



SEAPOWER THROUGH ENGINEERING

3.1.3

Version 5.2 26 MAR 2025

3.1.3 Program Funding

TIME: 1 HR

TOPIC LEARNING OBJECTIVES

Upon successful completion of this topic, the student will be able to:

1. Identify the name and use for each of the major appropriations associated with Defense Acquisition Management.
2. Identify the specific obligation and expenditure “windows” for the five appropriations associated with defense acquisition.
3. Given a funding shortfall, apply the rules governing the use of expired funds to resolve the problem.
4. Match the DoD funding policies (annual funding, incremental funding, and full funding) to their key characteristics.
5. Relate the applicable funding policies to each of the DoD appropriation categories of greatest interest to acquisition programs, and recognize the difference between incremental and full funding policies and to which appropriations each applies.
6. Identify the key characteristics of the two exceptions to the full funding policy.
7. Identify the proper DoD Appropriation Category to be used for each of the three phases of product improvement (modernization).

STUDENT PREPARATION

Student Support Material

1. None

Primary References

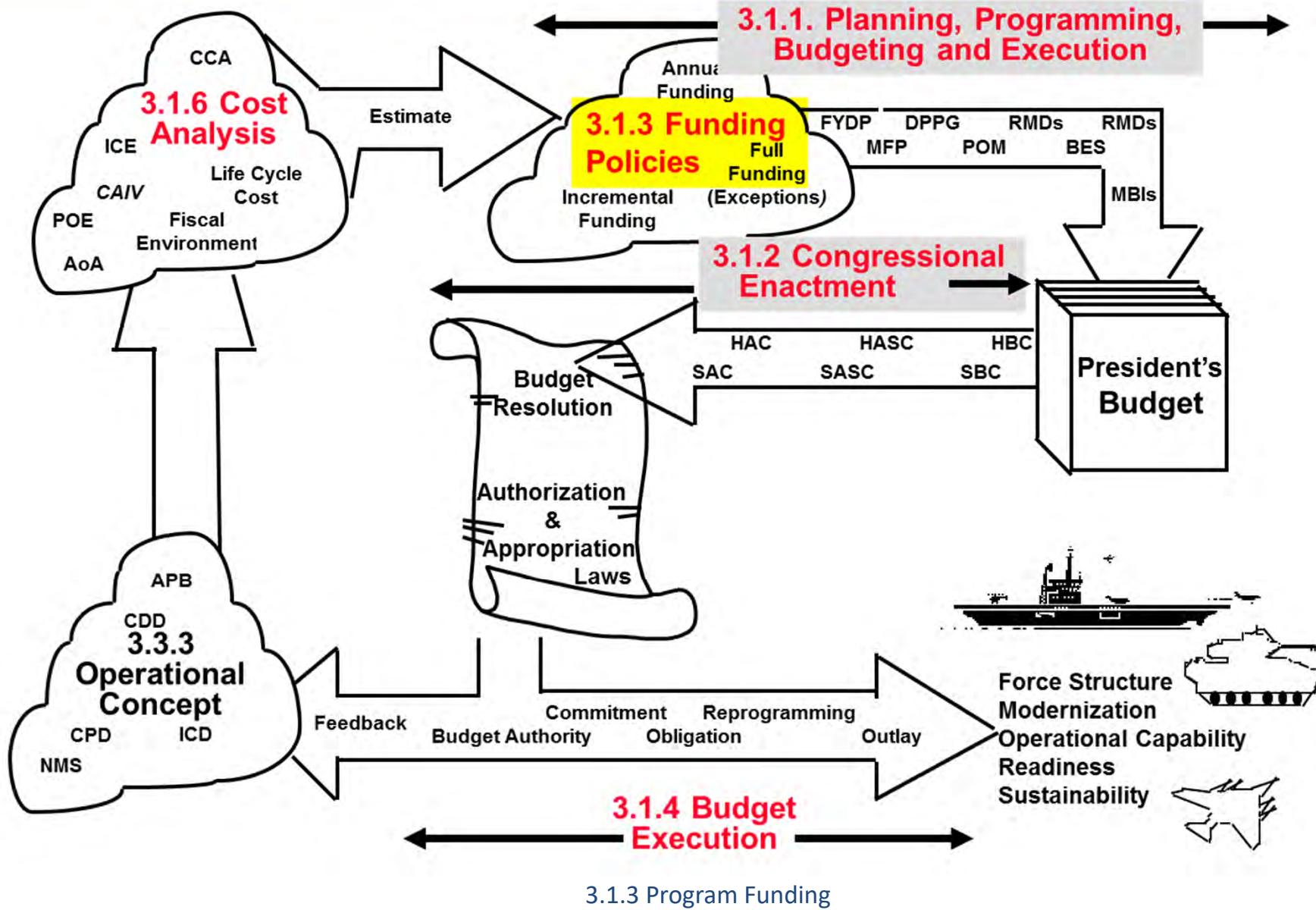
1. DOD 7000.14-R Financial Management Regulation
<https://comptroller.defense.gov/FMR/>
2. OMB Circular A-11 (latest version AUG 2021)
<https://www.whitehouse.gov/wp-content/uploads/2018/06/a11.pdf>

Additional References

1. DAU BFM 0040 - Budget Policy



From Requirement to Capability





Overview

- Financial Terms
- Appropriation Categories
- DoD Funding Policies
 - Annual
 - Incremental
 - Full
- Exceptions to Full Funding
 - Advance Procurement
 - Multiyear Procurement
 - Others
- Funding Product Improvement

