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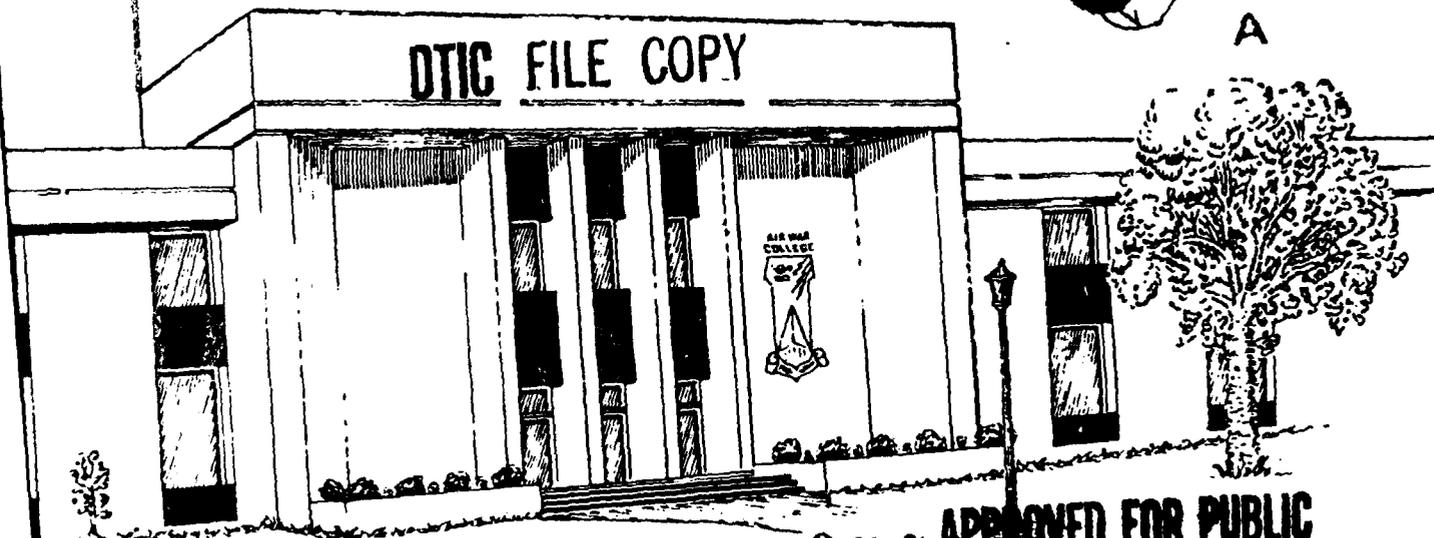
AD-A159 266

