THESIS

COMMANDER, U.S. NAVAL SURFACE FORCES, PACIFIC, BUDGET PROCESS

by

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June, 1991

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## Abstract

This thesis researches the method by which Commander, U.S. Naval Surface Forces, Pacific develops an annual budget and the role of the type commander in the Planning, Programming, and Budgeting System. It also examines the methods, vehicles, and procedures the CNSP comptroller and his staff employ to gather, evaluate, and prioritize budget proposals from major subordinate commands. Additionally, perennial budget issues and budget strategies employed by CNSP to achieve its mission and finance the naval bases and surface ships of the Pacific Fleet are addressed.

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by

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ABSTRACT

This thesis researches the method by which Commander, U. S. Naval Surface Forces, Pacific develops an annual budget and the role the type commander plays in the Planning, Programming, and Budgeting System. It also examines the methods, vehicles, and procedures the COMNAVSURFPAC comptroller and his staff employ to gather, evaluate, and prioritize budget proposals from major subordinate commands. Additionally, perennial budget issues and budget strategies employed by COMNAVSURFPAC to achieve its mission and finance the naval bases and surface units of the Pacific Fleet are addressed.
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I. INTRODUCTION

A. PURPOSE.

The purpose of this research is to examine the annual budget process of Commander, U.S. Naval Surface Forces, Pacific (COMNAVSURFPAC) including perennial budgeting issues and the budget strategies COMNAVSURFPAC (CNSP) employs. The objective of this thesis is to improve the analysis and understanding of Navy type command budgeting procedures. A further goal is to offer a newly assigned staff officer of a type activity or major shore command insight into the budgeting process of a type commander or similarly organized public activity.

This thesis is designed to provide a basic understanding of the budget process employed at COMNAVSURFPAC equally for the inexperienced individual reporting for an initial assignment in the budget arena or the well seasoned budget professional new to the CNSP environment. It documents detailed budgeting procedures and strategies employed at the type commander level as well as presenting the budget concerns of the subordinate commands. Perennial budget concerns are addressed and the strategies COMNAVSURFPAC implements to minimize their effect. In addition, a brief overview of the budget process of the Department of Defense is presented in an
effort to demonstrate COMNAVSURFPAC's role in developing the budget request of the Department of Defense.

B. PROBLEM STATEMENT.

How does the Commander, U.S. Naval Surface Forces, Pacific, prepare it's annual budget proposal for submission to Commander in Chief, U.S. Pacific Fleet? The mission of the Comptroller of COMNAVSURFPAC (CNSP) and his staff is to distribute and monitor the efficient spending of Operating and Maintenance, Navy and Other Procurement, Navy funds provided by Chief of Naval Operations via Commander in Chief, Pacific Fleet to assigned afloat and shore based activities. Additionally, the staff is responsible for collecting, evaluating, assigning priorities, and providing recommendations on budget requests presented by assigned afloat units and shore activities for consideration by the Department of the Navy for inclusion in the Department of Defense's Planned Objective Memorandum (POM). In fulfilling it's mission CNSP, not unlike any large organization, experiences perennial budget problems. This thesis documents the type commander's budgeting process, discusses the perennial budget issues, and addresses the budget strategies and techniques employed by CNSP in the development and submission of the annual budget.
C. BACKGROUND.

The Armed Forces of the United States are currently proceeding with what may be the largest peacetime reduction of forces in history; certainly in the history of the United States. What has caused this unprecedented turn of events? Five primary events can be pointed to. They are intertwined and inseparable.

First, the Soviet Union's loss of power in Eastern Europe. This reduction of power has been caused by the collapse of the Soviet economy, internal strife within the Soviet Union, the failing economy of Eastern Europe, and the Soviet unwillingness to maintain domination over satellite governments with occupying military forces in place since World War II.

Second, beginning with the withdrawal of Soviet occupying forces, an emergence of democracy in Eastern Europe has taken place resulting in the ousting of several communist governments (e.g. Poland, Romania, Yugoslavia), the destruction of the Berlin Wall, and the unification of Germany.

Third, the declaration of victory in the "Cold War" by the allies of the North Atlantic Treaty Organization (NATO), predominately the United States, over members of the Warsaw Pact, predominately the Soviet Union. The Soviets have agreed to the total withdrawal of forces, both conventional and
nuclear, from Eastern Europe lessening the threat of a communist invasion of Europe.

Forth, reliance of the United States civilian leadership upon the strategy that the withdrawal of Soviet involvement in Eastern Europe is irreversible. The strategy presumes a period of two years is required for the Soviets to modify their intentions and shift to an offensive posture to effectively threaten Europe with conventional forces. The strategy also relies on U.S. leadership quickly recognizing a reversal of Soviet intentions and taking prompt action to meet the challenge.

Fifth, the current large budget deficit of the United States and the prevalent feelings throughout the grassroots of the country that federal spending must be reduced, and with it, the deficit.

As a result, the current administration met with the members of Congress in a budget summit and agreed upon the level of government spending until FY 95. One of the issues resolved was the agreement on the amount to be spent on the Department of Defense. Subsequently, the Secretary of Defense has announced one of the largest reductions in the Uniformed Services since World War II to meet the budget reductions. Fully one-third of the standing divisions of the United States Army are going to be eliminated. One-third of the active air wings of the United States Air Forces is going to be decommissioned. The United States Navy will be reduced from
584 ships to 4.5, nearly a 17 percent cut. In past reductions of forces, the reserves were expanded to allow for the recall of organized units in the event of a national emergency. This reduction sees an equal reduction in the size of the reserves. Only the U.S. Marines, whose mission seemingly has evolved into a rapid response force for regional crises will suffer only a modest reduction of less than 10 percent.

Current economics and budget pressures are also being exerted on the remaining military forces. Cuts in operating funds, fuel, flight and steaming hours, maintenance funds, construction funds, and reduction in personnel makes accomplishing the mission that much more difficult. Many of these key issues must be solved within military. In the Navy the economic focus occurs at the type commander level. The type commander is the officer that must evaluate the details of budget proposals in his "Force" and make recommendations to higher authority. Additionally, he is the officer that must make the funding decisions that effect every member of his organization. The job of funding the surface ships of Pacific Fleet, the shore commands, ensuring combat readiness, and maintaining and improving the quality of life for its personnel is the responsibility of Commander, United States Surface Forces, Pacific.

The methods in which a large military organization collects information, addresses subordinate concerns, makes budgeting priorities and drafts a budget proposal is lengthy
and complicated with difficulties and problems common to all large business or government organization. Some process of gathering budget information and setting priorities is conducted by all organizations large and small, civilian and military, federal and municipal, private and non-profit. A study of the processes used by COMNAVSURFPAC to formulate its budgeting priorities, overcomes inherent perennial budgeting problems and implement budget strategies will lead to a better understanding of the way CNSP, other type commands and public organizations perform this task.

D. SCOPE.

This research will be a case study limited to the budgeting process at CNSP headquarters, Naval Amphibious Base, San Diego, Ca.. The budgeting process utilized by CNSP, combined with the perennial budgeting issues as well as the strategies employed to minimize their effect, to expeditiously develop the annual budget are the main research topics of this thesis. It also presents an overview of the Department of Defense budgeting process in an effort to demonstrate the role a type commander fills in the overall defense budget. This project will not focus on the procedural problems of any specific year but on the process that is used every year.

This thesis is not an attempt to document the budgeting procedures employed by every type commander or assert a specific methodology or procedure in order to ensure the
expeditious preparation of an annual budget. This thesis is the documentation of the budgeting procedures, processes, and policies of COMNAVSURFPAC as detailed in official instructions and notes as well as related in personal and telephone interviews of the comptroller staff. Nor is this thesis an effort to catalog all of the budgeting issues or justify and defend the reasoning behind these issues. It simply documents the existence of major procedural issues as discussed in personal and telephone interviews with the comptroller staff of CNSP and provides the reasoning for the budget issue. Budget reports and exhibits will be limited to the reports and exhibits applicable as directed in appropriate COMNAVSURFPAC instructions. Budget execution is beyond the scope of this document and is recommended for future research.