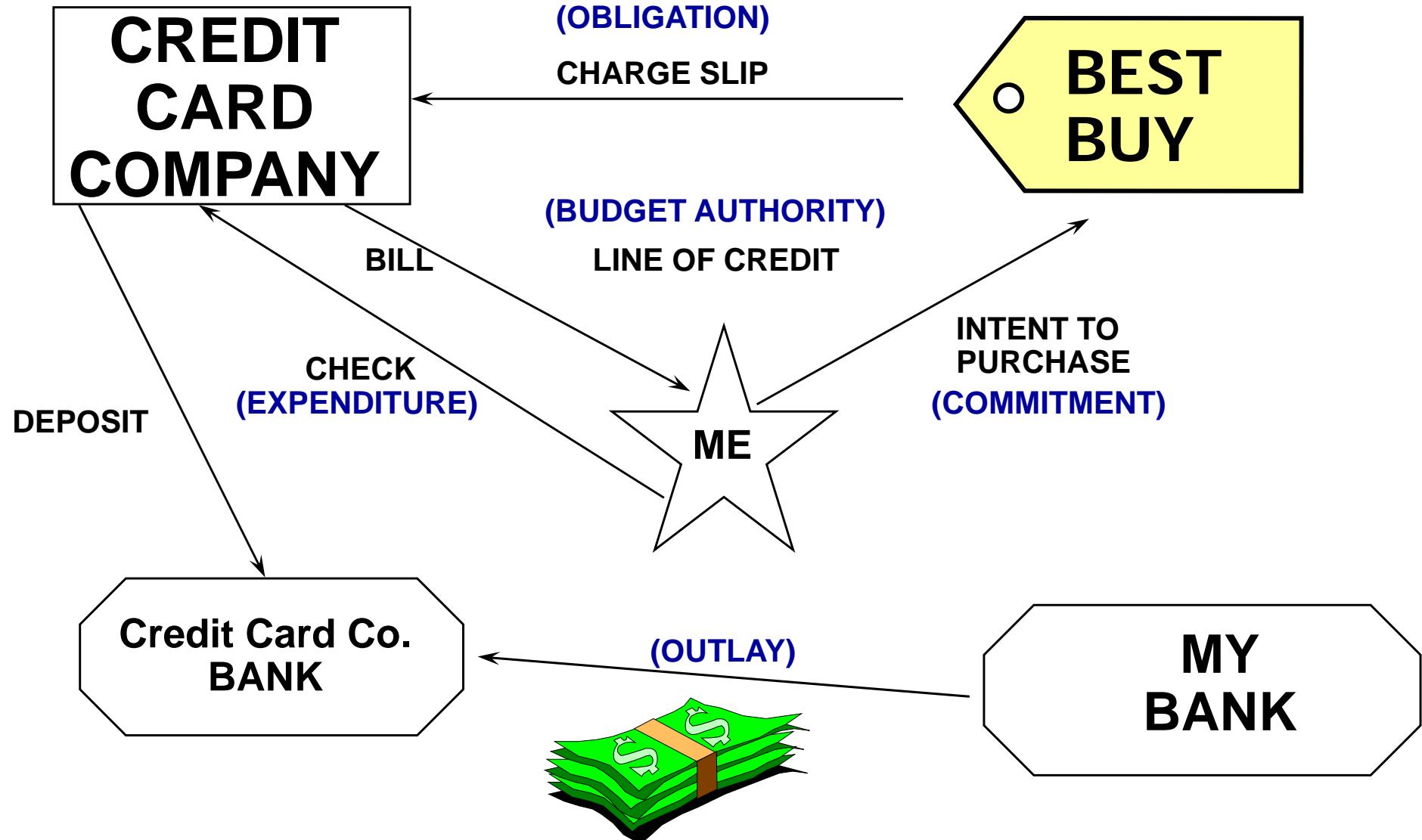


Financial Terms

- Budget Authority
 - Authority granted by appropriation law to enter into obligations that will result in immediate or future outlays
- Commitment
 - Administrative reservation of funds, usually by the local comptroller, in anticipation of a future obligation
- Obligation
 - Legal reservation of funds to make a future payment of money
- Expenditure
 - Charge against available funds. It results from a voucher, claim, or other document approved by competent authority
- Outlay
 - Occurs when the vendor cashes the expenditure check and money flows from the Treasury to the vendor or supplier



Financial Terms Example





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Major Defense Appropriation Categories

Category	Scope of Work Effort	Obligation Window
Research, Development, Test and Evaluation (RDT&E)	RDT&E activities and expenses, R&D facilities, pre-acquisition work to design new ships and weapons systems	2 years
Procurement	Purchasing of end items (ships, aircraft, weapons systems) \geq \$750K system unit cost, initial spares, labor for certain production related functions (i.e., item assembly, quality assurance)	3 years 5 years - SCN
Operation and Maintenance (OM&N)	Replenishment spares, fuel, civilian salaries, construction projects \leq \$2M, travel	1 year
Military Personnel (MILPERS)	Military personnel expenses (i.e., orders, pay and allowances, PCS moves)	1 year
Military Construction (MILCON)	Acquisition (design and/or construction) of facilities costing $>\$2M$	5 years



