inflation. Although specific inflation indices are provided for use in developing budget estimates, the application of these indices requires discretion. To apply these indices properly, the analyst should be aware of the importance of inflation forecasts in the development of the budget, have an understanding of the key terms and concepts used in measuring inflation, and have a knowledge of the detailed computations involved in adjusting price estimates for inflation. This chapter covers the policy guidance for budgeting for inflation, and it defines and explains some of the key terms and concepts involved in measuring inflation. It then identifies the steps to be followed in incorporating inflation estimates in budget prices and provides examples of the computations using price escalation indices. A discussion of the use of inflation estimates in budget presentations and justifications, including real program change analyses, is covered next. This chapter concludes with a summarization of the guidelines to be followed when applying inflation estimates and a brief discussion of the limitations on their use.

2. Policy Guidance. The allowance for future price increases due to inflation is an important aspect of the policy that budget estimates will reflect the most likely or expected prices. The fact that these inflation estimates must be consistent with the economic assumptions provided by the Office of Management and Budget (OMB) does not contravene that policy, but rather supports it.

   a. OMB Guidance.

      In building the annual President's Budget, OMB develops overall economic positions and programs for the Administration. Implicit and explicit assumptions are made as to the rate of inflation, unemployment levels, interest rates, levels of productivity, and the Gross Domestic Product. Based on these assumptions, OMB develops specific budget guidance and inflation rates to be used by all agencies in developing their budget estimates. It would be totally inconsistent for the Administration to develop a macro- economic plan as part of its budget estimates and then to include in those estimates prices that did not conform to expected results of that plan. Thus, OMB requires that budget estimates be consistent with the Administration's economic assumptions on the basis that these assumptions provide the best estimate for future inflation rates.

   b. OSD Guidance.

      In accordance with the economic assumptions approved by OMB, DOD(C) prescribes annual inflation rates to be used in all phases of the Planning, Programming and Budgeting System (PPBS). OSD rates apply to the Program

Objectives Memorandum (POM), the Department of the Navy (DON) and OSD/OMB Budget Submissions, the President's Budget Request, and the Future Years Defense Program (FYDP). These inflation rates provide the link between the Administration's macroeconomic forecast and the specific pricing contained in budget estimates.

c. DON Review Guidance.

The inflation rates issued by DOD(C) can only be applied to outlays. Accordingly, in addition to issuing these rates in budget guidance, issues inflation rates and indices for each appropriation that can be applied directly to Total Obligational Authority (TOA). The forecast rates of inflation issued in DON budget guidance must be used in preparing all budget estimates. The relationship between outlay and TOA indices and guidance on how to apply them in pricing is covered in section 4.

3. Key Terms and Concepts. Before entering a detailed discussion of the actual application of indices, the concept of inflation and some key terms are reviewed and placed in the context of developing budget estimates in the Department of the Navy.

a. Inflation and How It is Measured.

(1) Inflation is defined as an increase in the general level of prices in the economy. Inflation does not mean that prices rise evenly or that all prices are rising. Some may be constant, and others actually falling. For example, prices during recent years increased significantly while other prices remained fairly stable. Prices of some commodities rise faster than others because of differences in the magnitude and direction of changes in supply and demand in various markets.

(2) In order to understand the concept of inflation and how it is measured, it is necessary to understand "aggregate prices", "annual rate of change", and "index." The following example helps to define these concepts.

(a) Assume there are only three commodities in our economy: Wheat, wine, and jogging shoes, each representing 70, 20, and 10 percent of personal consumption expenditures. Further, assume that these proportions are fixed over time, and that the quality of the three items is always the same. The following table displays, for a five-year period, the individual prices of these commodities, an aggregate price for these commodities, the annual rate of change in the aggregate price, and an inflation index for this economy.

Year	Price of wheat (per bushel)	Price of wine (per Bottle)	Price of shoes	Aggregate price	Annual Rate of Change (Percent)	Inflation Index
1	$2.00	$5.00	$20.00	$4.40	N/A	1.000
2	2.10	5.50	21.00	4.67	6.1	1.061
3	2.20	6.00	24.00	5.14	10.1	1.168
4	2.30	6.50	26.00	5.51	7.2	1.252
5	2.40	7.00	30.00	6.08	10.3	1.382

(b) The aggregate price is computed by taking a weighted average of the commodity prices, with each price weighted by an item's contribution to total expenditures. It is computed for year one in the above example as follows:

.7($2.00) + .2(5.00) +.1(20.00) = $4.40.

The aggregate price is thus a notional price that is developed to measure changes in inflation. The relative mix of the items considered, and the change of that mix over time, will greatly affect the amount of inflation that is measured. Nevertheless, the measurement of inflation implicitly assumes that the relative mix of items and their quality remains the same for all years involved in the measurement.

(c) The annual rate of change in prices (inflation) is computed by dividing one year's aggregate price by the preceding year's aggregate price, and subtracting one from the result. In the above example it is computed for year three as follows:

(5.14/4.67) - 1 = .101 or 10.1%.

The annual rate of change thus measures the year-to-year change in prices.

(d) The inflation index is calculated by dividing the aggregate price in each year by the price in year one, called the base year. For example, in year 3, the index is calculated as:

5.14/4.40=1.168.

Alternatively, it is calculated by setting the base year equal to one, and then multiplying the index value of each year by one plus the annual rate of change of the next year. The computations from the above example are as follows:

Index Value for Year 1 = 1.000
Index Value for Year 2 = 1.000 X 1.061 = 1.061
Index Value for Year 3 = 1.168 X 1.101 = 1.168
Index Value for Year 4 = 1.168 x 1.072 = 1.252
Index Value for Year 5 = 1.252 x 1.103 = 1.382.

The inflation index thus measures the change in prices from a fixed point in time. It should be noted that inflation indices can be expressed in percentage terms. In such instances, the value will appear as 100.0 instead of as 1.000.

(3) The term "escalation" is often used interchangeably with the term "inflation". For example, the inflation indices issued by DOD(C) and FMB are called "price escalation indices". These terms are used interchangeably throughout this chapter.

b. Current and Constant Dollars. A brief definition of current and constant dollars and other terms commonly used with them is provided next.

Current Dollars. The dollar value of an item or service expressed in terms of the prices current at the time the item or service is procured. Also called then year dollars.

Constant Dollars. Dollar values adjusted by removing the effects of inflation. A constant dollar stream reflects the prices that would exist for the time period of the stream if prices and transactions were the same in every year as in the base (or reference) year.

Base Year. A point of reference representing a fixed price level. A base year is selected for developing an index or for developing price estimates.

Base Year Dollars. Dollars expressed in their value at the time of the specified base year of a program. Base year dollars are a specific kind of constant dollars.