E. METHODOLOGY.

Research data for this thesis was collected by several methods. First, detailed research of the budget procedures, policies, and processes employed by COMNAVSURFPAC was conducted by a thorough examination of official instructions and notes under the signatures of Commander, U.S. Naval Surface Forces, Pacific, Commander in Chief, U.S. Pacific Fleet, and the Comptroller of the Navy. Second, budget processes, procedures and policies were discussed with the comptroller staff in San Diego in a field trip and subsequent telephone interviews. The comptroller staff instructed the
researcher of CNSP procedures in collecting, evaluating, and the setting priorities in budget requests submitted by subordinate commands and the annual budget submission procedures to CINCPACFLT (CPF). The major thrust of this project is the budget procedures of CNSP. All data collected was developed from that perspective.

Additionally, research data concerning budget issues and strategies was collected from telephone interviews with the comptroller and the staff CNSP. Once again, all data collected was developed from the perspective of the type commander's budget processes.

F. CHAPTER OUTLINE.

This thesis is organized as follows: Chapter II discusses the basic concepts and details of budgeting in the Department of Defense, and an overview of the Planning, Programming, and Budgeting system (PPBS). Its purpose is to familiarize the reader with the budget process of DOD.

Chapter III details the budget procedures utilized by COMNAVSURFPAC in collecting, evaluating, and accessing the priorities of budget requests submitted by subordinate commands and the development of the annual budget for submission to CINCPACFLT.

Chapter IV addresses the perennial budgeting issues faced by the comptroller and his staff in the development of the "Forces'" annual budget. Its purpose is to describe to the
reader the recurring budget problems that must be avoided or overcome by COMNAVSURFPAC Comptroller and his staff every year.

Chapter V is titled the "COMNAVSURFPAC Budgeting Strategies" and details the budgeting strategies and techniques the type commander employs in staying within the requirements placed upon by higher authority as well as address the concerns of the subordinate field activities.

Chapter VI presents the conclusions that were developed as a result of this research.
II. THE BUDGETING PROCESS

The recent past has seen the federal government spending approximately $300 billion annually on the Department of Defense. The Navy's share has been about one/third or $100 billion. A logical conclusion then would be a consistent defense budget in relation to a stable overall federal budget. Defense outlays, however, when measured as a percentage of federal outlays and Gross National Product (GNP) has steadily declined while other federal programs, particularly entitlement programs (social security, etc.) have steadily increased. As discussed in Chapter 1, current policy of reducing the size of the military clearly demonstrates a potential for future budget reductions for remaining active and reserve forces. It is essential for the military financial planner to understand the federal government budgeting process. Understanding the "big picture", the budget formulation process, allows a command the opportunity to obtain sufficient funding to support assigned missions and objectives.

A. ROLE OF THE BUDGET.
A budget is an financial managers tool and a planning document for a finite fiscal period. It is usually expressed in terms of:

- cost estimates, expenditures and obligations, and
- sources of financing, resources and other sources of revenue or funding.

In the military the budget is much more important than the distribution of funds. It provides a vehicle of communication between the cost centers and reviewing authority. Starting at the lowest level of a cost center, the budget submission process allows planners to inform higher levels in the chain of command of their goals and objectives for the coming fiscal period. It also provides reviewing authority with an indication of changing objectives and priorities within a cost center. Conversely, budget approval by higher authority communicates concurrence with proposed goals and objectives. An approved budget also provides reviewing authority with a yardstick or measuring device for reviewing cost center performance and evaluating the expertise of financial management during the fiscal period.

B. THE BUDGET PROCESS.

According to the "Practical Comptrollership" Manual used in courses such as the "Practical Comptroller" and the "Financial Management of the Armed Forces" taught at the Navy
Postgraduate School in Monterey, Ca. the federal budget process consists of three main phases:

1. Executive formulation and transmittal;
2. Congressional action;
3. Budget execution and control.

1. Executive formulation and transmittal.

The annual Presidential budget submitted in January to Congress represents the administration's current financial plan and details plans and priorities for the upcoming fiscal year. The focus of the budget is the upcoming fiscal year and solicits Congressional support through adequate appropriations. Although appropriations from Congress are granted on an annual basis, the budget is presented as part of a multiyear budget plan that includes the current year, the budget year, and the following four fiscal years.

The budget is submitted in January. Budget preparation begins at least nine months earlier in the spring. The President and the Office of Management and Budget (OMB) determine the proposed overall maximum federal spending limit for the federal government and provide agencies and departments with spending guidelines based on past budgeting decisions, budget consultations with Congressional leaders, and other political considerations. Agencies and departments prepare and submit budget proposals to OMB in September. A
period of budget review and compromise follows with the final budget submitted to Congress in January.

2. Congressional Action.

Congress may act to approve, reject, or modify Presidential budget proposals. It has the constitutional authority to modify funding levels, eliminate programs, create new programs, or fund programs determined ineffective or not cost effective by the Executive Department within the federal government. In providing appropriations, Congress does not vote on outlays. Votes are taken on budget authority or the authority granted to an agency or department to incur legal obligations that will result in the immediate or future payment of funds for goods or services.

The Congressional Budget Act of 1974 requires Congress to focus on budget totals prior to voting on individual appropriations in order to direct attention on an ever growing budget deficit. Simply focusing attention on the growing budget deficit did not prove effective. The Gramm-Rudman-Hollings (GRH) Act, as amended in 1987, was enacted to mandate a balanced budget by 1993. GRH has subsequently been delayed by the provisions of the Bi-Partisan Budget Summit of 1990 which provided limits on spending for the federal government. In order to stay within agreed spending targets, Congress adopts a concurrent budget resolution prior to voting on individual appropriations. The concurrent budget resolution
acts as a guide for Congressional decisions on total budget expenditures in a fiscal year.

Congress and the President often disagree over budgets. Most recently in the late summer and early autumn of 1990, President George Bush was in conflict with the Democratic controlled Congress over the administration's proposed budget. Among the contested issues was the administration's proposed level of military spending and a reduction of the capital gains tax. Congress sought to further reduce military spending and maintain, if not increase, the capital gains tax. In an effort to prevent Congress from taking such action the President threatened not to sign the budget and to allow "across the board" budget reductions required by GRH to take effect through a process known as sequestration. Sequestration is an automatic reduction of government spending required by GRH in the event Congress and the President fail to agree on a budget or Congress, with the approval of the President, fail to take action to modify the mandatory reductions. Sequestration was considered so unacceptable, it forced Congressional leadership to seriously participate in the Bi-Partisan Budget Summit. Through a series of negotiations and compromise Congress and the President agreed on well defined spending limits on Defense and Social Entitlement through FY 1995.
3. Budget Execution and Control.

Once the budget is approved by Congress and the President it becomes the basis for financial planning of the federal government annual operations. As dictated by law, most budget resources and budget authority are delegated to the agencies and departments by a system known as apportionment. The Director of OMB distributes budgetary appropriations and budget authority to the agencies through an apportionment plan based on fiscal quarters and by activities to ensure the effective use of available resources.