DoN Appropriation Accounts

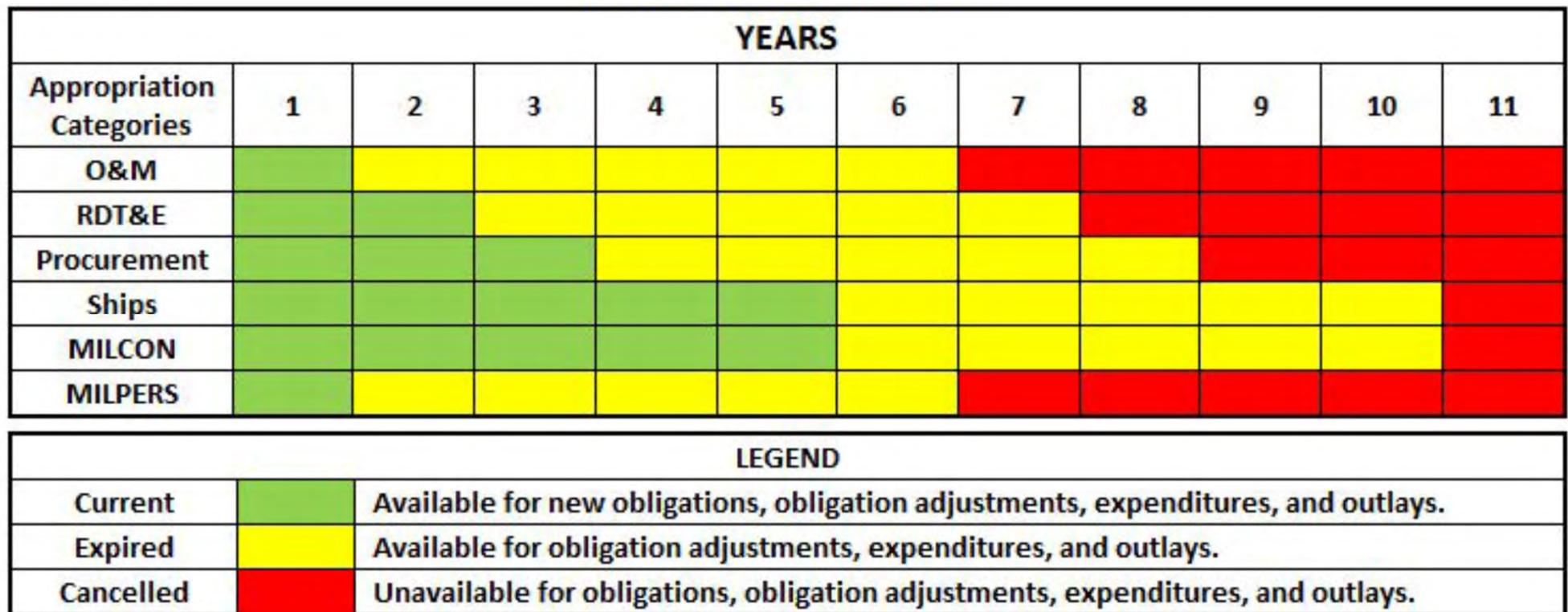
- Military Personnel
 - Military Personnel, Navy (MPN)
 - Reserve Personnel, Navy (RPN)
 - Military Personnel, Marine Corps (MPMC)
- Operation and Maintenance
 - Operation & Maintenance, Navy (O&M,N)
 - Operation & Maintenance, Navy Reserve (O&MNR)
 - Operation & Maintenance, Marine Corps (O&MMC)
- Research, Development, Test & Evaluation
 - Research, Development, Test & Evaluation, Navy (RDT&E,N)
- Procurement
 - Aircraft Procurement, Navy (APN)
 - Weapons Procurement, Navy (WPN)
 - Shipbuilding and Conversion, Navy (SCN)
 - Other Procurement, Navy (OPN)
 - Procurement, Marine Corps (PMC)
- Military Construction
 - Military Construction, Navy (MCN)
 - Family Housing, Navy and Marine Corps (FH,N&MC)

Appropriation accounts are often referred to as “colors of money”



Appropriations Life-cycle

- All appropriations go through a 3-phase life-cycle
 - Current (Obligation windows 1-5 years)
 - Expired (Expenditure window 5 years)
 - Cancelled





Practical Exercise

- Time is Aug 2025. Your program has FY22 OPN Funds. Can the Procuring Contracting Officer (PCO) sign a contract to finance the redesign of a weapons systems with the FY21 OPN?
- Time is Jan 2025. Your program has FY24 RDT&E. Can the PCO sign a contract with MIT for a 6-month research effort that is expected to commence in Feb 2025?



Appropriation Obligation Windows

Appropriations	Window
– Military Personnel	1 Yr
– Operation and Maintenance	1 Yr
– Research and Development	2 Yrs
– Procurement	3 Yrs
• Exception: Shipbuilding and Conversion, Navy	5 Yrs
– Military construction	5 Yrs



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Annual Funding Policy

- Applies to expense (annual) appropriations
 - Operations & Maintenance
 - Military Personnel
- Policy requires an organization request budget authority only for the estimated cost of the goods or services needed in a given fiscal year
- Major exception to this policy is service contracts whose period of performance crosses fiscal years and is non-severable
 - e.g., system design or building conversion that is scheduled AUG-NOV





Annual Funding Policy

Expense	FY 1	FY 2	FY 3	FY 4
Civ Pay	\$ 500 K	\$ 510 K	\$ 520 K	\$ 531 K
Supplies	\$ 25 K	\$ 35 K	\$ 27 K	\$ 29 K
TDY	\$ 30 K	\$ 40 K	\$ 35 K	\$ 40 K
Service Contract	\$ 40 K	\$ 50 K		
Budget Request	\$ 645 K	\$ 585 K	\$ 582 K	\$ 600 K

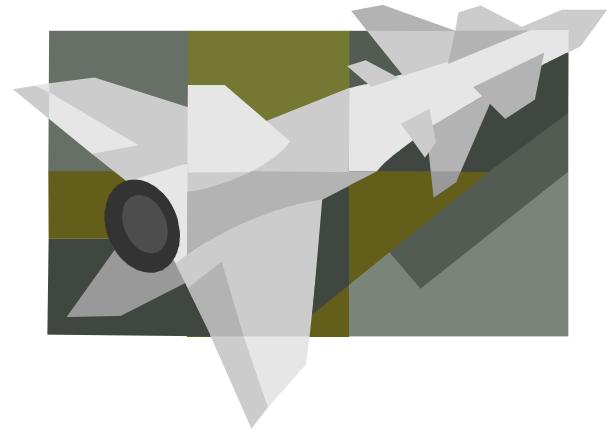
Period when expenses are being incurred

3.1.3 Program Funding



Incremental Funding Policy

- Applies to ***RDT&E***
 - Provides flexibility to the Government in this uncertain environment
- Policy requires an organization request incremental funding ***only for those costs expected to be incurred for work done during a given fiscal year***
 - Government will obligate funding only for work to be performed during a given fiscal year
- Congress has authorized the Navy to utilize incremental funding for SCN on certain ship programs (CVN, SSBN, LHA/LHD)
- Intent is to achieve effective “rationing” of scarce funds among research programs