AN ALTERNATIVE TO THE ONE YEAR O&M
BUDGET AND APPROPRIATION

By LEUTENANT COLONEL E.C. SMITH

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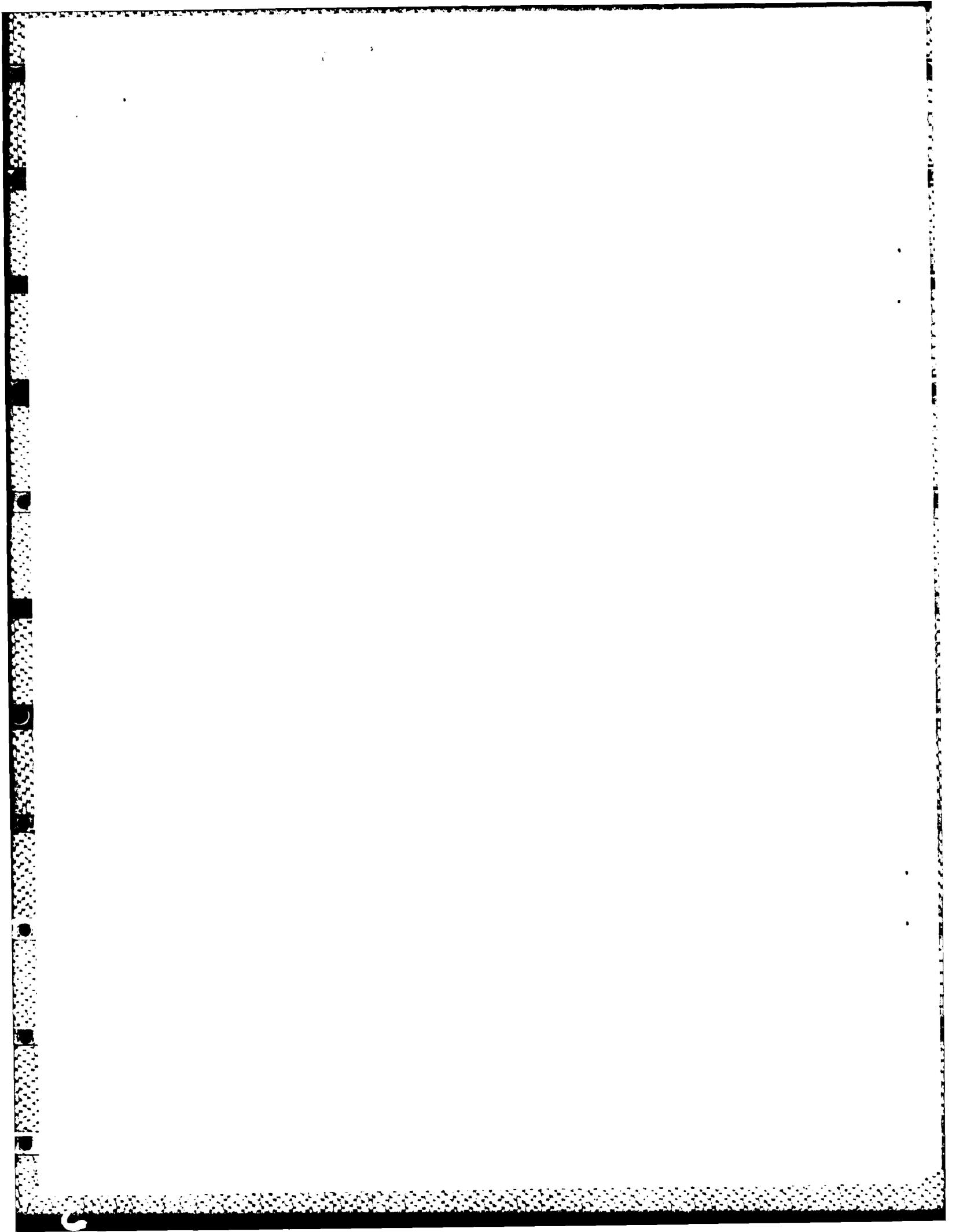
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AN ALTERNATIVE TO THE ONE YEAR O&M
BUDGET AND APPROPRIATION

by

E.C. Smith
Lieutenant Colonel, USAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE RESEARCH
REQUIREMENT

Research Advisor: Lieutenant Colonel Richard D. Clark

MAXWELL AIR FORCE BASE, ALABAMA

May 1985

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: An Alternative to the One Year O&M Budget and Appropriation

AUTHOR: E.C. Smith, Lieutenant Colonel, USAF

Provides some background information on what items are included in the Operations and Maintenance Appropriation. A description of the current procedures for budgeting and appropriating the funds for O&M within the Air Force follows, which also identifies problems with the current procedures for this 12 month appropriation.

As an alternative, a two year budget and appropriation is described followed by a discussion of the potential advantages and disadvantages. Program stability is seen as the major advantage while the perceived loss of control by Congress is viewed as the major disadvantage.

A two year test of the alternative is proposed.

BIOGRAPHICAL SKETCH

Lieutenant Colonel E. C. "Butch" Smith (BA, Texas A&M University, MS Troy State University) has been assigned to the Comptroller career field since 1970. He served as budget officer for HQ USAF Recruiting Service, HQ 7th Air Force in Vietnam, and Keesler Technical Training Center. Later he was the base comptroller at Peterson Air Force Base and Chief of Comptroller Plans at HQ Strategic Air Command. Most recently he served as the Executive Officer to the Deputy Chief of Staff Comptroller at HQ Strategic Air Command. He is a graduate of the Professional Military Comptroller School, Air Command and Staff and the Air War College, class of 1985.