Base Price. The price of an item expressed in base year dollars (constant dollars). When a price estimate is developed for an item, the base price should be established in base year dollars. This base price is then escalated (inflation beyond the base year added) to estimate the price in then year dollars.

c. Relationship of Outlays to TOA.

(1) While inflation rates are developed in terms of outlays (expenditures), price estimates for the budget must be developed in terms of . In order to properly adjust price estimates for the effects of inflation, it is necessary to understand the relationship of outlays to TOA.

(2) Both outlays and TOA are expressed in terms of a fiscal year. However, the term fiscal year used with outlays has a different meaning than it does used with TOA.

(a) For outlays, the fiscal year indicates the time period in which the outlays are incurred. All outlays designated by a fiscal year occur during that single fiscal year. For example, the phrase "FY 1998

outlays of $100 million" means that $100 million is expended (or will be expended) during FY 1998 from all appropriations available for expenditure. The TOA from which these outlays came might be as follows:

(In Millions of Dollars)	
Year in Which TOA Appropriated	FY 1998 Outlays
FY 1998	20
FY 1997	40
FY 1996	30
FY 1995	10
Total	**100**

The outlays in a given fiscal year consist of parts of from that year and previous years. In the above example, $80 million of the total of $100 million in FY 1998 outlays came from TOA budgeted from FY 1995 through FY 1997.

(b) For , the fiscal year indicates the time period in which the (or budget authority) is first available for obligation and subsequent expenditure. While all TOA appropriated for multi-year accounts could be spent in that first year, normally it is expended over a period of several years. For example, the phrase "FY 1998 TOA of $100 million" means that $100 million is (or is planned to be) available for obligation beginning in FY 1998. Outlays for this TOA might occur as follows:

(In Millions of Dollars)				
	Outlays			
TOA for FY 1998	FY 1998	FY 1999	FY 2000	FY 2001
100	20	40	30	10

The TOA of a given year appears as an outlay in that year and in subsequent years as work is performed and costs incurred. In the above example, $80 million of the total of $100 million FY 1998 TOA will expend from FY 1999 through FY 2001.

d. Inflation in DON Budget Estimates.

(1) Inflation is a measure of prevailing prices, or costs of labor and material, at the time work is performed or costs are incurred. Because outlays occur relatively close to the point in time that costs

are incurred, they are used to relate inflationary changes in the general economy to the estimates included in the Department's budget.

(a) Inflation that occurs during the time period of a fiscal year impacts directly on the outlays made during that time period. Thus, it also impacts on the of several fiscal years before that time period. In the example in paragraph c.(2)(a), the rate of inflation in FY 1998 had to be incorporated into price estimates not only for programs budgeted in FY 1998, but also for programs budgeted in FY 1995, FY 1996, and FY 1997.

(b) When the outlays from a single fiscal year's occur over more than one fiscal year, the rate of inflation for more than one fiscal year is included in that year's TOA. In the example in paragraph c.(2)(b), price estimates for programs budgeted in FY 1998 had to accommodate forecasted rates of inflation not only for FY 1998 but also for FY 1999, FY 2000 and FY 2001.

(2) DOD(C) provides guidance on price changes due to inflation in the form of annual rates which are to be applied to outlays. These annual rates are similar to those illustrated above in the three item economy. These rates are sometimes referred to as raw rates because they measure the amount of inflation occurring in a 12-month (fiscal year) period (assuming that goods ordered will be delivered and paid for in that 12-month period). They are directly comparable to popular indices such as the Consumer Price Index (CPI). They are used to adjust all price estimates in the DON budget for the effects of inflation either through direct application to base price estimates or indirectly through the use of conversion factors or TOA indices, both of which are computed from outlay indices.

(3) The distinction between outlays and that was described above must be kept in mind when adjusting prices for the effects of inflation. This distinction requires the use of different terms when describing inflation adjustments made to outlays as opposed to inflation adjustments made to TOA. Both outlays and TOA can be expressed in current or constant dollars.

(a) For outlays, current and constant dollars are as defined in paragraph b above. The prices associated with outlays cover a single fiscal year. To distinguish them from , the expression "fiscal year dollars" is used. The inflation index which is created for application to outlays is referred to as the "outlay index".

(b) For TOA, current and constant dollars have a different meaning because the prices associated with them cover more than one fiscal year (until the work is performed, costs are incurred, or expenditures made). To distinguish them from outlays, the expression "budgeted (or budget) dollars" is used. The inflation index which is created for application to TOA is referred to as the "TOA index".

(c) It is often necessary to convert estimates in constant fiscal year dollars to budgeted dollars, or vice versa. This conversion process requires the "fiscal year phasing" of the estimate, that is, identifying the specific fiscal years in which the actual work is performed or costs incurred. Fiscal year phasing can be accomplished using specific information or standard appropriation "outlay rates" (percentage of that expends each year). The conversion from constant fiscal year dollars to budgeted dollars, or vice versa, can be accomplished by using a "TOA conversion factor". Section 4 describes these terms in more detail and provides examples of the computations involved.

4. The Application of Inflation Indices. This section describes how inflation estimates are to be applied to price estimates included in the budget. After outlining the major steps involved, it explains how to create and use an outlay index, a conversion factor, and a TOA index. It concludes with a discussion of the differences in these three computational tools. It should be noted that the examples in this section are rounded to three decimal places in order to simplify the presentation. Because of this rounding, many of the calculations displayed may not be exact. Whenever calculations using indices are performed, as many decimal places as possible should be carried throughout the calculation to minimize rounding errors.

a. Steps in the Process.

(1) The first step is to obtain the current approved inflation guidance. As indicated earlier, FMB periodically issues new inflation guidance which has been received from DOD(C). Generally, this guidance is in the form of revised annual inflation rates for outlays by major category (e.g., Fuel, Pay , and Other Purchases) and indices and annual rates of change for TOA by appropriation.

(2) The second step is to determine if the base price has been developed in fiscal year dollars or if it includes inflation beyond the base year, (e.g., it is based on budgeted or contracted prices). The base price may be in either form, but it is essential to the selection of subsequent computations that the form is known.

(3) The third step is to determine the fiscal year phasing of the purchase. If this information is not known, standard appropriation outlay rates may be used.

(4) The fourth step is to select the appropriate index and computational method to adjust the base price estimate to a budget estimate for a specific fiscal year.

(5) The fifth and final step is the actual computation.

b. Creation of an Outlay Index.