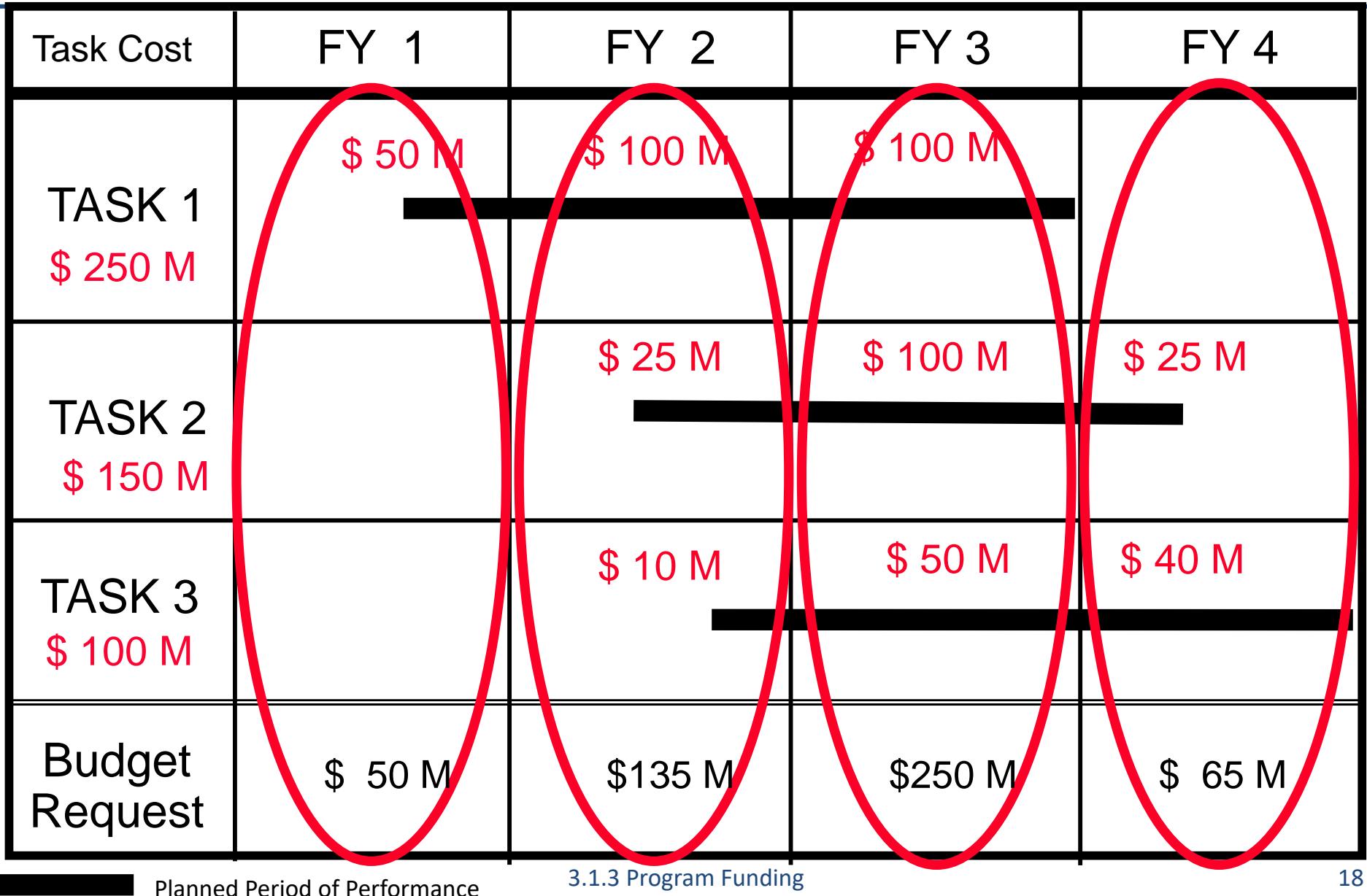


Incremental Funding Example

- A research effort is expected to take 28 months to complete, with a total estimated cost of \$260 million. The effort is planned to begin in January 2024 (FY24) and end in April 2026 (FY26). Based on analysis of the tasks to be completed in each fiscal year, it is estimated that costs will be incurred according to the following distribution:
 - FY24: 35%
 - FY25: 45%
 - FY26: 20%
- Using the incremental funding policy, the budget requests for this effort would be:
 - FY24 =
 - FY25 =
 - FY26 =



Incremental Funding Example





Full Funding Policy

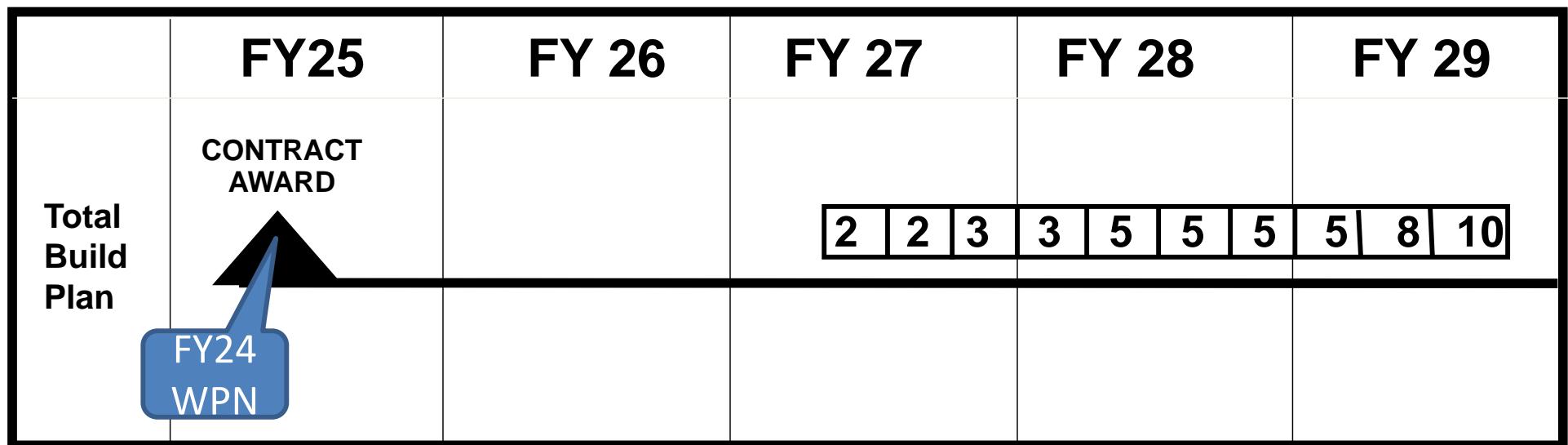
- Applies to investment appropriations:
 - All Procurement (including SCN)
 - Military Construction (MILCON)
- Annual Budget Request must cover the total cost to deliver a given quantity of complete, usable end items in a 12-month funded delivery period (starting with delivery of the first item)
- Two key restrictions:
 - Must request all funds necessary for a usable end item (can't piecemeal and budget for hull in one year and engines in the next)
 - If purchasing multiple end items, cannot budget for more end items than can be delivered in a 12-month period (can't budget for 18 helicopters in a given year if it takes longer than 12 months between accepting delivery of the 1st and 18th helicopters)
- Annual procurement contracts may have a base year plus one or more option years
 - Exercised at Government's discretion and no penalty/cost for not exercising option





Procurement (WPN) Practical Exercise 1

Initial Plan



Can you accomplish this legally?