TABLE OF CONTENTS

CHAPTER		PAGE
	DISCLAIMER-ABSTAINER	ii
	ABSTRACT	iii
	BIOGRAPHICAL SKETCH	iv
I	INTRODUCTION	1
II	BACKGROUND	2
III	CURRENT PROCEDURES	5
IV	AN ALTERNATIVE	9
V	ADVANTAGES TO THE ALTERNATIVE	11
VI	DISADVANTAGES OF THE ALTERNATIVE	15
VII	CONSIDERATIONS	17
	LIST OF REFERENCES	19

CHAPTER I

INTRODUCTION

The purpose of this research paper is to articulate an alternative to the current annual Operations and Maintenance (O&M) budget and appropriation. I will do this by first providing some background information, then outlining the present procedures and the requirements of annual budgets and appropriations for O&M. I will also present some viewpoints which indicate some problems with the current procedures. Next, I will present the alternative and discuss my views on how it would work. Following that I will provide some possible advantages to the alternative system and, to insure that both sides are presented, I will then address some possible disadvantages. Finally, I will conclude with some thoughts for consideration.

CHAPTER VI

DISADVANTAGES OF THE ALTERNATIVE

The potential disadvantages of this alternative include a possible perceived loss of control by Congress. It is only natural to assume that extending the appropriation, which will probably result in doubling (or at least significantly increasing) the amount of funds authorized and appropriated will result in either a real or perceived loss of power or influence by the body that controls the appropriation. Specifically, the House and Senate Appropriations, Authorization, and Budget Committees might think that such an alternative is aimed at usurping their power or authority. Individual Congressmen and Senators could be at a disadvantage in that their specific terms of office might not coincide with the appropriation cycle. Conceivably they could "inherit" an appropriation with which they have to "live" for two years. However, according to Mr. Jacques S. Gansler over 95 percent of the members of Congress who run for office again are re-elected, resulting in a Congress with far greater stability than its members are willing to acknowledge. (5:68) Naturally, even with the one year O&M appropriation, there exists some of these problems; however, not to the degree that a two year appropriation would present.

One other potential concern with this alternative is the fact that budgeting and/or predicting requirements for more than a one year period might be more difficult than is the current case. At least

Engineering function would also benefit from such an alternative. Currently, this organization is restricted with regard to time available to prepare, design, and complete projects either by contract or in house. They often tend to bunch up towards the end of the fiscal year creating additional workload not only for the engineers, but also for contracting and budget. Under the alternative proposed, this "time crunch" would, at the very least, be extended to every two years, and, hopefully, due to the longer planning and execution periods, be further reduced.

Finally, there would be some decreased reporting requirements. The degree of this decrease is difficult to predict, regardless, there should, in fact, be a decrease. It could come about as a result of reporting requirements from installation to MAJCOM, MAJCOM to HQ USAF, or HQ USAF to DoD or Congress. At the very least, the formal end of fiscal year reports would be stretched to cover the increased period of the appropriation. This would also result in decreased workload, both with regard to time and effort and paper, computer time, etc, at all levels.

Another definite advantage would be decreased paperwork and workload at all levels, installation, MAJCOM, HQ USAF, DoD, and, most importantly, Congress. At the congressional level, the alternative should result in allowing the on-time passage of the appropriations act. In addition, it should allow time for better congressional understanding of the O&M requirements. Probably one of the most severe problems associated with the ability of Congress to perform their annual fiscal responsibilities is that of time constraint. The implementation of two year budgets and appropriations will alleviate this problem. The result should be beneficial, not only to Congress but also to the services. At installation, MAJCOM, and HQ USAF levels the workload should be almost cut in half. This is true not only of the actual effort and manpower used during the annual budget submissions, but also of the amount of paperwork, printing, postage, etc. required for the preparation of the documents.