C. PLANNING, PROGRAMMING, AND BUDGETING SYSTEM (PPBS)

How does an the Department of Defense develop its annual budget proposal for the President and ultimately the Congress? In 1962, Robert McNamara had just become Secretary of Defense for President John F. Kennedy. Starting after his discharge from the military shortly after World War II and until his appointment to Secretary of Defense, he had worked for Ford Motor Company. Advancing through the company on the comptroller side of the organization, he eventually was appointed as President of Ford Motor Company. Mr. McNamara's professional training and his personal perspective, therefore, was as an accountant and a financial manager. As he assumed the duties of Secretary of Defense, he concluded the process the Pentagon was using for budget planning and programming for annual operations and acquisition of new weapon systems was
antiquated and ineffective. The system had, in effect, collapsed and was failing to provide useful decision making information. During his indoctrination period, he had attended a briefing by the Rand Corporation. Rand was engaged in some analysis projects for the Air Force. McNamara was impressed with the analytical processes, procedures, detailed supporting documentation, and presentation skills exhibited by the personnel employed at Rand. Once installed as Secretary, he immediately convinced several key players of Rand to accept positions within the Department of Defense. Their first task was to install the management system developed at Rand in the Department of Defense. This system, known as the Planning, Programming, and Budgeting, is currently in use and largely unchanged since 1962.

1. What is PPBS?

The Planning, Programming, and Budgeting System (PPBS) coordinates the national planning efforts of the federal governments civilian and military organizations. In the Department of Defense it assists the Secretary of Defense in resource allocation decisions among competing proposed or existing projects designed to accomplish specific goals or missions. It is fundamentally concerned with the management of resources and transforms force requirements described in the Joint Strategic Planning Document (JSPD) into budget requirements to be presented to Congress as a portion of the
The PPBS process can take in excess of two-years and involves the Office of Budget and Management (OMB), Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), and the Service Secretaries. Field activities are linked to PPBS by the major claimant and component commanders. Through this system, field activities and type commanders can play an essential role in a budgeting process, as it moves from broad planning, through definitive program objectives, to specific budget estimates.

PPBS differs with other budget formulation processes in two specific ways.

First, PPBS focuses on objectives and purposes as well as the long term means of obtaining them. PPBS does not focus on the traditional view of existing baseline and the annual incremental improvements to it. This change of focus tends to allow PPBS to be more akin to budgetary management and control.

Second, the system combines planning and budgeting through programming. Programming allows a process for an equitable distribution of scarce resources among competing programs or projects.

The Planning, Programming, and Budgeting System is based on a simple concept and sequence of events. A specific threat is determined through careful analysis of all available
information. Based on the threat, a strategy is developed to meet the threat. Requirements are determined to support the strategy. Programs are started to provide the elements of the requirements. Finally, a budget is authorized to fund development, testing, production, and fielding of the program.

PPBS Sequence of Events

1) THREAT---2) STRATEGY---3) REQUIREMENTS---4) PROGRAMS---5) BUDGET

For example:

- Country A develops a revolutionary type of naval surface ship missile propulsion system for use on surface to surface/surface to air missiles. The new propulsion system increases the missile range from 100 nautical miles to 200 nautical miles, allowing country A's missile to be launched beyond the range of country B's electronic surveillance equipment used for missile launch detection. Shortly after testing by country A, country B intelligence covertly learns of the technical advancement. Country B's leadership realizes the importance of the intelligence and reevaluates the potential uses available to country A. A new threat has been determined.

- Country B evaluates the threat and seeks the optimum use of forces to counter the new missile threat, thus developing a new strategy.

- Country B next determines that current defense equipment inventories do not satisfactorily counter the new missile capabilities. Technical requirements are determined to acquire the adequate weapon systems designed to meet this element.

- Alternative programs are investigated to satisfy the requirements. One program may call for more sensitive electronic surveillance equipment to detect missile launch and give defending ships more warning. Another program may call for the development of longer missile fire control radars and development of a better missile
propulsion system in order to engage the new missile farther from the battle group. Another program may call for the development a radically new aircraft made of futuristic materials, carrying equipment that is beyond current technological capabilities, for surveillance and interdiction of the missiles and the launch platforms. Alternative programs are evaluated for factors such as feasibility, life cycle costs, and development time. Eventually one or more programs may be selected for further development or production.

- Selected programs are then included into a budget proposal for approval by the appropriation authority of country B.

The goal of PPBS is optimum allocation of limited resources to program alternatives available to accomplish the stated objectives, which is, in the case of the Department of Defense, the protection of the United States.

2. Phases of PPBS.

The Planning, Programming and Budgeting System is commonly discussed in three phases:

a. Planning Phase.

b. Programming Phase.

c. Budgeting Phase.

a. Planning Phase.

The planning phase is the first phase of PPBS. It consists of the global threat assessment and the formulation of a strategic plan. The planning phase is accomplished by high level military and civilian officials in the White House and the Pentagon with the objective to ensure the defense
requirements of the country are adequately provided for. This is performed in three steps:

1. Assessment of the current situation.
2. Formulation of military strategy and force levels.

Threat assessment experts gather all available information, data, and intelligence. This information is evaluated in context of the following factors:

1. The known capabilities of a potential adversaries.
2. Current international defense policy objectives.
3. The current defense posture of the United States.

Based on this synthesized information, force objectives are developed to ensure adequate defense.

Once the current threat has been thoroughly assessed, the next step in the planning phase is the development of a military strategy and the determination of proper force levels adequate to deter the perceived threat and ensure success of national defense objectives. This step involves:

1. Development of a strategy and force level unconstrained by budget realities.
2. The application of budget realities.
3. Development of strategies and force levels based on these constraints.
4. Reassessment of the current threat and determining the risks involved under the proposed force levels. Adjustment of force levels, if risk assessment is determined to be unacceptable.

The Joint Strategic Planning System is a series of documents that provides a comprehensive military appraisal of the threat to the United States. Each of these documents builds upon the previous report until force levels have been well defined. Each document contains the conclusions and recommendations of the JCS regarding national security requirements. The contents of the JCPS are as follows:

- Joint Long Range Strategic Appraisal (JLRSA)
- Joint Intelligence Estimates for Planning (JIEP)
- Intelligence Priorities for Strategic Planning (IPSP)
- Joint Strategic Capabilities Plan (JSCP)
- Joint Strategic Planning Guidance (JSPG)

and the JSCP supporting analyses:

- Strategic and Force Planning Guidance (JSPDSA I)
- Analysis and Force Requirements (JSPDSA II)

It also recommends military objectives in the support of national objectives. Although the JSFS and its supporting documents serve as the JCS input to the Defense Guidance, it is developed without regard to fiscal restraints. The resulting document of the Joint Strategic Planning System (JSPS) is the Joint Strategic Planning Document (JSPD).

The Defense Guidance (DG) provides the service secretaries within DOD the policies, force and fiscal guidance
necessary for the development of the individual service program proposals and ultimately the services' annual budget. The Defense Guidance first brings resource constraints into the planning phase. The Defense Guidance is updated every two years. Once drafted, the Defense Guidance is forwarded to the Secretary of Defense and to the Commanders-in-Chief (CINCS) of the unified command. The Defense Guidance consists of the following:

- Threat Assessment
- Policy Guidance
- Strategic Guidance
- Force Planning Guidance
- Resource Planning Guidance
- Fiscal Guidance
- Major issues for future study.

The CINCS have the opportunity to make recommendations on the draft DG. Upon signing by the Secretary of Defense the final product becomes the Defense Planning Guidance.

**FORCE PLANNING**

**Threat**

Force Requirements (JSPS)
20 Carrier Battle Groups

Program Force (DPG)
15 Carrier Battle Groups

Current Force Capabilities
13 Carrier Battle Groups
b. Programming.

The programming phase lays between the planning phase and the budgeting phase. Programming is the process that transforms the information of the Defense Planning Guide (DPG) into a financial plan of realistic and viable programs. Navy commands and activities must stay within a total dollar spending level known as Total Obligation Authority (TOA). TOA is the total amount of spending authority granted the Navy by Congress.