Procurement (WPN) Practical Exercise 1

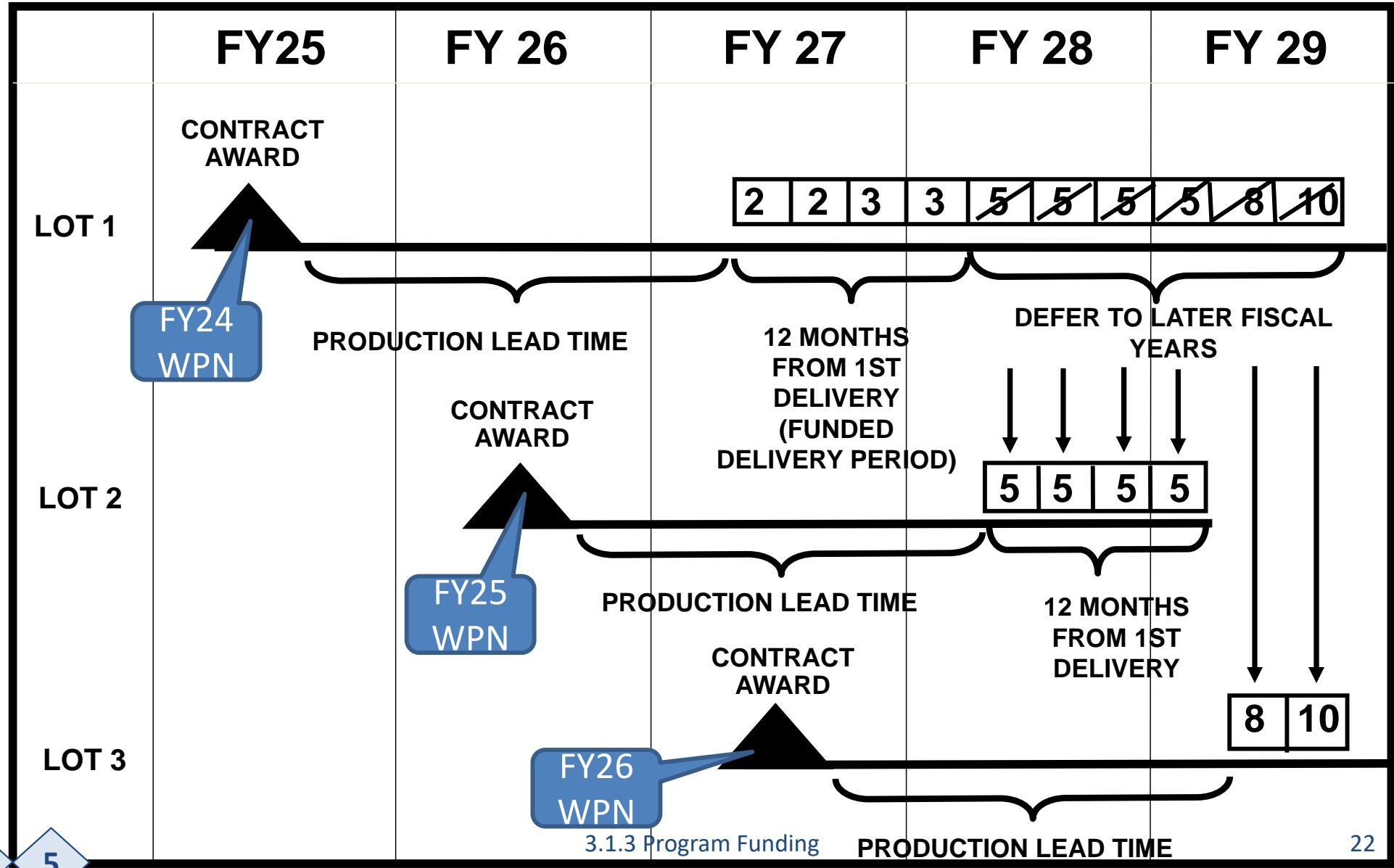
Analysis

- Initial plan appears to violate the Full Funding Policy because deliveries from this contract are accepted over a 2-year period (requirement is <12 months)
 - Why? This plan ties up FY25 dollars for products that won't even be delivered until FY29. We want to avoid tying up dollars earlier than necessary because there are many immediate unfunded priorities those funds could be used for. Better to procure the units that are delivered after the first 12 months with future year dollars
- Solution: structure the contract(s) such that deliveries are provided in lots that can be delivered within 12-month periods
 - Separate contracts could be used for each lot or options can be included in a single contract for future deliveries
 - Fund the contracts or options with funds from the year the contracts are let or options executed