(1) As indicated earlier, the annual inflation rates for outlays are the basic components for creating indices which are used in all pricing computations. The method of creating an outlay index is the same as that illustrated in paragraph 3c above in the example of a three item economy. Annual rates are converted to a new escalation index for outlays by compounding the rates from a predetermined base year. The choice of a base year is largely unimportant for the purpose of calculating an index because once an index is computed with a given base year, it is relatively simple to convert it to an index with a different base year. It is necessary when using an index, however, to convert it to the same base year as that used for the base price.

(2) The following table illustrates the process of deriving an outlay escalation index with one base year and converting it to another base year.

Fiscal Yea	Annual Inflation Rate (percent)	Conversion to Index	Index FY 1995 Base	Conversion to Base Year FY 1998	Index FY 1998 Base
1982	-		1.000	-1.255	.797
1983	8.0	1.000 X 1.080	1.080	- 1.255	.861
1984	8.6	1.080 X 1.086	1.173	- 1.255	.935
1985	7.0	1.173 X 1.070	1.255	- 1.255	1.000
1986	6.4	1.255 X 1.064	1.335	- 1.255	1.064
1987	5.4	1.335 X 1.054	1.407	- 1.255	1.122
1988	5.4	1.407 X 1.054	1.483	- 1.255	1.182
1989	5.4	1.483 X 1.054	1.563	- 1.255	1.245

(a) As can be seen in the table, the process begins with the annual inflation rate. Fiscal Year 1982 is determined to be the base year and assigned a value of one. Each fiscal year index value is derived by a compounding process as follows: the previous year's index value is multiplied by one plus the annual rate. For example, for FY 1998, the index value for FY 1997 (1.173) is multiplied by the annual inflation rate plus one (1.070) to obtain the 1985 index (1.255).

(b) To create an index with a different base year, each index value is divided by the value in the new base year. In the above example, the index for FY 1998 (1.255) is divided into each value in the base year FY 1995 index to derive a base year FY 1998 index.

c. Uses of an Outlay Index.

(1) As the name indicates, an outlay index is used to convert outlays from current to constant dollars and vice versa. Such calculations are performed to evaluate real changes in outlays at the Departmental, appropriation, or program levels. Calculations using an outlay index are also performed, however, in developing price estimates. An outlay index is used to compute the amount of inflation to be added to a base price, to adjust a base price to put it in constant fiscal year dollars, and to estimates when a new set of inflation indices is issued. The following paragraphs provide examples of the use of outlay indices.

(2) The first example illustrates how outlays are converted from current to constant dollars. The table below displays assumed outlays in current dollars for for a five-year period, an assumed outlay index with base year FY 1998, and the computed outlays in constant dollars.

(In Millions of Dollars)					
	FY 1998	**FY 1999**	**FY 2000**	**FY 2001**	**FY 2002**
Outlays in Current Dollars	8,000	9,000	10,000	11,000	12,000
Index Value	1.000	1.064	1.122	1.182	1.245
Outlays in Constant FY 1998	8,000	8,459	8,913	9,306	9,639

For 1986 the current dollar value ($9,000 million) is divided by its corresponding outlay index value (1.064) to obtain the constant dollar equivalent ($8,459 million). Each successive value is obtained in the same manner. To convert from constant to current dollars, the computation is reversed: the constant dollar value is multiplied by the corresponding index value.

(3) The next example illustrates how to compute the amount of inflation to be added to a base price developed in fiscal year dollars. In Chapter I, paragraph 7b, an estimate of $65,259 was developed for a repeater using prices that were in effect during FY 1995 (constant FY 1995 dollars). It is estimated that 30% of the work will be completed the first year, 55% the second year, and the remaining 15% the third year when the item is delivered. An outlay index with base year FY 1995 must be used to escalate the base price estimate. The following table displays the cost of the work completed phased by fiscal year and the application of outlay indices to these phased costs to determine the price that should be budgeted in FY 1998.

	FY 1998	**FY 1999**	**FY 2000**
Cost Estimate in Constant FY 1995 Dollars	$65,259		
Phased Costs	$19,578	$35,892	$ 9,789
Outlay Index (Base Year FY 1995)	1.255	1.335	1.407
Escalated Phased Costs	$24,570	$47,915	$13,773
Escalated Cost Estimate	$86,259	-	-

The phased costs are expressed in constant FY 1995 dollars (or base year 1982 dollars) and are escalated by multiplying them by the appropriate outlay index value. These escalated phased costs are summed to provide the fully escalated costs that should be included in the FY 1998 budget. The amount that should be budgeted in FY 1998 is $86,259; the increase of $21,000 over the base price estimate results from inflation occurring from FY 1995 to FY 2000.

(4) The next example illustrates the use of an outlay index when specific information requires a modification to the index. Using the same information from subparagraph (3), assume in addition that the manufacturer has signed a labor contract that calls for a 15% wage increase in FY 1996 followed by a 10% increase in FY 1997. Since budget pricing policy requires that specific

information be used when known, this labor rate increase must be used in developing a price estimate. Three alternative ways of escalating this cost estimate are presented to illustrate the kinds of computations that can be done with indices. The analyst can use whichever method is preferred.

(a) The first method involves two indices. A special index for labor must be created by using the known increases for FY 1996 and FY 1997 and the approved inflation rates for outlays for FY 1998-FY 2000. The following is the annual rate of change for labor and resulting index with a base year of FY 1995.

Labor Index						
	FY 1995	**FY 1996**	**FY 1997**	**F Y 1998**	**FY 1999**	**FY 2000**
Rate of Change	N/A	15.0	10.0	7.0	6.4	5.4
Index	1.00	1.150	1.265	1.354	1.440	1.518

The approved outlay index with base year FY 1995 is used for other costs. It is estimated that 60% of the cost of the repeater represents labor at the manufacturer's plant. The costs are split between labor and other costs and the appropriate index is applied to each category.

	F Y 1998	**FY 1999**	**FY 2000**
Cost Estimate in Constant FY 1995 Dollars	$65,259	-	-
Labor Costs	$39,155	-	-
Phased Labor Costs	$11,747	$21,535	$5,873
Labor Index	1.354	1.440	1.518
Escalated Labor Costs	$15,905	$31,010	$8,915
Other Costs	$26,104	-	-
Phased Other Costs	$7,831	$14,357	$3,916
Other Cost Index	1.255	1.335	1.407
Escalated Other Costs	$9,828	$19,167	$5,510
Escalated Cost Estimate	$90,335	-	-

The amount that should be budgeted is $90,335, the sum of the escalated labor costs and escalated other costs.

(b) The second method involves the construction of an index weighted between labor (60%) and other costs (40%). Such an index is computed as follows.