Programming results in the development of a major document called the Program Objective Memorandum (POM) and is supported by two other documents. They are known as the Six Year Defense Program (SYDP) and the Resource Allocation Display (RAD).

(1) Programming Documents. The Program Objective Memorandum is a document that contains information on Navy programs for periods of six years. Each program is broken down into the objectives, planned activities and cost. The first two years of the POM ultimately are submitted as the Department of Navy budget proposal.

Command and field activities update cognizant program plans to reflect to changing international and national strategies and policies, guidance from higher authority, and technological advances. The POM operates with
financial constraints but since appropriation controls do not take effect in this portion of the budgeting process, programs are often balanced or changed by sponsors within the total available funds guidelines to create a more balanced program.

The POM focuses on the first two years of the new six year information contained. For example, the data in the POM covering FY 92-93, called POM 92, is the basis for the FY 92 budget. Additionally, the budgets for the prior year, the current or budget execution year, and the next four succeeding years will be included to present a long range financial plan.

The following is a graphical representation of POM 92 and is based on a graphic in the "Practical Comptrollership" Manual published by the Navy Postgraduate School in Monterey, Ca.

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POM 92

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The Six Year Defense Program is a document containing the programs approved by the Secretary of Defense. The SYDP contains the military and civilian manpower and funding requirements of the approved programs over the next eight years. Force levels (hardware) are presented for eight years plus an additional three years. It is update five times during the biennial budget cycle and is organized by major programs and appropriations.
The following is a graphical representation of SYDP in FY 92 and is based on a graphic in the "Practical Comptrollership" Manual published by the Navy Postgraduate School in Monterey, Ca.

SYDP

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MANPOWER: x x x x x x x x x x
DOLLARS:  x x x x x x x x x x
FORCES:   x x x x x x x x x x

The Resource Allocation display is a computer representation of the allocation of Navy resources. It is updated ten times during a programming phase. Each RAD is assigned a sequential number with RAD X representing the Navy POM as submitted to the Secretary of Defense. The RAD is displayed according to:

- resource sponsor,
- claimant,
- program element,
- appropriation,
- naval warfare task, and
- line item (for procurement) or activity group (for O&M).

(2) Programming Phases. The programming phase consists of three parts. They are:
The program phases processes transform the planning forces and fiscal restraints into realistic and viable programs. Navy programmers begin with the last four years of the previous POM, known as the program years, and modify and update past program estimates. The new programming process then begins.

The new programming cycle begins with the issuance of the first memorandum of the POM Serial. The POM Serial is a series of memorandums from the Office of Director, Navy Planning Programming (OP-80) with the Office of the Chief of Naval Operations. The memos contain detailed information on conducting the programming phase and are sent to all participants in the development of the POM. POM Serial are issued throughout the entire programming phase as required by changing situations. Each memo is consecutively numbered to ensure each office has the most up to date information. Some POM periods have created up to 60 POM Serial memos.

The first POM Serial details the structure and provides guidance for the POM development process. Additionally, it assigns various responsibilities to appropriate offices and provides instructions and the phase schedule of the programming phase.
The program planning phase results in several activities. The SYDP is revised at least five times during the two year program planning phase. Each time the SYDP is updated, two RADs are issued by OP-80.

At least six of the ten RADs are issued during the program planning phase, two RADs for each updated SYDP. RAD's I, II, IV are issued after the SYDP update and are organized by resource sponsor. RAD's II, IV, and VI reflect the same updated information but are organized by claimant. Even number RAD's make it convenient for claimants to access the impact of changes in their programs. These RAD's become the basis for future inputs to resource sponsors.

A major part of the effort accomplished during the program planning phase is the development of Appraisals. Organizations under the CNO (OP-03, OP-04, OP-06, OP-07, OP-81) perform appraisals on the current SYDP. The purpose of an appraisal is to provide the CNO with a resource constrained overview of the SYDP. Warfare offices provide appraisals evaluating warfare capabilities with the propose constraints. These appraisals are coordinated into the Summary Naval Warfare Appraisal. The Summary provides the CNO with analytical information for basing resource allocation and priority decisions. The Summary Naval Warfare Appraisal is the basis for the OP-81 conducted Investment Strategy Review (ISR). The ISR analyzes resource level projections versus force requirements. The ISR focuses on core programs,
outlines potential savings and is later used during OSD and congressional reviews. Appraisals are next presented to the Program Development Review Committee (PDRC) and subsequently forwarded to the Program Review Council (PRC) or CNO executive Board (CEB).

Major claimants (CINC's) and component commanders (CINCPACFLT) have the opportunity to provide formal input to the programming process during this phase. The formal input can be made via two documents. The first formal input can be made utilized by providing a Optional Claimant Input. This document is used to document funding shortcomings that have been previously addressed. This opportunity is not always used because claimants often negotiate changes with the resource sponsor without this document.

The second opportunity for documenting inputs is the submission of a POM Issue Paper to the resource sponsor for consideration. POM issue papers document five or more issues recommending changes in programs. Each issue must be ranked according to priority as well as documenting the cost savings associated with each recommendation. Resource sponsors must address the top five ranked priorities later in the phase.

To identify and provide supporting documentation for top priorities major claimants canvas type commanders and field activities for issues. Submitting commands develop the basic POM issue papers and each issue is
evaluated and prioritized. As can well be imagined, each issue goes through a thorough process of reviewing and editing by financial budget analysts and higher level officials prior to submission of the issue paper to the resource sponsor.

The next step is for the resource sponsor to address the five top priorities detailed in the POM issue papers. Resource sponsors use the inputs from the claimants and the results from the ISR’s to develop Proposed Program Changes (PPC). The PPCs details proposed changes in program plans based on the most current information and is subsequently reflected in the following SYDP update.

Resource sponsors next present their PPC’s to the Secretary of the Navy in the Department of the Navy Program Strategy Board (DPSB). The Secretary makes program decisions that will be reflected in the Department of the Navy Consolidated Planning and Programming Guidance (DNCPPG).

Designated sponsors are then assigned the task of developing Baseline Assessment Memoranda (BAM) for specific areas. These memoranda evaluate the total costs and resources necessary to achieve and maintain a predetermined state of capability. The BAM determines the degree to which the Navy is fulfilling its mission in National defense. Sponsors give baseline funding levels that are derived from projected force levels and approved support structure. Baseline Assessments recommendations provide a balance between current fleet readiness and future force capabilities.
After the appraisals have been submitted, claimant inputs have been reviewed and evaluated, resource sponsors have submitted the PPCs and the BAMs have been completed, OP-81 develops the Secretary's Department of the Navy Consolidated Planning and Programming Guidance. The DNCPPG reflects the Secretary's and CNO program priorities and plans. It serves as the bases for program development for resource sponsors.

The program development phase begins shortly after the submission of the President's budget with the Six Year Defense Program updated and the issuance of Resource Allocation Display's VII and VIII. After the publishing of the Defense Planning Guidance the CNO develops the Consolidated Program and Fiscal Guidance (CPFG). The CPFG provides resource sponsor guidance on problem areas of cost growth for final program development and signals the preparation of Sponsor Program Proposals (SPP).

Sponsor Program Proposals are developed by resource sponsors and are used to document adjustments and updates to programs as required by the CPFG and the latest program information. SPP are based on information from the following sources:

- BAM
- CPFG
- Fiscal and manpower controls
- Required fact of life changes
• Pricing changes
• Claimants' top five issues from POM Issue Papers
• Assessment sponsor issues

Each sponsor presents his SPP to the Program Development Review Committee (PDRC). Sponsor Program Proposal Documents (SPPD) prepared by the resource sponsors document the presentations.