With a two year O&M appropriation the current year-end spending problems would also be cut or possibly eliminated. With a known two year program commanders at all levels would better be able to identify a priority of spending needs and thus, avoid last minute panics (often brought about by late passage of appropriations). This would also result in positive impacts in other functional areas where year-end spending and close out activities are concerned. For example, the contracting agencies would have twice as long to spread out their contracts for renegotiation and renewals. Hopefully, this would result in better contracts and prices for the Air Force. The base level Civil

industry--where the annual production rate for many items is well under 100 units--the cancellation of only a few units can have drastic impact. The uncertainty is compounded as the numbers are jerked up and down as the process winds to a conclusion--usually at the last possible moment. Industry--and ultimately the taxpayer--pays a high price for the instability that is part and parcel of the one-year budget cycle. (6:2)

In addition, under the recent Continuing Resolution Authorities (CRAs) new programs or new starts are not allowed. Thus, although the new program may have the "blessing" of Congress, its implementation is often delayed until the actual appropriations act is passed. Not only is this detrimental to the particular program, but frequently the time delays cost additional funds. Under a two year appropriation the CRA should disappear along with the negative impact it has on new programs.

A good example of two year O&M stability would be the ability to plan, develop, and execute a two year flying hour program. Under such a situation, proficiency, training, and operational flying hours would be more accurately forecast. The added stability should have a direct and favorable impact on the flying mission.

Another advantage cited in the Heritage Foundation report was in the area of strategy:

The lack of program stability generated by a one-year budget cycle prevents the military from doing effective long-range strategic planning in much the same way it prevents proper planning in industry. The lack of stability forces both to focus on the short range The "outyears" of the five-year plans--the years beyond the first fiscal year of the budget--grow increasingly fictitious as they are further removed from the single year under budget consideration A two-year cycle would ease timing problems, spread the work load, and permit policy deliberation and the integration of more fully articulated strategies. One extra year more than doubles the period for effective planning. Real plans cannot be completed until the budget process is complete--until appropriations are provided. (6:5)

CHAPTER V

ADVANTAGES TO THE ALTERNATIVE

There are numerous possible advantages to this alternative system of budgeting and appropriating for O&M. The most important one would be that this system would provide an enormous amount of stability for the missions that the O&M appropriation supports. Longer planning periods with known fiscal limits would obviously prove both more effective and efficient. Currently, with the programs and missions supported by the O&M appropriation, it is very difficult to develop, implement, and execute plans of more than one year's duration with any degree of confidence or reliability. Recently The Heritage Foundation issued a report entitled "The Advantages of Two-Year Budgeting For The Pentagon". The single most acknowledged benefit mentioned in the report was that of stability:

The current process leaves little time for defense contractors to plan, let alone execute, a contract. They can seldom reap the benefits that could accrue from economic production rates, stable employment levels, planned subcontract procurement, and more carefully thought out capital investments. Jacques S. Gansler (defense analyst and former Deputy Assistant Secretary of Defense) has estimated that the lack of multiyear funding and resultant budget and labor instability cost the nation at least 6 percent of production expenditures--several billion dollars annually. The economies of scale, the efficiency of multiyear contract planning, the savings associated with keeping trained and competent manpower, and the advantages of informed, minimum risk investment generally are sacrificed in a system of one-year procurements This process, business soon learns, requires hedging. Managers are inclined to focus on short-term sure profit. They are less willing to invest in plant and production equipment that could mean substantial, long-term savings when they must plan with assurance only one year at a timeIn the defense

same manner as is now the case with the obvious exception being the data would be for more than a 12 month period. The remainder of the congressional review process would be much the same as now except that they would appropriate for more than a one year period. Once initiated there would possibly be a requirement for some type of congressional review of the appropriations's execution status during the next fiscal year's normal budget cycle.

Execution of a two year O&M appropriation would/should receive a significant amount of emphasis. Mr. Puritano recognizes execution as a problem of the current system:

Neglect of execution was also evident. The emphasis and rewards were focused on the front-end justification of programs and the obtaining of appropriations. In addition, most of the time of managers at all levels of DoD was spent on shepherding their programs through the various PPBS cycles. Program execution functions were generally neglected. (8:6)

Under this alternative there would probably be a need for a revision to the two year budget submission. This requirement would most likely be brought about as a result of program changes, major changes in inflation or pay rates, and other unplanned contingencies. As a result of these types of changes in requirements, I foresee a possible need to continue the current procedure of the Air Force preparing and submitting supplemental appropriations requests to Congress, probably during the period just following the Congressional review of the appropriation status (midway through the life of the O&M appropriation).