	Labor Index	Other Cost Index	Weighted Index
FY 1998	1.354 x .6 = .812	1.255 x .4 = .502	1.314
FY 1999	1.440 x .6 = .864	1.335 x .4 = .534	1.398
FY 2000	1.518 x .6 = .911	1.407 x .4 = .563	1.474

Since this weighted index takes into account the split between labor and other costs, it can be applied to the total cost estimate in the same manner as the outlay index was in the example in paragraph (3). The computations are shown in the following table.

	FY 1998	FY 1999	FY 2000
Cost Estimates in Constant FY 1995 Dollars	$65,259	-	-
Phased Costs	$19,578	$35,892	$ 9,789
Weighted Outlay Index	1.314	1.398	1.474
Escalated Phased Costs	$25,725	$50,177	$14,429
Escalated Cost Estimate	$90,331	-	-

The FY 1998 budgeted cost of $90,331 differs slightly from the answer obtained above only because of rounding included in the two computations.

(c) The third way of computing escalation in this example is to adjust the base price to FY 1997 constant dollars before escalating it to FY 1998 budgeted dollars. The FY 1997 base price estimate will then take into account the known labor rate increases for FY 1996 and FY 1997. First the estimate of $65,259 in FY 1995 dollars is split into labor ($39,155) and other ($26,104) costs. Labor costs are escalated to FY 1997 costs using the labor index ($39,155 x 1.265 = $49,531) and other costs using the approved outlay index ($26,104 x 1.173 = $30,620). The estimated price in FY 1997 dollars is then $80,151. The same computational method that was used in paragraph (3) is now followed, substituting this new FY 1997 base price and an outlay index with base year 1984. An outlay index with base year FY 1997 is computed as follows.

	Outlay Index Base Year FY 1995	Conversion To Base Base Year FY 1997	Outlay Index Base Year FY 1997
FY 1997	1.173	- 1.173	1.000
FY 1998	1.255	- 1.173	1.070
FY 1999	1.335	- 1.173	1.138
FY 2000	1.407	- 1.173	1.200

This computation is completed in the following table.

	FY 1998	FY 1999	FY 2000
Cost Estimates in Constant FY 1997 Dollars	$80,151	-	-
Phased Costs	$24,045	$44,083	$12,023
Weighted Outlay Index Base Year 1997	1.070	1.138	1.200
Escalated Phased Costs	$25,728	$50,167	$14,427
Escalated Cost Estimate	$90,322	-	-

The FY 1998 budgeted cost of $90,322 differs slightly from the answers obtained above only because of rounding included in the computations.

(5) The next example illustrates how to escalate a base price to budgeted dollars when the base price is not in constant fiscal year dollars. In Chapter I, paragraph 7.a.(2), a cost estimate of $39,144 was developed for containers based on previously contracted prices in FY 1995. Before converting the cost estimate to FY 1998 budgeted prices, it is necessary to first convert it to constant FY 1995 prices. Since these containers were produced over a two-year period (40% of the work completed in FY 1995 and 60% in FY 1996) the FY 1995 contracted price includes anticipated inflation in FY 1996. The specific amount of inflation which will occur in FY 1996 is not known. Accordingly, it is necessary to assume that the rate of inflation included in the contract for FY 1996 is the same as that provided by the approved inflation rates for outlays. An outlay index is used to convert the base price estimate to either constant FY 1995 dollars or constant FY 1996 dollars. Both conversions are shown in the following paragraphs for illustrative purposes.

(a) The method of removing FY 1996 inflation from the base price estimate to create an estimate in constant FY 1995 dollars is illustrated in the following table.

	FY 1995	FY 1996
Cost Estimates in Constant FY 1995 Contract	$39,144	-
Phased Costs	$15,658	$23,486
Outlay Index (Base Year FY 1995	1.000	1.080
Phased Costs (Constant FY 1995 Dollars)	$15,658	$21,746
Cost Estimate in Constant FY 1995 Dollars	$37,404	-

The cost estimate is phased as though it were contracted in FY 1995 and each phased cost value is divided by the outlay index value to convert these costs to constant FY 1995 dollars. The sum of the phased costs ($37,404) then becomes the cost estimate in constant FY 1995 dollars (a new base price estimate). In FY 1998, however, it is expected that 50% of the work will be completed in FY 1998 and 50% in FY 1999. The procedure for converting these costs to FY 1998 budgeted prices is similar to that illustrated in paragraph (3). The computation is displayed in the following table.

	FY 1998	FY 1999
Cost Estimates in Constant FY 1995 Contract	$37,404	-
Phased Costs in Constant FY 1995 Dollar	$18,702	$18,702
Outlay Index (Base Year FY 1995)	1.255	1.335
Phased Costs (Constant FY 1995 Dollars)	$23,741	$24,967
Cost Estimate in Constant FY 1995 Dollars)	$48,438	-

The escalated cost estimate of $48,438 is the amount which should be included in the FY 1998 budget.

(b) The method of adding FY 1996 inflation to the base price estimate to create an estimate in constant FY 1996 dollars is illustrated in the following table.

	FY 1995	FY 1996
Cost Estimates FY 1995 Contract	$39,144	-
Phased Costs	$15,658	$23,486
Outlay Index (Base Year FY 1996)	.926	1.000
Phased Costs (Constant FY 1995 Dollars)	$23,741	$24,967
Cost Estimate in Constant FY 1995 Dollars)	$48,438	-

The computation is the same as in paragraph (a) except that an outlay index with a base year of FY 1996 is used. This index is created from the index in FY 1995 by dividing the values for each year by the value for FY 1996 (1.000/1.080 = .926 and 1.080/1.080 = 1.000). The sum of the phased costs ($40,395) now represents the base price estimate in constant FY 1996 dollars.

The procedure for converting this estimate to FY 1998 budget costs is also the same as that used in paragraph (a) above except that an outlay index with base year FY 1996 is used. The computations are illustrated in the following table.

	FY 1998	FY 1999
Cost Estimates FY 1996 Dollars	$40,395	
Phased Costs in Constant FY 1996 Dollars	$20,198	$20,197
Outlay Index (Base Year FY 1996)	1.162	1.236
Escalated Phased Costs	$23,470	$24,963
Escalated Cost Estimate	$48,433	-

The outlay index with base year FY 1996 was derived from the index with base year FY 1995 by dividing each value by the FY 1996 value (1.255/1.080 = 1.162 and 1.335/1.080 = 1.236). The escalated cost estimate of $48,433 differs slightly from that contained in paragraph (a) above only because of rounding in the two computations.

(6) The final example illustrates how to make pricing adjustments when a revised set of inflation rates is issued. This adjustment requires computations with two indices: the first to remove the earlier estimate of inflation and the second to add the new estimate. The following table displays the outlay inflation rates and index used in the previous examples (labeled old) and a set of new rates and the corresponding index.