Following the completion of the SPPs presentation to the PDRC, assessment sponsors are once again assigned to conduct program assessments. This analysis focuses on the level to which the POM funding meets the DNCPFG and CPFG and achieves a balance among the program elements. Funding deficiencies are summarized in a Heads Up Report written by OP-80.

The final phase is called the endgame because during this phase of the cycle the POM is finished. The main process is conducted by the Secretary of the Navy, the Chief of Naval Operations and the Department of the Navy Program Strategy Board. The purpose of the meetings is to review the POM and resolve any remaining program issues. After all the issues have been resolved and the final changes have been incorporated, RADs XI and XII are issued. RAD XI is the POM and RAD XII is the POM sorted by the claimants.

After the POM has been forwarded to the Secretary of Defense, the Defense Resources Board (DRB) submit major issues or concerns with the POM, along with alternative
solutions. These issues are collected in a document known as the Issue Book. The Issue Book becomes the basis for future meeting of the DRB. A series of program review meetings is conducted by the DRB in which each issue is thoroughly discussed. At the conclusion of the meetings an impact statement of the tentative decisions/recommendations on DOD programs is forwarded to the Secretary of Defense. The Issue Book, the tentative decisions/recommendations, and the impact statement are considered by the Secretary prior to the approval of the POM.

The Joint Chiefs of Staff also review the POM to assess the ability of the programmed forces to meet the threat and carry out the strategy outlined in the Defense Guidance. The assessment is documented in a document called the Joint Program Assessment Memorandum (JPAM). The JPAM is also used by the Secretary in reviewing the POM.

The Secretary of Defense then issues the Program Decision Memorandum (PDM). The PDM approves the POM with modifications resulting from the DRB Program Reviews and the JPAM. A separate PDM is issued for each service and defense agency. It is formatted by Major Mission and Support Categories and serves as the basis for the upcoming Department of Defense budget. Changes can still be made through formal requests or reclaimas or in meeting with the Secretary of defense. Amendments are documented in Amended Program Decision Memorandums.
After all PDMs and APDMs have been received, OP-81 compiles the final decisions into the Fiscal Year Defense Plan and ensures only authorized programs remain.

c. Budgeting Phase.

The budgeting phase is the final phase of the Planning, programming, and Budgeting System. A budget represents the financial commitment of resources to support the approved programs developed in the planning and programming phases. The budget is the vehicle that transforms the planning and programming phases into funding requirements.

The budget phase proceeds in the following manner. The Service Secretaries prepare budget estimates for submission to the Secretary of Defense in September. The Office of the Secretary of Defense sponsors a series of budget hearings attended by OMB and the services and based on the Program Decision Memoranda. These hearings are the basis in which the Secretary develops his Program Budget Decisions (PBD). The services and JCS are given the opportunity to respond to the PBD. These comments are used to revise the service budget proposals. The service budget proposals are consolidated into DOD's budget submission and once again reviewed by OMB and OSD. Final approval by the Secretary of Defense in November or December results in DOD's budget proposal and ultimately is incorporated into the President's budget.
The budgeting phase is completed upon submission of the President's budget to Congress in January. It also represents the end of DOD's Planning, Programming, and Budgeting System cycle for that fiscal year.

D. SUMMARY.

In the military the budget is much more important than the distribution of funds. It provides a vehicle of communication between the cost centers and reviewing authority. The federal budget process consists of three main phases:

1. Executive formulation and transmittal;
2. Congressional action;
3. Budget execution and control.

The Planning, Programming, and Budgeting System (PPBS) coordinates the national planning efforts of the federal government's civilian and military organizations. In the Department of Defense it assists the Secretary of Defense in resource allocation decisions among competing proposed or existing projects designed to accomplish specific goals or missions. It is fundamentally concerned with the management of resources and transforms force requirements described in the Joint Strategic Planning Document (JSPD) into budget requirements to be presented to Congress as a portion of the President's budget. It brings fiscal reality to the resource allocation process.
The PPBS is a decision-making process for distributing resources allocated to the Department of Defense. The process can take in excess of two-years and involves the Office of Budget and Management (OMB), Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), and the Service Secretaries. Field activities are linked to PPBS by the major claimant and component commanders. Through this system, field activities and type commanders can play an essential role in a budgeting process as it moves from broad planning through definitive program objectives to specific budget estimates.

The Planning, Programming, and Budgeting System is based on a simple concept and sequence of events. A specific threat is determined through careful analysis of all available information. Based on the threat, a strategy is developed to meet the threat. Requirements are determined to support the strategy. Programs are started to provide the elements of the requirements. Finally, a budget is authorized to fund development, testing, production, and fielding of the program.

The goal of PPBS is optimum allocation of limited resources to program alternatives available to accomplish the stated objectives, in the case of the Department of Defense the protection of the United States.

The Secretary of Defense then issues the Program Decision Memorandum (PDM). The PDM approves the POM with modifications resulting from the DRB Program Reviews and the JPAM. A separate PDM is issued for each service and defense agency.
It is formatted by Major Mission and Support Categories and serves as the basis for the upcoming Department of Defense budget. Changes can still be made through formal requests or reclaims or in meeting with the Secretary of defense. Amendments are documented in Amended Program Decision Memorandums.

The approved Program Decision Memorandums become the Program Budget Decisions and are submitted to the President as the budget of the Department of Defense.
III. COMNAVSURFPAC BUDGET PROCESS

A. BACKGROUND

Commander, Naval Surface Forces, Pacific (CNSP) is a $4 billion a year corporation. Nearly half of the $4 billion is military personnel related, with the majority of the remaining funds Operational and Maintenance, Navy (O&M,N). The balance of the remaining funds fall under the Other Procurement, Navy heading. The current budgeting processes employed at CNSP are the result of balancing evermore restrictive funding constraints while maintaining an effective role in the fiscal budgeting process for fleet and shore commands.

O&M,N funds apportioned to CNSP flow through CINCPACFLT (CPF), the major claimant. Only thirty-two percent of CNSP O&M,N funds reserved by OP-03 ever fall under administrative funding control of the staff of CNSP. CINCPACFLT centrally manages sixty-eight percent of O&M,N funds in four major accounts:

1. Depot maintenance funds,
2. Ship fuel funds,
3. Ship charter funds,
4. Self-generating (i.e. reimbursable funds and non-appropriated funds).
The remainder of SURFPAC funds are appropriated funds and fall under SURFPAC administrative funding control. CNSP holds legal responsibility and manages the CPF apportioned O&M,N and appropriated funds with personnel of the financial management office (N72) of CNSP staff. The funds are divided into the following categories:

1. Official Representation Funds (ORF), approximately $22,000 annually, are under the personal responsibility of the Commander.

2. Other Procurement, Navy (OPN) funds, approximately $3.8 million annually, are provided to fundspecific line item replacement of investment equipment (over $15,000 per item) as approved in the budget process.

3. Operations and Maintenance, Navy (O&M,N) funds, totaling approximately $570 million annually.

4. Operations and Maintenance, Navy Reserve (O&M,N(R)) funds, totaling approximately $28 million annually.

Funds are transferred from CNSP to the shore activities and operational commands. Funds are issued, managed and accounted for at four levels:

1. Appropriation,
2. Budget Activity (BA),
3. Activity Group (AG),
4. Subactivity Group (SAG).

Movement of funds between these groups is restricted. Reprogramming of funds between appropriations requires Congressional approval. Movement between BAs requires OSD
approval up to a level specified in the Appropriation Act. Shifting of funds between activity groups requires CINCPACFLT concurrence although minor changes are handled informally. Reprogramming of funds between SAGs is accomplished at the TYCOMs discretion subject to CINCPACFLT review and established funding restrictions.

Execution limitations are placed on the use of appropriated funds, which may limit the general flexibility of reprogramming described previously. In general, execution limits can best described as follows:

1. New obligations can only be obligated while the appropriation is active, with:
   a. OPN - three year appropriation, but funds not obligated in the first year are usually withdrawn.
   b. All other appropriations are annually appropriations.