CHAPTER IV

AN ALTERNATIVE

An alternative to the above situation would be to budget and appropriate for the O&M account on a two year basis. Mr. Puritano makes the following recommendation:

A third option would be for the Congress to seriously think about a biennial budget for defense. This could improve DoD's ability to manage and plan as well as better realize economies of stability. While the two-year process would require some careful and detailed development in order to preclude unintended problems and side effects, I believe that when done intelligently it could result in benefits for both DoD and for the Congress. For instance, Congress could concentrate in the first year of the process on overall DoD strategy, defense policy, goals and objectives, and major programs and weapons systems. In the second year, Congress could conduct more specific oversight reviews on programs and project details. (8:9)

Mr. Puritano goes on to recommend that the Congress consider biennial budgeting, possibly through a pilot program in an area where there is agreement between the executive and legislative branches. I believe that the O&M appropriation within the Air Force is such a candidate.

For example, the FY 87/88 O&M budget and appropriation could be prepared by starting with the same time frame as is currently utilized. In the month of October 1985, MAJCOMS would request a two year O&M budget from the subordinate units. During the December until March period, the MAJCOM would work to consolidate their submissions to Air Force. At HQ USAF the MAJCOM information would be used in much the

As a matter of fact, a defense appropriations act has been passed by the beginning of the fiscal year it is supposed to govern in only 3 of the past 32 years. (5:71)

Thus a considerable amount of time and effort is put into developing a financial plan which covers a 12 month period and, recently, the amount of time to execute the program, once known, is often much less. This is supported by the following quote from, then, Office of the Secretary of Defense (OSD) Comptroller, the Honorable Vincent Puritano:

The major problem that the Defense Department continues to have with Congress, however, is the year-long Congressional budget review process that concentrates more on programmatic and budgetary detail than on policy level, strategic or mission oriented, goal-related analysis and review. Confusing and contradictory decisions are made and conflicting signals are sent as the defense budget request moves through the Budget, Armed Services, and Appropriations committees and subcommittees. The appropriations act is then usually late, and DoD spends weeks trying to put the fiscal pieces together, both to carry out the final Congressional decisions and to plan the following year's budget request. (8:10)

Even the Grace Commission was able to identify problems with the current system:

Meaningful budgeting, planning, and evaluation are generally lacking at both the agency and central Government levels. Specifically, the budget is not fully used as a management tool. Budget preparation is stressed instead of budget execution and control Further, time constraints on the annual budget and appropriations process focuses concern on only the subsequent fiscal year Potential means of strengthening include . . . adopting a biennial budget approach to add time for consideration of long-term management needs. (7:54-55)

May 15	Committees report bills and resolutions authorizing new budget authority
May 15	Congress completes action on first concurrent resolution on the budget
September Labor Day)	Congress completes action on bills and resolutions providing new budget authority and new spending authority
September 15	Congress completes action on second concurrent resolution on the budget
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second concurrent resolution
October 1	Fiscal year begins (1:A-1)

Thus, the reader can gain an appreciation of the time and effort required to prepare an annual O&M budget within the Air Force and how that blends in with the overall Congressional budget cycle. Once the appropriation is approved and the necessary authority and funding are delegated to the users, then the execution phase begins.

Effective with FY 77 Congress changed the fiscal year from 1 July - 30 June to 1 October - 30 September. One of the reasons for the change was to allow more time for passage of the annual appropriations act. However, this is still an unresolved problem. In recent times the 12 months allocated for execution has been reduced by the continued late passage of the appropriations act:

FY 78 was enacted on 21 September 1977	
FY 79 was enacted on 13 October 1978	
FY 80 was enacted on 21 December 1979	
FY 81 was enacted on 15 December 1980	
FY 82 was enacted on 29 December 1981	
FY 83 was enacted on 21 December 1982	
FY 84 was enacted on 8 December 1983	
FY 85 was enacted on 12 October 1984	(1:A-2)

unit input and staff interaction, the FY 87 OB was prepared repricing the approved program established in the prior year POM and Budget Estimate Submission cycle for anticipated FY 87 execution. The OB does not address command initiatives being proposed for the FY 87-91 POM review. The second O&M budget submission (FP) addresses proposed execution for the next fiscal year. This normally begins during the month of January when the MAJCOMs issue a "call" to subordinate activities. In many cases, this "call" is issued before formal guidance is received from HQ USAF, in order to provide the units more time to prepare a quality input. After receipt of the field level input and review by the MAJCOM staff, a coordinated financial plan is submitted to HQ USAF in the May time frame. The input is used to refine the anticipated program execution, provide additional information for application of Congressional reductions, and identify unfunded requirements. The FY 86 FP, for example, will be reviewed by the Air Staff in June, 1985. (2)

The entire Congressional Budget Timetable follows:

CONGRESSIONAL BUDGET PROCESS

ON OR BEFORE	ACTION TO BE COMPLETED
February 1	President submits his Budget
March 15	Committees and joint committees submit reports to budget committees.
April 1	Congressional Budget Office submits report to budget committees
April 15	Budget Committees report first concurrent budget resolution to Congress

CHAPTER III

CURRENT PROCEDURES

Under the current Planning, Programming, and Budgeting System (PPBS), each wing, intermediate headquarters, and Major Air Command (MAJCOM) Headquarters within the Air Force is required to prepare an annual O&M budget. The specific requirements may differ within each MAJCOM, but generally, they are the same. AFM 172-1, Volume II, Chapter 6 establishes the basic instructions for preparing and submitting the operating budget (OB) and financial plan (FP):

The evolution of the planning, programming, and budgeting process for O&M requirements has resulted in the current procedures of separate submissions for the program year (operating budget) and the budget year (financial plan). The OB is submitted early each fiscal year and is used to make MAJCOM inputs to the program objective memorandum (POM). The basic purpose of the OB is to ensure that the baseline for O&M is valid and properly priced as a point of departure for program changes that occur during the POM development process. The basic purpose of the FP submission is to ensure an equitable apportionment of the President's Budget for the next fiscal year (budget year) that is consistent with the accomplishment of the Air Force program objective. The FP is submitted after the President's Budget has been submitted to Congress and concerns the fiscal year that begins on the following October 1. The use of separate submissions for the program year and budget year has improved the ability of the Air Force to properly price the O&M baseline and to insure that additions/deletions to O&M during the POM process are programmatic to the maximum extent possible. Further, submitting the FP approximately 4 months before a fiscal year begins enables MAJCOMs to use more current information in determining their O&M plan. (10:52)

As an OB example, for the FY 87-91 POM cycle, each command initiated action during the October/November 84 time frame to identify program changes that would impact O&M funding. Through subordinate

ending 30 September. Under the law new orders or obligations cannot be placed against the current fiscal year appropriation after 30 September. By comparison, there are other appropriations which are available for obligations in excess of a one fiscal year period. For example, the Military Construction Appropriation is open for obligations for five years or as long as required to complete the particular construction project (whichever is less). The obvious rationale being that it is not always possible to complete a construction project in a 12 month period. (It should be noted that Congress approves the Military Construction Appropriation by line item, i.e. by each specific project). Similarly, the procurement appropriations such as aircraft and missiles and related spares are open for obligations for a three year period and the Research, Development, Training and Evaluation Appropriation is open for three years. When initially approved by Congress these appropriations were designed to coincide with the time frames required to properly serve their purposes. Whether or not the 12 month period properly serves the purpose for O&M is questionable.

For Fiscal Year 1985 the initial active Air Force budget request for O&M by commodity was:

Purchased services-----	29%
Civilian pay-----	18%
DPEM-----	17%
Supplies & equipment-----	12%
AV POL-----	11%
Travel & transportation-----	6%
Other & communications-----	4%
Utilities and rents-----	3%

TOTAL \$20.2 Billion

The breakout by Major Force Program (MFP) for FY 85 was:

FY 85 O&M (Dollars in Billions)

Strategic Forces	\$3.223
General Purpose Forces	4.138
Intelligence & Communications	2.225
Airlift	1.309
Central Supply & Maintenance	6.701
Training, Medical & Other	2.064
Administration	0.566
Support of Other Nations	0.008
TOTAL	\$20.235