	Old Annual Rate	Old Index	New Annual Rate	New Index
FY 1995	-	1.000	-	1.000
FY 1996	8.0	1.080	7.0	1.070
FY 1997	8.6	1.173	6.2	1.136
FY 1998	7.0	1.255	5.6	1.200
FY 1999	6.4	1.335	5.0	1.260
FY 2000	5.4	1.407	4.7	1.319
FY 2001	5.4	1.483	4.7	1.381
FY 2002	5.4	1.563	4.7	1.446

The table below illustrates the steps required to revise fully escalated budget estimates when new indices are issued, using the fully escalated cost estimate of $86,259 from paragraph (3) above.

(In Thousands of Dollars)			
	FY 1998	FY 1999	FY 2000
Cost Estimate (FY 1998 Budget)	$86,259	-	-
Phased Costs	$24,570	$47,915	$13,774
Old Index	1.255	1.335	1.407
Phased Costs in Constant FY 1995 Dollars	$19,578	$35,892	$9,789
New Index	1.200	1.260	1.319
Revised Phased Costs	$23,494	$45,224	$12,912
Revised Cost Estimate FY 1998 Budget	$81,630	-	-

As can be seen, the old phased costs are divided by the appropriate old index values to create phased costs in constant FY 1995 dollars. These constant dollars are then multiplied by the appropriate new index values to fully escalate the budget estimate under the new economic assumptions. In order to adjust fully for the change in inflation rates, the base year used for both the old and the new index

must be the same base year that was used to develop the original price estimate. This same procedure is followed for adjusting prices in all fiscal years.

d. The TOA Conversion Factor.

(1) The examples in section c involve the application of outlay indices to convert base price estimates in constant fiscal year dollars to budgeted dollars and vice versa. A factor, called the TOA conversion factor, can be created to accomplish this conversion much more simply. A TOA conversion factor is derived by dividing the constant fiscal year dollars into the budgeted dollars (that is, the cost estimate in constant FY 1995 dollars into the escalated cost estimate). The TOA conversion factors for each of the examples used in section c are as follows:

EXAMPLE	FY 1998 BUDGETED DOLLARS	FY 1995 CONSTANT FISCAL YEAR DOLLARS	CONVERSION FACTOR FY 2000
Paragraph c.(3)	86,259	-65,259	= 1.322
Paragraph c.(4)(a)	90,335	-65,259	= 1.384
Paragraph c.(5)(a)	48,438	-37,404	= 1.295

If the estimate is in constant fiscal year dollars, multiplication by the TOA conversion factor converts it to budgeted dollars (e.g. $65,259 x 1.322 = 86,259). If the estimate is in budgeted dollars, division by the TOA conversion factor converts it to constant fiscal year dollars (e.g. $86,259/1.322 = $65,259).

(2) A TOA conversion factor is a useful concept only if it can be generalized to apply to more than one estimate which is the case only when estimates for different programs are phased identically by fiscal year. The one case where this generally occurs is when price estimates are assumed to be phased the same as the standard outlay rates for an appropriation. Thus a TOA conversion factor can be used to convert estimates from constant fiscal year dollars to budgeted dollars, or vice versa, whenever a price estimate is phased using the standard appropriation outlay rates.

(3) A TOA conversion factor using standard appropriation outlay rates is created by removing anticipated inflation from a fully escalated cost estimate and comparing that constant dollar estimate to the original escalated estimate. Because a standard factor is being computed, the value of 1.0 is assigned to TOA (fully escalated cost estimate) with the outlay rate values used as the phased cost. The following illustrates this computation using the OPN appropriation as an example. The OPN outlay rates are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
OPN Outlay Rates	.13	.35	.26	.11	.15

The method for computing a TOA conversion factor to convert constant FY 1995 dollars to FY 1995 budgeted dollars is as follows:

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
TOA (Fully Escalated Cost Estimate)	1.0				
Escalated Phased Costs (Outlay Rate)	.13	.35	.26	.11	.15
Outlay Index (Base Year FY 1995)	1.000	1.080	1.173	1.255	1.335
Phased Costs (Constant FY 1995 Dollars)	.130	.324	.222	.088	.112
Cost Estimate in FY 1995 Constant Dollars	.876				
TOA Conversion Factor	1.142				

The phased costs in constant FY 1995 dollars are computed by dividing the escalated phased costs (outlay rates) by the values in the outlay index. The cost estimate in constant FY 1995 dollars is the sum of the phased costs in constant FY 1995 dollars. The conversion factor is then computed by dividing the fully escalated cost estimate by the cost estimate in FY 1995 dollars (1.0/.876 = 1.142).

The method for computing a TOA conversion factor to convert constant FY 1995 dollars to FY 1996 budgeted dollars is as follows:

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
TOA (Fully Escalated Cost Estimate)	1.0				
Escalated Phased Costs (Outlay Rate)	.13	.35	.26	.11	.15
Outlay Index (Base Year FY 1995)	1.080	1.173	1.255	1.335	1.407
Phased Costs (Constant FY 1995 Dollars)	.120	.298	.207	.082	.107
Cost Estimate in FY 1995 Constant Dollars	.815				
TOA Conversion Factor	1.227				

As can be seen the method is similar except that the computation begins with FY 1996 (rather than FY 1995) and extends through FY 2000 (rather than FY 1999). Similar calculations produce the following TOA conversion factors for the indicated fiscal years.

FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
1.142	1.227	1.309	1.388	1.465	1.544	1.627	1.715

These factors can be used to convert any program in the OPN appropriation that is phased using standard outlay rates from constant FY 1995 dollars to budget dollars in the indicated fiscal year.

e. Examples of the Use of a TOA Conversion Factor

(1) The TOA conversion factor can be used for pricing only when the fiscal year phasing of the item being priced can be assumed to be the same as the standard appropriation outlay rate. Whenever this assumption can be made, it provides a much shorter method of computing the impact of inflation on cost estimates because the effects of time phasing already have been built into the factor. The following paragraphs provide examples of the calculations involved when using the TOA conversion factor.

(2) In the example contained in paragraph c.(3) above, a repeater costing $65,259 in constant FY 1995 dollars was converted to FY 1998 budgeted cost estimate of $86,259 assuming a specific three-year phasing. If we do not know a specific fiscal year phasing for this item, but assume it is phased by the standard appropriation outlay rate, the FY 1998 budgeted costs are computed as follows.

$65,259 x 1.388 = $90,579

The constant FY 1995 costs are multiplied by the TOA conversion factor for FY 1998, resulting in a budget cost of $90,579 in FY 1998. The higher budgeted cost in FY 1998 ($90,579 vs $86,259) illustrates the sensitivity of pricing estimates to time phasing. The budgeted cost of the repeater in FY 1999 can also be obtained by the same simple calculation.