Procurement (WPN) Practical Exercise 1

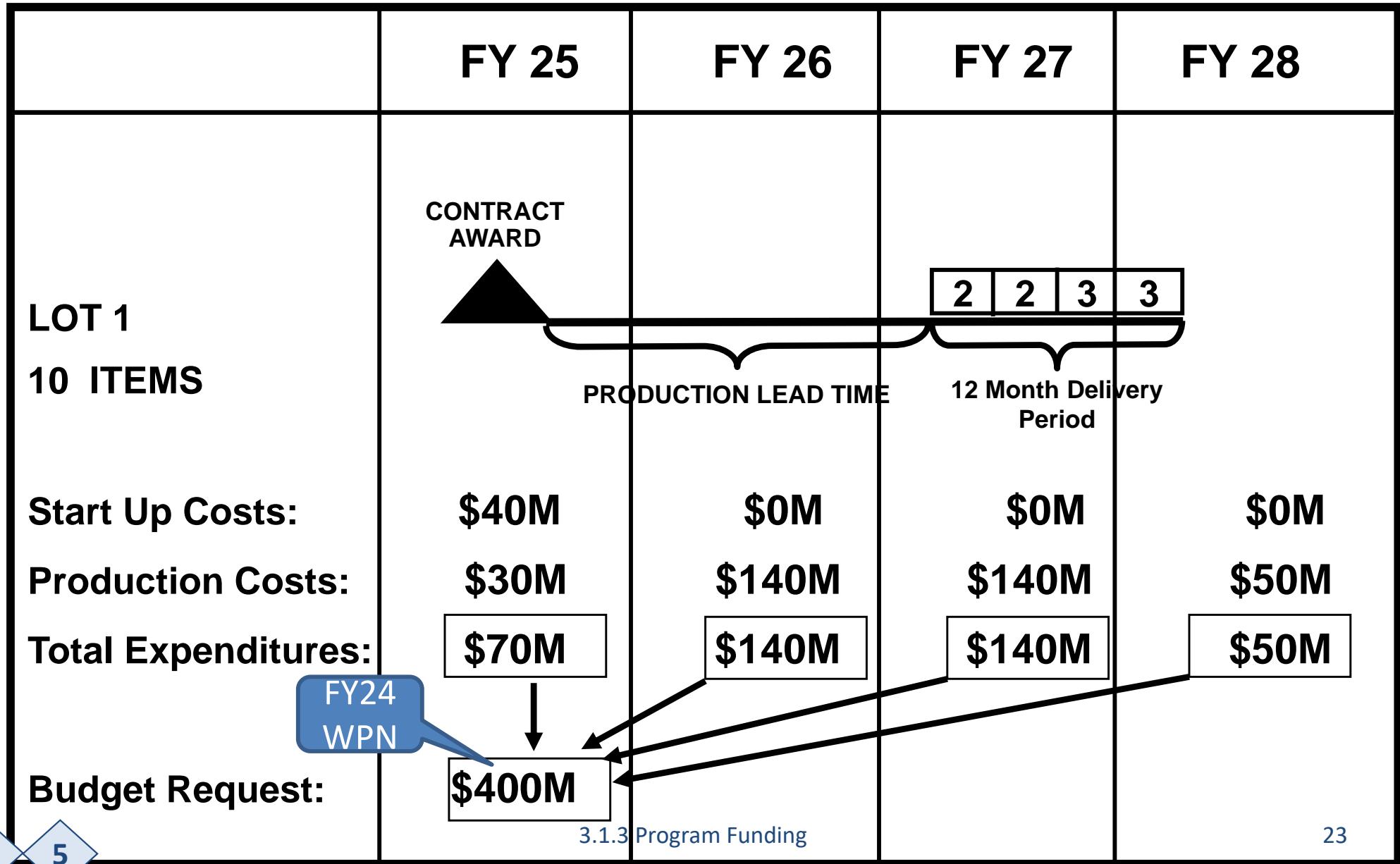
A better plan....





Procurement (WPN) Practical Exercise 1

Budgeting Example





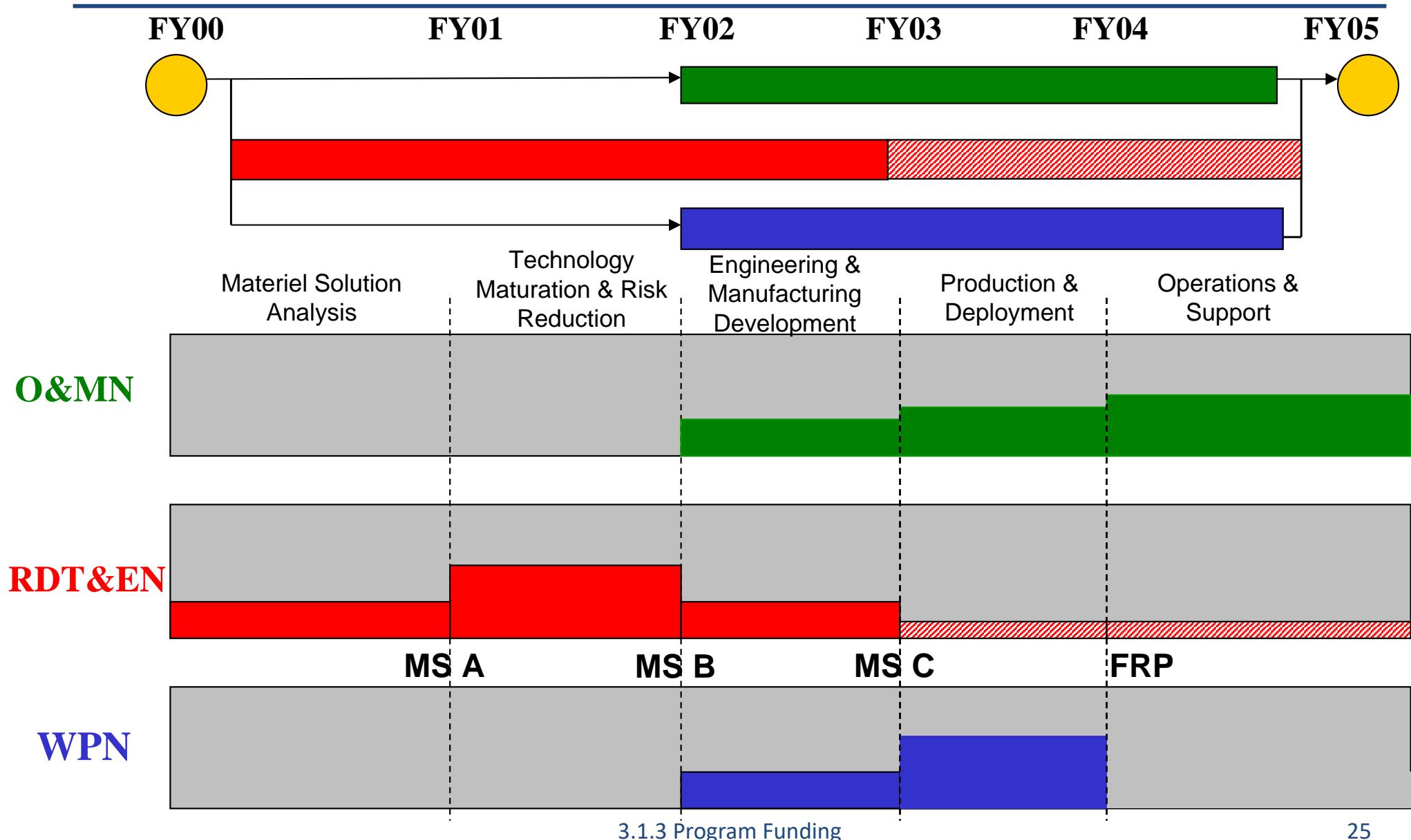
Funding Policy Summary

Appropriation	Funding Policy
RDT&E	Incremental*
Procurement	Full
O&M	Annual
MILPERS	Annual
MILCON	Full