(1:C-25)

Currently this appropriation is for a one year period and, naturally, coincides with the fiscal year beginning 1 October and

CHAPTER II

BACKGROUND

One of the many responsibilities levied upon Congress by the Constitution under Article I, Section 8 is "to raise and support armies, but no appropriation of money to that use shall be for a longer term than two years." Over the years this two year restriction has been given a limited interpretation. (9:11) Regardless, current law requires the United States Air Force and other services and federal agencies to provide an annual budget identifying their operating (open-the-door) requirements for the upcoming fiscal year. Within the Air Force a significant portion of these requirements fall into a category entitled Operations and Maintenance (O&M). Included in this category are many of the basic, day-to-day requirements of running the United States Air Force. For example, pay for civilian employees, purchased services, supplies and equipment, aviation petroleum, oils, and lubricants (POL), travel and transportation, utilities and rents, depot purchased equipment maintenance (DPEM), communications, and other miscellaneous items. In other words, this category of funding includes almost everything except military pay, retirement pay, investment equipment purchases, aircraft purchases, missile purchases, major construction projects, stock fund requirements, family housing, and research and development funding.

initially, there might be a tendency to be overly conservative and "hold back" a "pot" for contingencies. This, in theory, could result in more rather than less year-end spending problems. This situation would require considerably more emphasis being placed on execution. Although this may or may not be a disadvantage, it certainly is a departure from today's emphasis on Planning, Programming, and Budgeting. One MAJCOM comptroller calls it the missing "E" in PPBS.

(4)

A final disadvantage would exist merely because we are departing from the norm. Change from "the way we have always done it" is resisted. The conversion to a new system would require a considerable amount of study, planning, and problem solving prior to implementation. An Air Force wide education program would have to also be developed to insure that all of the key players and planners become knowledgeable. Programs would have to be developed and written which allow for conversion from the current system without any loss of computer data, since it is anticipated that during a test period dual records would have to be maintained. This extra workload, both with regard to manpower and computers, would also be a potential disadvantage.

CHAPTER VII

CONSIDERATIONS

In view of the above, I believe that a test of a two year O&M budget and appropriation is justified. In my opinion the advantages outweigh the disadvantages and there seems to be a consensus that the current system needs to be modified. This consensus is based on numerous articles by Congressmen, a former DoD Comptroller, and even the private sector. (Rep Quayle, Sen Armstrong, Mr. Puritano, and the Grace Commission). As a matter of fact, recently a panel of military experts recommended some major changes in the Pentagon's budgeting system. One such change is a proposal for a two year budget cycle. (3:1,3,4)

I believe most of the potential disadvantages could be overcome by proper planning and implementation. For example, the alternative could be implemented at the beginning of a new Congress and eliminate the problem of not coinciding with terms of office (at least initially). Although listed as a potential disadvantage, the shifting of emphasis from Planning, Programming, and Budgeting to execution is not all bad. I do not recommend having Congress use execution reports as measures of effectiveness or even having MAJCOM commanders doing the same with their comptrollers or commanders; however, I do believe that looking at execution and comparing it to budget forecasts and program status could result in major improvements in both the planning and budgeting functions.

In conclusion, I recommend favorable consideration be given to testing a two year budget and appropriation cycle for the Air Force Operations and Maintenance Appropriation. During the test necessary workload, efficiency, and effectiveness records should be maintained to document test measurements. However, it is probably impossible to measure all of the benefits/consequences of such a test and, therefore, the intangibles must also be carefully considered. The Air Force test should be accomplished at several different bases, with fairly constant missions with regard to O&M. Prior to implementing such a test HQ USAF might develop a questionnaire to be sent to all MAJCOMS, intermediate headquarters, and wings asking for their thoughts and opinions on a two year O&M appropriation. After this information is gathered and appropriately utilized, the test should be implemented. Its duration should be for two years and designed in such a manner that Congress is kept informed of the progress in a timely manner. Once the test results have been studied I predict that they will validate converting the O&M appropriation to at least a two year cycle. In addition, other one year appropriations might then become candidates for extension as well. The benefits may well be enormous.

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