$65,259 x 1.465 = $95,604

In this case, the TOA conversion factor for FY 1999 was used.

(3) A conversion factor can also simplify the computations required to convert budgeted prices when a new inflation index is issued. In paragraph c.(6) above, an example was provided of the computations involved in repricing a program when new indices are issued. If we assume that the program to be repriced is phased using the standard appropriation outlay rates, then the following computations should be made. First, a TOA conversion factor based on the new indices must be calculated, using the same method described in d.(3) above. These factors are provided in the following table.

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
New Factors	1.115	1.180	1.243	1.305	1.366	1.431	1.498	1.568

Any program in the OPN appropriation that is phased using standard outlay rates can be repriced by dividing the program value by the old TOA conversion factor and multiplying the result by the new TOA conversion factor. For example, a repeater was budgeted at $90,579 in FY 1998 in paragraph (2) above. The following computation reprises this program using the new indices.

$90,579/1.388 = $65,259

$65,259 x 1.305 = $85,163

(4) Even when a program is phased differently than the standard appropriation rate, the use of conversion factors for repricing can provide a close approximation of the impact of a new inflation index. For example, the FY 1998 budgeted costs of the repeaters using a specific phasing is $86,259 (as computed in paragraph c.(3) above). The cost using the new indices and this specific phasing is $81,630 (as computed in paragraph c.(6) above). The following computation provides the same conversion using the TOA conversion factors.

$86,259/1.388 = $62,146

$62,146 x 1.305 = $81,101

The difference in the new FY 1998 budgeted price is only $529, less than .7% difference.

(5) One additional calculation allows the creation of another factor that saves a step when computing the impact of a new inflation index for a specific budget estimate. By dividing the new conversion factor by the old TOA conversion factor, a factor is created which converts directly from the old budgeted costs to new budgeted costs in one step (e.g. 1.180/1.227 = .962). The following are the factors to convert from the old to the new index obtained for each year of the OPN appropriation.

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Index Conversion Factor	.962	.950	.940	.933	.926	.920	.914

If the FY 1998 factor (.940) is multiplied by the amount budgeted for the repeater in FY 1998, the same result as in the two step procedure illustrated in paragraph (3) above is obtained ($90,579 x .940 = $85,163).

f. The TOA Index.

(1) A TOA index measures the impact of changes in inflation on TOA, given a specific fiscal year phasing of work performed (or outlays). It differs from a TOA conversion factor in that the latter converts constant fiscal year dollars to TOA while the TOA index converts TOA from one year to another. It can be created from any phasing of the actual accomplishment of work or incurrence of costs for which TOA is expended. However, it is usually developed using the standard outlay rates (which are used as a proxy for the phasing of work performed) for an appropriation. Normally, then, the term TOA index refers to one created for a specific appropriation using standard outlay rates.

(2) In pricing or repricing estimates for the impact of inflation or change in the rate of inflation, an implicit or explicit TOA conversion factor was used to convert program values from TOA to constant fiscal year dollars or vice versa. In paragraph d.(3) above, an explicit conversion factor was computed for OPN. A TOA index is computed directly from this conversion factor.

(a) The conversion factors computed for OPN were as follows:

FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
1.142	1.227	1.309	1.388	1.465	1.544	1.627	1.715

(b) To create a TOA index for OPN, it is necessary to divide the stream by the factor in the year desired to be the base year. Thus, to establish a TOA index with base year FY 1995, each factor is divided by 1.142 resulting in the following index.

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
OPN TOA Index	1.000	1.074	1.146	1.215	1.283	1.352	1.425	1.502

(c) Like all indices the base year can be shifted by dividing by the value in the year which is to be the base year. For example, to convert the above index to a base year of FY 1998, each value in the index is divided by 1.215, resulting in the following new index.

FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
.823	.884	.943	1.000	1.056	1.113	1.173	1.236

(3) The TOA annual rate of change can be computed from the TOA index. The annual rate of change for a given year is computed by dividing the year's index value by the previous year's index value and subtracting one. For example, the annual rate of change in the OPN appropriation for FY 1998 is as follows:

(1.000/.943) - 1 = .060 or 6.0%

(a) The following are the TOA annual rates of change for OPN, computed in this manner:

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Percent	-	7.4	6.7	6.0	5.6	5.4	5.4	5.4

(b) The TOA annual rate of change measures the change in budgeted inflation from year-to-year, while the TOA index measures the budgeted change in inflation from a fixed fiscal year.

g. Uses of a TOA Index.

(1) A index can only be used to price estimates when two criteria are met. The underlying inflation index (outlay index) must not have changed and the program value to be adjusted must have phased costs that follow the same pattern as the standard appropriation outlay rates. When these two criteria are met, the use of a TOA index allows the quick accomplishment of a long and complex computation.

(2) The most common use of a TOA index is in the conversion of budgeted dollars from one year to another. When a program is shifted from one fiscal year to another in the budget, the TOA index is used to adjust for the impact of inflation on this change. To move a program forward in time, a TOA index is used which has the same base year as that in which the program is funded. The program value is multiplied by the index value of the year in which the program is to be moved. To move a program from a future year back to the base year, the program value is divided by the index value for that year. The following examples illustrate this computation. The OPN TOA index with a base year of FY 1998 is as follows:

FY 1998	FY 1999	FY 2000
1.000	1.056	1.113

(a) A program included in the FY 1998 budget at $5,100 thousand has been deferred until FY 1999. The cost in FY 1999 is computed as follows:

$5,100 x 1.056 = $5,386

(b) Another program planned for FY 2000 at a cost of $10,300 thousand has been accelerated to FY 1998. The cost in FY 1998 is computed as follows:

$10,300/1.113 = $9,254

(c) Both examples implicitly assume that the fiscal year phasing of the work performed in these programs is the same as the standard OPN outlay rate.

(3) A TOA index may also be used in price estimating whenever the raw estimate is based on historical budgeted costs. The example in Chapter 1, paragraph 7.c., of a cost estimate for a new launcher was based on a comparison of the budgeted price of another model. The estimate of $120,823 is thus based on what would have been budgeted in FY 1995. Again, assuming the fiscal year phasing of the work to be performed is the same as the standard appropriation rates, then a TOA index can be used to determine the amount that should be budgeted in FY 1998. Using an OPN index with a base year of FY 1995, the computation follows:

$120,823 x 1.215 = $146,800

Thus, $146,800 should be included in the FY 1998 budget for the launcher.

(4) A TOA index may also be used in combination with a TOA conversion factor in pricing. In paragraph e.(2) above, a cost estimate of $65,259 in constant FY 1995 dollars was converted to FY 1998 and FY 1999 budgeted estimates by use of TOA conversion factors as follows.