2. Total obligations cannot exceed the appropriation's expense limitations, 1517 violation.

3. Funds cannot be used for purposes other than those expressed intended for by Congress, 1301 violation.

4. Fourth quarter obligations cannot exceed the average of the previous three quarters obligation.

5. Eighty percent of the obligations must occur in the first ten months of the year.

6. Maintenance of Real Property cannot be less than the amount specified in the following areas (spending floors):
   - information technology (communications & automatic data processing (ADP)),
   - appropriated support of Morale, Welfare, and Recreation
• (MWR) facilities, and
• minor construction.

7. Payroll costs for U.S. Civil Servants (USCS) cannot exceed the manage-to-payroll (MTP) limitation specified in the expense limitation.

B. TWO YEAR BUDGET CONCEPT.

CNSP and all of its subordinate commands operate on a two year or biennial budgeting cycle. The intent of the two year budget cycle is to focus planning attention on the next immediate two years. This will result in more careful analysis and planning. The two year budget cycle concept is based on the following:

• current/execution/year (CY),
• apportionment/budget year (AY),
• budget review year (BRY), and
• two planning years (PY).

The current or execution year is the baseline year for all further budgets. Following budgets are presented to higher authority with the current/execution year, the apportionment year, and the budget review year. A graphical representation of the two year budget submission may look like this:

<table>
<thead>
<tr>
<th>POM 92</th>
<th>CY</th>
<th>AY</th>
<th>BRY</th>
<th>PLANNING YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>91</td>
<td>92</td>
<td>93</td>
<td></td>
<td>94, 95</td>
</tr>
</tbody>
</table>

The apportionment/budget review submission occurs in April of each year and is the most significant of the budget
submissions. It normally takes in excess of two months to prepare and contains forty-two exhibits. This year's submission (FY92) included nine major unfunded issues.

The mid-year review submission is forwarded to CPF annually in February. It provides an opportunity to identify unplanned emergent requirements. Shore activities generally include all mid-year review issues in their first quarter review submissions due annually in January. Operating forces are queried for specific inputs. Only mid-year submissions are considered for additional funding.

Program Object Memorandums are submitted on a biennial basis of every odd year. The POM normally represents CNSPs only opportunity to propose adjustments to the budget base. POM-92 submissions were restricted only to programmatic adjustments, those adjustments resulting from higher authority policy and force structure changes which impact on the funding bases.

C. THE BUDGET PROCESS.

The CNSP budget schedule attempts to provide field activity comptrollers with sufficient time and guidance for adequate preparation of well documented, well thought out financial planning and budgeting documents. The annual schedule generally appears as follows:

October - distribution of CNSP annual planning figures.
November - CNSP comptroller's conference. CNSP budget guidance is issued prior to CPF guidance. Early issuing of CNSP guidance allows field comptrollers time to identify funded and unfunded requirements and begin preparation of exhibits. CNSP guidance is modified with the arrival of CPF guidance.

January - CPF budget call/controls issues.

February - Shore Activities budget submissions due to CNSP.

March - CNSP budget submissions due to CPF.

The budget call and controls from CINCPACFLT (CPF) structure budget submissions into Other Procurement, Navy, funded and unfunded, and Operations and Maintenance, Navy, funded and unfunded. The following discussions of the CNSP's budgeting process will be presented within that structure and in that order.

1. Other Procurement, Navy (OPN).

   a. Funded OPN Requirements.

   Investment type expenditures are funded with OPN funds apportioned by CNSP. To qualify under this category each item must cost in excess of $15,000 and not have a federal stock number. Funded projects and funding levels are determined by the field activities and operating forces. Local Commanding Officers base their decisions on the following:

   - CNSP budget guidance,
• CPF budget call and controls,
• Congressional mandated spending floors and ceilings,
• Dept of the Navy mandated spending floors and ceilings,
• Commanding officer desires.

b. Unfunded OPN Requirements.

Unfunded requirements for OPN are administered exactly the same for operating forces and field activities. Unfunded requirements consist of investment type spending requirements that activities can justify based on inspection criteria, stated command mission requirements, newly developed programs, and newly mandated or expanded programs.

CNSP reviews and screens all unfunded OPN requests utilizing a Budget Submission Critique. The CNSP review ensures such things as OPN qualification criteria, the quality of the project in meeting stated goals, the quality of the justification exhibits, and the affordability of the project.

Unfunded requirements are divided into three general categories for reporting purposes. In this process they lose their activity specific identify and become CNSP requirements. They are:

1. General Purpose (shop equipment, etc.),
2. Waterfront (camel, cranes, brows, etc.), and
3. Reprographics (xerox).

CNSP's next step is to prioritize all qualifying requests. A matrix is developed based on stations priorities.
Points are assigned for the level of station priorities. The two issues with the highest ratings per category are forwarded to CPF. For example:

1. Three stations submit the following qualified unfunded OPN requests:

<table>
<thead>
<tr>
<th>Station</th>
<th>Request</th>
<th>Priority</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>shop machinery</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>general purpose equipment</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>pierside camels.</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>pierside cranes.</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>computers and software.</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>copy machines.</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>shop machinery</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>general purpose cranes</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>pierside brows</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>pierside cranes</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>computers and software.</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>fax machines</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>general purpose cranes</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>shop machinery</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>pierside camels</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>pierside brows</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>fax machines</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>copy machines</td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

2. Requests are divided into categories:

General Purpose:
- shop machinery 1
- general purpose equipment 2
- shop machinery 1
- general purpose cranes 2
- general purpose cranes 1
- shop machinery 2

Waterfront:
- pierside camels 1
- pierside cranes 2
- pierside brows 1
pierside cranes
pierside camels
pierside brows

Reprographics:
computers and software.
copy machines.
computers and software
fax machines
fax machines
copy machines

3. Points are assigned based on activities priority ratings. Rating:
   # 1 = 3 pts,
   # 2 = 1 pts,
   below # 2 are not considered in this example.

General Purpose:
shop machinery
station 1
station 2
station 3
total pts.

general purpose equipment
station 2
total pts.

general purpose cranes
station 2
station 3
total pts.

Waterfront:
pierside camels.
station 1
station 3
total pts.

pierside cranes.
station 1
station 2
total pts.

pierside brows
station 2
station 3

45
Reprographics:
computers and software.
  station 1  1 = 3
  station 2  1 = 3
  total pts.  6

  copy machines.
  station 1  2 = 1
  station 3  2 = 1
  total pts.  2

  fax machines
  station 2  2 = 1
  station 3  1 = 3
  total pts.  4

4. Issue papers for the prepared for following CNSP unfunded requirements:

General Purpose:
  Priority #1, an unfunded CNSP requirement for shop machinery.
  Priority #2, an unfunded CNSP requirement for general purpose cranes.

Waterfront:
  Priority #1, an unfunded CNSP requirement for pierside camels.
  Priority #2, an unfunded CNSP requirement for pierside brows.

Reprographics:
  Priority #1, an unfunded CNSP requirement for computers and software.
  Priority #2, an unfunded CNSP requirement for fax machines.

c. OPN Execution.

Budget plans are submitted under two headings; planned or "Funded" requirements and unplanned or "Emergent". Funding is allocated to unfunded requirements as funds are
made available to CNSP based on the information activities provided in exhibits. During the execution phase apportioned funds can be spent legally on either the funded projects or the unfunded projects at the request of the field activities and the discretion of the CNSP. This deviation from proposed budget is permitted as long as the expense limitations described earlier are not violated. In the event of emergency, emergent, or unforeseen projects, Commanding Officers must reprioritize and submit changes of requirements in the planned budgets to fund the emergent projects out of the apportioned funds. CNSP may or may not be able to recoup the funds from CPF during midyear review or subsequent releasing of funds.