*select SCN with Congressional approval



Program Funding Profiles (Practical Exercise 2)





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Advanced Procurement (Long Lead Items)

- Exception to Full Funding Policy
 - Contained in Acquisition Strategy
 - Approved in Milestone Decision
 - Separate initial contract
- Permits budgeting for less than a complete end item (long lead components):
 - To protect production schedule
 - To maintain a critical skill in the workforce
- Budget Authority requested in advance of the related end item contract
- Shown as a separate line item on the budget request





Advanced Procurement Example

	FY 1	FY 2	FY 3	FY 4
LOT 3 (\$400M) 20 Items		\$ 400M		
LOT 4 (\$700M) 38 Items			\$ 700M	
Advance Procurement		- \$ 10M	- \$ 15M	
BA Adv Proc BA System	+ \$ 10M	+ \$ 15M \$ 390M		\$ 685M
BA Total (FY)	\$ 10M	\$ 405M	\$ 685M	\$ - 0 -



Advanced Procurement Example

UNCLASSIFIED

Department of the Navy
FY 2016 President's Budget
Exhibit P-1 FY 2016 President's Budget
Total Obligational Authority
(Dollars in Thousands)

Appropriation: 1611N Shipbuilding and Conversion, Navy

Line No	Item Nomenclature	Ident Code	FY 2016 Base		FY 2016 OCO		FY 2016 Total	
			Quantity	Cost	Quantity	Cost	Quantity	Cost
<hr/>								
	Budget Activity 02: Other Warships							
1	Carrier Replacement Program	A						
	Subsequent Full Funding (CY)				1,634,701			1,634,701
	Completion of Prior Year Shipbuilding (CY)							
2	Carrier Replacement Program							
	Advance Procurement (CY)				874,658			874,658



Multiyear Procurement (MYP)

- MYP is a single contract
 - For acquiring a specific quantity of usable end items
 - To be delivered over a period of time greater than one year but no more than five
- Exception to Full Funding Policy in that whole end items may not be financed in a given year and the 12-month maximum delivery period is exceeded
 - Congress provides Authorization of the entire contract scope at contract award via the National Defense Authorization Act (NDAA)
 - Contract is still funded and budgeted on an annual basis
 - Congress provides annual Appropriations



Multiyear Procurement (MYP)

- Benefits:
 - Brings stability to the acquisition & budgeting process
 - Increases Contractor productivity by providing stable backlog (“order book”) of work
 - Reduces program cost growth
 - Provides assurance to Contractor of future years procurement
 - Encourages Contractor investment in productivity improvements
 - Provides program stability
 - Facilitates Economic Order Quantities (EOQ)
 - Reluctance to cancel MYP contract once it is in place (penalty)
- Potential challenges:
 - Government may be liable for a penalty for early cancellation of contract
 - If Congress does not provide funding requested, DoD would be required to renegotiate, suspend, or terminate the contract
 - Can’t budget for termination liability
 - Controversial concept (both in Congress and OSD)



Multiyear Procurement (MYP)

- Required criteria Programs must meet to enter into a MYP:
 - Significant savings compared to annual contracting (guidance ~10%)
 - Stable requirements
 - Stable design
 - Confidence in cost estimates
 - Confidence in Contractor's ability to produce
 - Commitment to funding by Service, OSD, and Congress for current and out years
 - System being procured enhances national security
- Initiation of a MYP:
 - DoD submits a MYP to Congress through the President's Budget
 - If approved by Congress, the MYP will be authorized in the Authorization Act and Appropriation Acts
- After Initial MYP Approval by Congress:
 - Service Requests required budget on a "year-by-year" basis to obligate against the contract
 - Congress appropriates on a "year-by-year" basis



Multiyear Procurement (MYP) Example

- DDG-51 was a 62-ship class (FY85-05)
- The 1st DDG MYP for 12 ships (FY98-01) and the 2nd DDG MYP for 11 ships (FY02-05) combined to save over \$1B
- The 3rd DDG MYP for 9 ships (FY13-17) saved \$1.5B allowing the program office to exercise the option for a 10th ship





Other Exceptions

- Block Buy Contracting
 - Similar to multiyear procurements, but with fewer restrictions
 - No permanent statute governs use. Invented in FY98 NDAA for procurement of first four Virginia Class submarines
 - Navy could not demonstrate that it had a stable design (required for MYP) since none had been built yet
 - Not to be confused with “block buys” which is just buying multiple copies of something (possibly under full funding policy)
 - Applied to first 10 LCS and the follow-on Virginia blocks

FY98 NDAA

(b) CONTRACT AUTHORITY- (1) The Secretary of the Navy may enter into a contract for the procurement of four submarines under the New Attack Submarine program.

(B) shall provide for--

(i) construction of the first submarine in fiscal year 1998; and

(ii) advance construction and advance procurement of materiel for the second, third, and fourth submarines in fiscal year 1998.



Other Exceptions

- Cost to Complete (a.k.a. Prior Year Completion)
 - Requested when the Government realizes costs to complete construction of a ship under contract are greater than the amount of appropriated funds available for that ship
 - Requires asking Congress to appropriate additional funding to complete construction
 - Used as a risk management tool by the PM in an effort to fund the contract to the most likely cost

FY 16 SCN Appropriation

Completion of Prior Year Shipbuilding Programs, \$389,305,000.

In all: \$16,852,569,000, to remain available for obligation until September 30, 2020, of which \$389,305,000 shall remain available until September 30, 2016, to fund completion of prior year shipbuilding programs: *Provided*, That amounts made available for prior year shipbuilding programs may be transferred to and merged with appropriations made available for such purposes in prior Acts: *Provided further*, That



Other Exceptions

- Refueling Complex Overhauls (RCOH)
 - Congress allows these to be incrementally funded

FY 16 NDAA

SEC. 126. REFUELING AND COMPLEX OVERHAUL OF THE U.S.S. GEORGE WASHINGTON.

(a) **REFUELING AND COMPLEX OVERHAUL.**—The Secretary of the Navy may carry out the nuclear refueling and complex overhaul of the U.S.S. George Washington (CVN–73).

(b) **USE OF INCREMENTAL FUNDING.**—With respect to any contract entered into under subsection (a) for the nuclear refueling and complex overhaul of the U.S.S. George Washington, the Secretary may use incremental funding for a period not to exceed six years after advance procurement funds for such nuclear refueling and complex overhaul effort are first obligated.