FY 1998: $65,259 x 1.388 = $90,579

FY 1999: $65,259 x 1.465 = $95,604

After converting the estimate to FY 1998 budgeted dollars, a TOA index can also be used to convert FY 1998 estimate to FY 1999 budgeted dollars. The computation is as follows.

$90,579 x 1.056 = $95,651

The FY 1998 budget estimate of $90,579 is multiplied by the TOA index value of 1.056 for FY 1999 (base year FY 1998) to yield the FY 1999 budgeted cost of $95,651. The difference of $47 obtained in the two answers is caused by the rounding involved in the two computations.

h. Differences between an Outlay Index, a TOA Conversion Factor and a TOA Index.

(1) It is important that the distinction between an outlay index, a TOA conversion factor, and a TOA index be fully understood. All three are used to measure changes in inflation from a base year, but each measures the change from a different perspective and for a different purpose. The following table displays the outlay index, the TOA conversion factor, and the TOA index for OPN computed for base year FY 1995.

	FY 1995	**FY 1996**
Outlay Index	1.000	1.080
TOA Conversion Factor	1.142	1.227
TOA Index	1.000	1.074

(2) An outlay index measures the change in inflation by comparing prices prevailing in the base year (assuming all work was completed or expenditures made in the same year) with prices prevailing in other years. For example, if a truck is budgeted, procured, and paid for in a single fiscal year and costs $25,000 in 1982, the cost of an identical truck in FY 1996, is computed by using the outlay index. The FY 1995 cost ($25,000) is multiplied by the index value for FY 1996 (1.080) to compute the FY 1996 estimated cost ($27,000). The difference ($2,000) is the amount of inflation that has occurred since FY 1995 (or during FY 1996).

(3) A TOA conversion factor measures the change in inflation by comparing prices prevailing in the base year with TOA in other years (assuming more than one fiscal year is necessary to complete the work funded with the TOA or to expend the TOA).

(a) For example, assume that the truck costing $25,000 if budgeted, procured, and paid for in FY 1995 will be budgeted in FY 1995, but built and paid for according to the standard outlay schedule for OPN, and delivered at the end of that period. The costs can be phased using the standard outlay rates and the amount of escalation can be computed using the outlay index, or a TOA conversion factor based on the standard outlay rates can be applied directly to the costs. The latter is much easier. The constant FY 1995 dollar cost ($25,000) is multiplied by the TOA conversion factor for FY 1995 (1.142) to compute the amount that would have to be budgeted in FY 1995 ($28,550). Because of the effect of inflation over a five-year period (FY 1995 - FY 1999), the truck is estimated to cost $3,550 more ($28,550-$25,000) than it would if it were built entirely in FY 1995.

(b) Similarly, if the same truck is budgeted in FY 1996 with a five-year building period, the $25,000 estimate is multiplied by the TOA conversion factor for FY 1996 (1.227) to obtain a budgeted cost of $30,675. This truck costs $5,675 more ($30,675 - $25,000) to buy in FY 1996 because of inflation that has occurred over a six-year period (FY 1995 - FY 2000).

(4) The TOA index measures the change in inflation by comparing TOA in a base year with TOA in other years. Using the same example of the truck which was earlier determined to cost $28,550 if it were budgeted in FY 1995 with a five-year building period, the FY 1996 budgeted cost is computed by multiplying this value by the FY 1996 TOA index (1.074). The FY 1996 cost is thus $30,675, an increase of $2,125 over the FY 1995 budgeted costs. This increase represents the amount of additional inflation required in the FY 1996 budget as compared to that required in the FY 1995 budget, or the amount of additional inflation that occurs during the period FY 1995 - FY 2000 as compared to the period FY 1995 - FY 1999.

5. Other Uses of Inflation Estimates. In addition to their use in pricing budget estimates, the inflation rates developed by OMB are used to prepare constant dollar analyses at the appropriation, appropriation title, DON, and DOD levels for a variety of purposes.

a. Development of Constant Dollar Estimates.

(1) Although constant dollar analyses are sometimes based on outlays, they most often use TOA values, and thus require the creation and manipulation of TOA indices. In addition, separate indices are prepared for military pay, civilian pay, and fuel prices which are combined with the purchases indices (on a weighted basis) for each appropriation to produce an overall appropriation TOA index. These individual appropriation indices can be combined (again on a weighted basis) to form an aggregate TOA index (e.g., total operations and maintenance or total Department of Defense).

(2) The following, extracted from a Department of Defense press release on the FY 1997 Defense budget, provides an example of the use of an aggregate TOA index.

(In Billions of Dollars)						
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
TOA in Current Dollars	240.5	274.1	322.4	357.2	389.1	425.2
TOA in Constant FY 1997 Dollars	249.3	274.1	304.6	321.1	333.2	346.6
Aggregate TOA Index (Base Year FY 1997)	.965	1.000	1.058	1.112	1.168	1.227

In these kinds of presentations, the budget year is usually chosen as the base year so that estimates of other years can be compared to the budget estimates before the Congress. Any new estimate in current dollars for any of the years can be converted to constant dollars (and vice versa) using the aggregate TOA index as long as it is assumed no change occurs in the inflation index, the relative mix of appropriations, and the outlay rates of those appropriations. It should also be noted that since the terms “constant dollars” and “current dollars” are used with TOA, they are the same as constant or current budgeted dollars.

b. Use of Constant Dollar Estimates.

(1) Constant dollar analyses are used as a tool in setting DOD and DON topline estimates, in presenting or justifying levels of funding requested or required, in assessing budget trends over a period of time, or in comparing budget levels with other budgets (such as those of the Federal Government, other Military Departments, and foreign countries) and aggregate economic measures (such as the GNP).

(2) Estimates of the amount of inflation included in the budget or in cost estimates are often developed for programs using standard appropriation outlay rates. For example, guidance for developing inflation estimates used in the Selected Acquisition Reports (SAR), Unit Cost Reports, and Procurement Annex, requires that standard outlay rates be used. This guidance is issued because of the need to present information consistently at the Departmental level and because of the difficulty in aggregating estimates of inflation for programs which are phased using specific information. The price estimate used in budgeting, however, should always use a specific phasing (not the appropriation outlay rate) whenever it is known.

(3) When a revised inflation estimate is issued by OMB, DOD(C) usually provides the dollar impact of the change by appropriation which is computed by using standard appropriation outlay rates. The dollar impact on individual programs is usually estimated by FMB also using standard outlay rates. These adjustments are made with standard outlay rates only because of the lack of time to accomplish a complete repricing using specific phasing. The dollar estimates obtained should be viewed as an approximation of the impact until such time as a specific repricing of each program can be accomplished. Over or under pricing of the estimates as a result of these approximations must be resolved in the next iteration of the budget preparation process or in execution.

c. Real Program Change.