When apportionments are issued to CNSP, the following procedures occur:

- CNSP and activities update funding lists.
- CNSP considers changes submitted by activities.
- CNSP apportions by line item authorizing spending of available funds.
- Activities are required to notify CNSP of contractor, contractor completion date, and provide monthly status updates until contract is complete.
- Activities use CNSP accounting data. Accounting data is provided directly to CNSP as well as activities.

2. Operational and Maintenance, Navy.

O&M,N budgets and the apportioned funds are treated differently from OPN. O&M,N is the annually appropriated
operational and Maintenance funds provided to naval activities for the performance of maintenance, purchase of spare parts, and the conduct of daily business. In this discussion O&M,N and O&M,N (R) will be discussed as if they were one under the heading of O&M,N. In reality they are two separate items under the common heading acquired in the same process. In the execution phase they are, however, administered slightly differently with the addition of a reserve level of command subordinate to CNSP for reserve activities.

The sequence of events is only slightly different than OPN:

October- distribution of CNSP annual planning figures.
November- CNSP comptroller's conference. CNSP budget guidance issued.
January- CPF budget call/controls issues.
March- Shore Activities' budget submissions due to CNSP.
April/May- CNSP budget submissions due to CPF.
Mid-May- CNSP budget review with CPF budget analysis.
25 May- CPF marks are issued.
31 May- CNSP reclaimas due to CPF.
Sept/Oct- OPTAR figures issued to Operational Forces.

O&M,N budget submission is in two packages:

1. O&M,N and
2. CIVPERS, O&M,N.
O&M,N budget submission is a request to fund operational activities, maintenance, and spare parts as previously described. Civilian Personnel, O&M,N is a budget request to provide funds necessary for salaries, entitlements, benefits, and other compensation for the civilian employees that are employed by commands of CNSP.

O&M,N also has a unique feature in the handling of apportioned funds. Shore activities O&M,N is administered very much like OPN and will be discussed later. Operational commands such as ships, the Explosive Ordnance Group (EOD), and the Beach Master Units (BMU), are handled vastly differently.

a. Operational Forces Versus Shore Commands, O&M,N.

The chief difference is that CNSP is the Operating Budget (OB) Holder for all operational forces O&M,N funds, also known as OPTAR. In essence an OB Holder retains the legal responsibility for the funds and is responsible for 1517 and 1305 violations. Shore Activities are delegated 1517 and 1305 responsibilities with the apportionment of their O&M,N from CNSP. Although operational unit commanding officers are held accountable to CNSP for legal violations of the use of funds, CNSP retains the ultimate responsibility to the Dept of Navy.

CNSP is tasked with sole budget planning responsibilities of the O&M,N account for the two hundred and
twenty operational forces or cost centers, with the notable exception of Explosive Ordnance Group and Beach Master Units that provide an informal inputs. This policy is in effect for a very good reason. The primary mission of the operational forces is to maintain a high level of combat readiness. With a few exceptions in the cyclic life of a surface ship (i.e. preparing for extended overhaul periods) to adequately maintain this high level of preparation in personnel and material, attention must always be focused on today, tomorrow, and no more than 18 months in advance. Additionally, most of the operational forces do not have the training to look two to three years in the future to project O&M,N requirements. CNSP has the time and the trained civilian staff to make more meaningful projections.

OPTAR figures are issued to operational forces in the September/October timeframe. Within one month operational forces are required to submit to CNSP a "Financial Management Plan" detailing a spending plan and listing all unfunded requirements. OPTAR is subsequently issued by CNSP in quarterly grants in the following categories:

1. repair parts.
2. other.

Operational forces are allowed some flexibility with OPTAR. Operational forces can manipulate the system in the following manner:
• operational forces can move funds from one quarter to another.

• operational forces can reprogram funds between the repair parts and other category with the approval of CNSP.

Operational forces advise CNSP of the current spending levels of the quarterly grants and emergent unfunded requirements though quarterly updates to the Financial Management Plan.

CNSP does not provide any of the described planning functions for Shore activities. Shore activities are required to prepare and submit budget requests to CNSP is the two budget packages:

1. O&M,N and,

2. CIVPERS O&M,N.

It is expected that the shore activities have the training and the time to intelligently plan two to three years in advance and make adequate preparation for the O&M,N account.

CNSP, however, remains the expense limit holder for all O&M,N funds. Simply put an expense limit holder is the level of command granted the authority to issue operating budgets to responsibility centers, in this case the shore commands. CNSP is thereby authorized to delegate Operating Budget responsibilities and legal responsibilities to the shore activities with the apportionment of O&M,N funds.
b. Funded O&M,N Requirements.

As with the OPN accounts, funded O&M,N projects are determined by the shore activities based on the following criteria:

- mandatory non-discretionary expenses.
- current legal requirements (spending ceiling/floors).
- Commanding Officer discretion.

In planning O&M,N budgets, Commanding Officers of shore activities have very little options in the manner in which the bulk of the funds are obligated. Mandatory non-discretionary expenses include:

- utilities,
- civilian payroll and benefits,
- other non-negotiable expenses.

Non-discretionary expenses make up about sixty-five percent of the O&M,N expenses incurred by an activity. Coupled with the nearly twelve percent annual expense required by spending floors, a shore activity Commanding Officer may have twenty-two of the O&M,N account for procurement of discretionary items and services or improvements to the command.

c. Unfunded O&M,N Requirements.

Unfunded O&M,N requirements consist of all other programs the command determines as necessary to successfully carry out assigned missions and services. CNSP encourages shore activities to submit up to fifteen unfunded
requirements. CPF allows CNSP to forward five unfunded issues for shore activities and five unfunded issues for operational forces. CNSP must therefore conduct a screening and prioritization process to determine what requirements are forwarded.

As with OPN, O&M,N unfunded requirements are screened for substance, quality, format, and affordablity. Requirements that can not pass these basic quality assurance tests are returned to the submitting activities for further refinement. Surviving requirements are grouped according to the following major categories:

- Waterfront,
- Environmental,
- Quality of Life,
- Maintenance of Real Property,
- Utilities,
- Child Care Centers, and
- Family Services.

Once requirements have been divided into issues they are put through a three part prioritization process. Each of the three parts is designed to evaluate the requirement from a different perspective and ultimately allow CNSP personnel to make decisions based on these varied perspectives.
1. The first prioritization process involves the issues being further subdivided into Subactivity Groups (SAG). SAGs are accounting designator designed to allow the administration of funds for specific type of services. For example:

**BASE OPERATIONS SUPPORT (AG)**

- **SAG**
  - FC- Operations of Utilities
  - FD- Other Engineering Support
  - FE- Payment to GSA
  - FF- Administration
  - FG- Maintenance of Installation Equipment
  - FJ- Bachelor Housing Operations and Furnishings
  - FL- Morale, Welfare, and Recreation
  - FV- Physical Security

Once divided into SAGs issues, are evaluated under the following guidelines:

- Issue costs must exceed one percent of the total SAG planning figure to be significant enough for consideration.

- The issue must be nominated by at least five shore activities with costs that exceed one percent of the SAG planning figure to qualify for further consideration.

Issues that meet the above requirements are marked for further consideration.

2. The second prioritization process is very similar to the rating process discussed in the section of this chapter devoted to unfunded OPN requirements. Activities issues are assigned points based on the priority assigned by the submitting activities. For example:
3. The final prioritization process is primarily based upon the experience and expertise of the CNSP staff. Using statistical data, historical knowledge, informal budget information, the issues marked for further consideration are scrutinized with respect to the current budgeting environment for likelihood of funding by higher authority; i.e. "what's hot and what's not". The following guidelines are always considered, but the degree of impact varies every budgeting year:

- environmental, quality of life, family service, child care, and waterfront issues are usually easier to sell than other issues.