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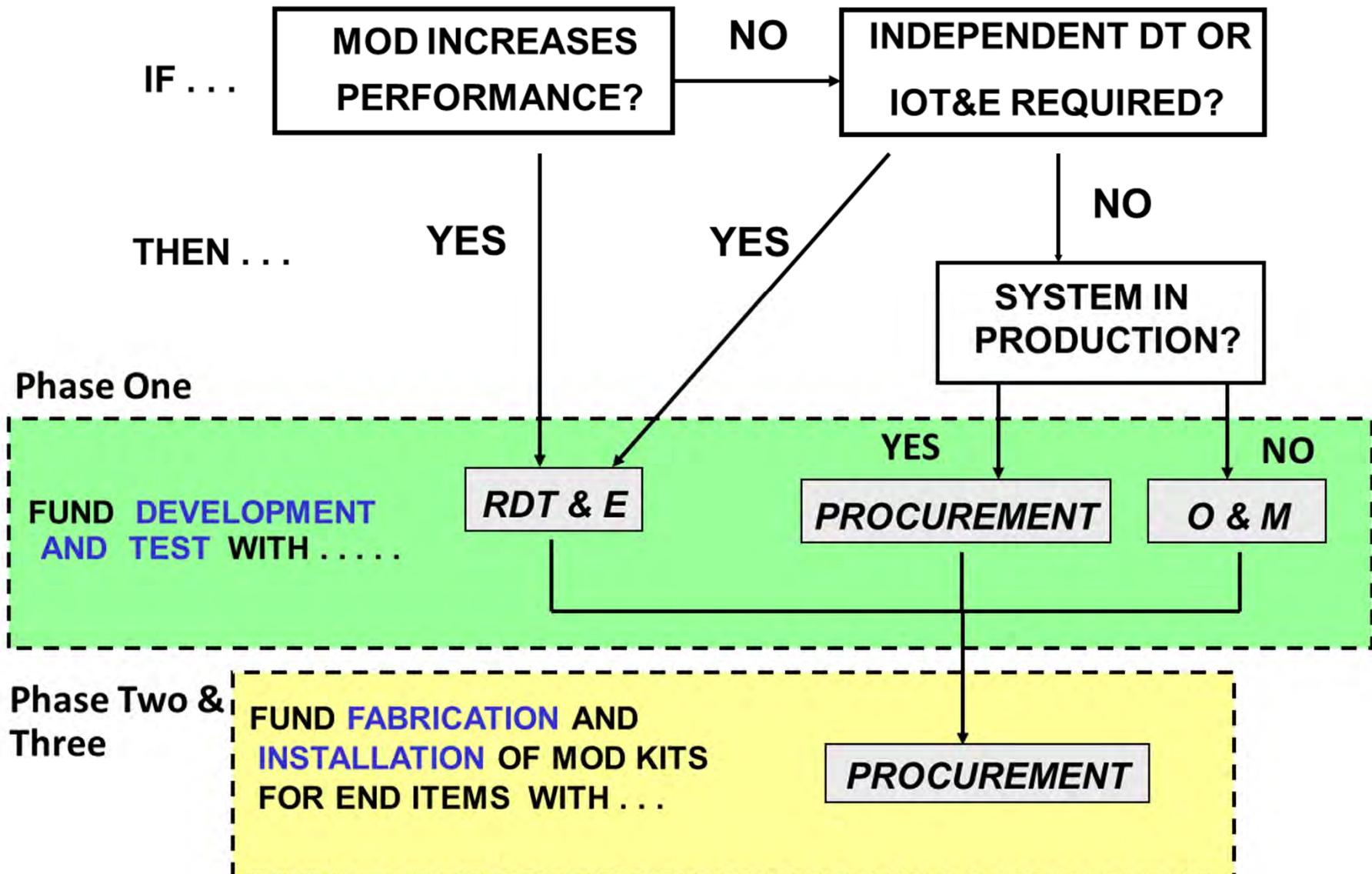


Product Improvement Funding Type by Phase

- Phase 1 (Development and Testing)
 - Research Development Testing and Evaluation (RDT&E) used when:
 - Modification provides a performance enhancement or
 - Independent Developmental Testing (DT)/Integrated Operational Testing and Evaluation (IOT&E) is required
 - If RDT&E is not justified, then:
 - Procurement - Used when the system is already in production, for example commercial-off-the-shelf (COTS)
 - Operations and Maintenance (O&M) - Used when the system is no longer in production
- Phase 2 (Fabrication) - Procurement
- Phase 3 (Installation) - Procurement



Product Improvement Funding Decision Tree





MILCON Funding

- The culmination of the acquisition budget process is the submission of an annual Military Construction Program to Congress for authorization and appropriation
- Military Construction (MILCON) is the acquisition (design and/or construction) of facilities costing greater than \$4,000,000 in support of active and reserve military requirements
- Sustainment includes maintenance and repair activities that are funded with O&M
- Modernization is the alteration or replacement of facilities to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years, and is funded with Other Procurement

It is expressly forbidden to incrementally fund a project to avoid MILCON triggers



Summary

<u>APPROPRIATION</u>	<u>ABBREVIATION</u>	<u>OBLIGATION</u>
MILITARY CONSTRUCTION, NAVY	MCN	
MILITARY CONSTRUCTION, NAVAL RESERVE	MCNR	
SHIPBUILDING & CONVERSION, NAVY	SCN	
AIRCRAFT PROCUREMENT, NAVY	APN	
WEAPONS PROCUREMENT, NAVY	WPN	
OTHER PROCUREMENT, NAVY	OPN	
RESEARCH, DEVELOPMENT, TEST & EVALUATION	RDT&EN	
OPERATIONS & MAINTENANCE, NAVY	O&MN	
OPERATIONS & MAINTENANCE, NAVAL RESERVE	O&MNR	
MILITARY PAY, NAVY	MPN	
RESERVE PAY, NAVY	RPN	



Summary

- What are the three program funding policies and to which appropriation do they apply?
 -
 -
 -
- What are the two primary exceptions to the Full Funding policy?
 -
 -
- What are the phases and types of money used when doing product improvements?
 - Phase 1
 - Phase 2
 - Phase 3



Summary

- (True/False) Unexpended funds that have expired may be used to pay for new obligations.