(1) Constant dollars are used to provide a measure of the real program content of the budget relative to the base year. Real program change (RPC) refers to the year to year change in constant dollars. It is usually expressed as a percentage.

(2) Real program change for a given year is computed by dividing the constant dollars for that year by the constant dollars of the previous year and subtracting one. For example, real program for the FY 1998 DOD budget in the above table is:

(304.6/274.1) - 1 = .111 or 11.1%.

d. Example of a Real Program Change Computation.

(1) Analyses using constant dollars and real program comparisons can be done for any program or aggregation of programs included in the budget.

(2) A real program change computation for a Navy flight training program for FY 1996 through FY 1999 is provided as an example. The following budget costs are involved.

(In Millions of Dollars)				
	FY 1996	**FY 1997**	**FY 1998**	**FY 1999**
APN (for Procurement of trainer Aircraft)	100	120	125	150
O&M	35	37	42	47
Total	135	157	167	197

The O&M costs are further subdivided as follows:

(In Millions of Dollars)				
	FY 1996	**FY 1997**	**FY 1998**	**FY 1999**
Civilian Pay	17	18	20	23
Fuel	12	13	15	17
Other Purchases	6	6	7	7

Application of the correct TOA indices for these years yields constant dollars as presented in the following table:

(In Millions of Dollars)				
	FY 1996	FY 1997	FY 1998	FY 1999
APN	107	120	118	134
O&M Pay	17	18	19	20
Fuel	13	13	14	15
Other	6	6	7	6
Total	143	157	158	175

Real program change is then computed for the total program for each fiscal year.

	FY 1996	FY 1997	FY 1998	FY 1999
	-	+9.8%	+.6%	+10.8

6. Conclusion. The adjustment of price estimates to accommodate the impact of inflation is a complex operation which requires that the analyst understand the concept of inflation, the relationship between TOA and outlays, and the mathematics involved in manipulating and applying indices. The methodology to be followed varies for each price estimate depending upon the specific information available for that estimate. There are no simple "cookbook" rules or procedures that can be followed. In this section, the steps and guidelines for using outlay indices, TOA conversion factors and TOA indices are summarized and some limitations on the use of inflation indices and constant dollar analyses are discussed.

a. Guidelines for the Application of Price Escalation Indices.

(1) After obtaining the latest approved inflation rates from FMB, it is necessary to determine if the base price is stated in constant fiscal year dollars or if it includes inflation beyond the base year. An outlay index must be used to adjust the base price from one year to another (if it is in fiscal year dollars) or to remove the effects of inflation beyond the base year (if it contains estimates of inflation beyond the base year).

(2) Whenever possible, a specific fiscal year phasing of work performed or costs incurred should be used for determining the impact of inflation. Whenever a specific phasing is used, an outlay index must be used to compute the impact of inflation. However, because of the fast spending action of the programs contained in operations and maintenance and military personnel appropriations, specific variances from the appropriation outlay rates have little effect on the adjustment of price estimates for the impact of inflation. Accordingly, programs in those accounts should be phased using the standard appropriation outlay rates, with all adjustments for the impact of inflation accomplished using the TOA indices.

(3) The selection of index and computational method is dependent on the specific pricing and phasing information known for the program being priced. The following paragraphs restate the differences

between outlay indices, TOA conversion factors, and TOA indices. The example of the truck procurement from section 4.h. above is used for illustration purposes.

(a) When costs are stated in fiscal year dollars (outlays), an outlay index is used to convert them to dollars in another fiscal year.

TRUCK EXAMPLE	
Costs are stated in FY 1995 dollars	$25,000
Multiply by FY 1996 index value	1.080
Yields costs in FY 1996 dollars	$27,000
Increase measures amount of inflation that is expected to occur during FY 1996	$2,000

(b) When costs are stated in fiscal year dollars (outlays), a TOA conversion factor is used to adjust them to budgeted dollars in any fiscal year.

TRUCK EXAMPLE	
Costs are stated in FY 1995 dollars	$25,000
Multiply by FY 1996 TOA conversion factor	1.227
Yields price to be included in FY 1996 budget (TOA)	$30,675
Increase measures amount of inflation that is expected to occur from FY 1995 through FY 2000	$5,675

(c) When costs are stated in budgeted dollars (TOA), a TOA index is used to convert them to budgeted dollars (TOA) in another fiscal year.

TRUCK EXAMPLE	
Costs are stated in FY 1995 budgeted dollars	$28,550
Multiply by FY 1996 TOA index value	1.074
Yields price to be included in FY 1996 budget (TOA)	$30,675
Increase measures additional inflation that is expected to occur from FY 1996 to FY 2000 as compared to FY 1995 to FY 1999	$2,125

(4) Examples of computations are provided throughout section 4. A handy “rule of thumb” to remember is that when removing the effects of inflation, the estimate is divided by an index value, and when adding the effects of inflation, the estimate is multiplied by the index volume.

b. Limitations on the Use of Inflation Indices and Constant Dollar Analyses.

(1) The concepts of inflation, constant dollars, and real program change are somewhat limited in that they attempt to simplify a complex situation. At the same time the value and popularity of these concepts stems from this simplicity. They provide a relatively easy way to understand the significance of the total DOD budget, or to measure an increase in areas like operations and maintenance. Because of the danger of oversimplification or misuse of these concepts, it is important that those who use them fully understand these limitations.

(2) Many of the limitations are inherent in the use of any index. Inflation rates and outlay rates are average numbers which, while relatively accurate in the aggregate, are almost never accurate in specific applications. The selection of a base year is always arbitrary, and comparisons to a base year are only valid to the extent that the mix of programs in the years being compared is similar to the mix in the base year. Finally, the approved inflation rate is itself only a forecast, subject to wide variations of accuracy, especially in the more distant future.

(3) The concept of real program change is limited in that it separates all dollars into only two categories - inflationary and real program changes. It does not measure changes in efficient or effective use of funds. A price increase due to inefficiency is treated as a “real” program increase while, conversely, a price decrease due to an improvement in productivity is treated as a “real” program decrease. In both cases, of course, the “real” program does not change. This concept is only one way of measuring real program changes. Other measures, such as the number of ships or aircraft being procured or operated are often a more appropriate measure of real program.

(4) Any application of inflation estimates, whether for pricing or constant dollar analyses of real program levels, implicitly contains many assumptions, many of which are probably not valid in the case of the specific application. The user of this information must be aware of these assumptions and treat the information accordingly.

END OF APPENDIX I