- Maintenance of Real Property is always deferable unless the maintenance or repair request is critical.

- Utility issues are seldom funded. Activities are expected to pay their bills out of O&M,N funds already provided.

   Top ranking issues are combined under a category, i.e. Quality of Life. An issue paper for each major category is then prepared for submission to CPF. Justification for
issues is developed from issue exhibits submitted by field activities. Additional information may be sought from the various activities if necessary. CNSP issues submitted to CPF must be ranked according to priority. Issue priorities are at the discretion of the:

- CNSP Financial Management staff (N72),
- Assistant Chief of Staff- Financial Management,
- Assistant Chief of Staff- Waterfront, and
- Commander, U.S. Naval Surface Forces.

d. CIVPERS O&M,N Requirements.

The CNSP budgeting policy for allotted civilian personnel positions is simple and clear. Civil Servant positions are to be fully budgeted and funded at all times. The policy is based on the historical perspective that positions not funded will be eventually eliminated by higher authority, and once eliminated very difficult to reacquire. Although civil servant positions account for a significant portion of the non-discretionary section of O&M,N funds, CNSP strongly encourages subordinate commands to vigilantly pursue this policy and monitors budget submissions for compliance. A civilian position lost due to an activity's failure to adequately budget or staff receives little sympathy.

e. O&M,N Execution.

CNSP is apportioned O&M,N funds from CPF in October annually. CNSP apportions O&M,N funds to operational forces
based on historical statistical data maintained by CNSP quarterly through quarterly grants. CNSP apportions O&M,N funds to shore activities based on budget requests, historical statistical data, and the discretion of CNSP. Operational forces and shore activities obligate the funds at the discretion of the Commanding Officer and within the limits and guidelines previously discussed.

Operational forces advise CNSP of spending levels and unfunded requirements quarterly with updates to the Financial Management Plan. Shore activities report spending levels and unfunded requirements in quarterly reviews.

D. SUMMARY.

Commander, Naval Surface Forces, Pacific (CNSP) is a $4 billion a year corporation. Nearly half of the $4 billion is military personnel related, with the majority of the remaining funds Operational and Maintenance, Navy (O&M,N). Virtually all of the remaining funds fall under the Other Procurement, Navy.

Funds are apportioned from CNSP to shore activities and operational commands. Funds are issued, managed and accounted for at four levels:

1. Appropriation,
2. Budget Activity (BA),
3. Activity Group (AG),

57
4. Subactivity Group (SAG).

CNSP operates on a biennial budgeting cycle. The focus of the two year budget cycle is planning on the next immediate two years. This will result in more careful analysis and planning.

The apportionment/budget review submission occurs in April of each year and is the most significant of the budget submissions. It normally takes in excess of two months to prepare and contains forty-two exhibits. This year's submission (FY92) included nine major unfunded issues. The mid-year review submission is forwarded to CPF annually in February.

Program Object Memorandums are submitted on a biennial basis of every odd year. The POM normally represents CNSP's only opportunity to propose adjustments to the budget base. POM-92 submissions were restricted only to programmatic adjustments, those adjustments resulting from higher authority policy and force structure changes which impact on the funding bases.

The budget call and controls from CINCPACFLT (CPF) structure budget submissions into Other Procurement, Navy, funded and unfunded, and Operations and Maintenance, Navy, funded and unfunded.

Investment type expenditures are funded with OPN funds apportioned by CNSP. To qualify under this category each item
must cost in excess of $15,000 and not have a federal stock number. Funded projects and funding levels are determined by the field activities and operating forces.

Unfunded requirements for OPN are administered exactly the same for operating forces and field activities. Unfunded requirements consists of investment type spending requirements that activities can justify based on inspection criteria, stated command mission requirements, newly developed programs, and newly mandated or expanded programs.

Unfunded requirements are divided into three general categories for reporting purposes:

1. General Purpose (shop equipment, etc.),
2. Waterfront (camel, cranes, brows, etc.), and
3. Reprographics (xerox).

CNSP prioritizes all qualifying requests. A matrix is developed based on station’s priorities. Points are assigned for the level of station priorities. The two issues with the highest ratings per category are forwarded to CPF.

During the execution phase apportioned funds can be spent legally on either the funded projects or the unfunded projects at the request of the field activities and the discretion of the CNSP. O&M,N budgets and the apportioned funds are treated differently from OPN. O&M,N is annually appropriated operational and Maintenance funds provided to naval
activities for the performance of maintenance, purchase of spare parts, and the conduct of daily business.

O&M,N budget submission is in two packages:

1. O&M,N and
2. CIVPERS O&M,N.

CNSP is the Operating Budget (OB) Holder for all operational forces O&M,N funds, also known as OPTAR. In essence an OB Holder retains the legal responsibility for the funds and is responsible for 1517 and 1305 violations. Shore Activities are delegated 1517 and 1305 responsibilities with the apportionment of their O&M,N from CNSP. Although operational unit commanding officers are held accountable to CNSP for legal violations of the use of funds, CNSP retains the ultimate responsibility to the Dept of Navy. CNSP is tasked with sole budget planning responsibilities of the O&M,N account for the two hundred and twenty operational forces or cost centers, with the notable exception of EOD and BMU that provide an informal inputs. CNSP does not provide any of the described planning functions for Shore activities.

Non-discretionary expenses make up about sixty-five percent of the O&M,N expenses incurred by an activity.

Unfunded O&M,N requirements consist of all other programs the command determines as necessary to successfully carry out assigned missions and services. CNSP encourages shore activities to submit up to fifteen unfunded requirements. CPF
allows CNSP to forward five unfunded issues for shore activities and five unfunded issues for operational forces.

CNSP uses three methods to prioritize unfunded O&M,N:

1. Issues are subdivided into Subactivity Groups (SAG) and evaluated under the following guidelines:
   • Costs must exceed one percent of the total SAG planning figure.
   • The issue must be nominated by at least five shore activities with costs that exceed one percent of the SAG planning figure.

2. A rating process similar to the process used in rating unfunded OPN requirements is utilized. Activities issues are assigned points based on the priority assigned by the submitting activities.

3. CNSP staff uses statistical data, historical knowledge, and informal budget information to evaluate issues with respect to the current budgeting environment for likelihood of funding by higher authority; i.e. "what's hot and what's not".

Top ranking issues are combined under a category, i.e. Quality of Life. An issue paper for each major category is then prepared for submission to CPF. Justification for issues is developed from issue exhibits submitted by field activities.

CNSP is apportioned O&M,N funds from CPF in October annually. CNSP apportions O&M,N funds to operational forces based on historical statistical data maintained by CNSP quarterly through quarterly grants. CNSP apportions O&M,N funds to shore activities based on budget requests, historical statistical data, and the discretion of CNSP. Operational
forces and shore activities obligate the funds at the discretion of the Commanding Officers.

Operational forces advise CNSP of spending levels and unfunded requirements quarterly with updates to the Financial Management Plan. Shore activities report spending levels and unfunded requirements in quarterly reviews.
IV. COMNAVSURFPAC PERENNIAL BUDGET ISSUES

Perennial budget issues pervade any large organization and CNSP must deal with their share. Perennial issues impede the budgeting process and force greater effort in a process that is already excessively bureaucratic. CNSP addresses these problems at the annual comptroller conferences in the fall and again at the mid-year review. Training is conducted to correct procedural errors and seminars are presented to attempt to foster new attitudes. Perennial issues cut across the O&M,N and OPN funding boundaries, although they are most prevalent in the O&M,N arena. The most significant perennial issues are presented in this chapter.

A. ISSUES.

1. Field activity comptrollers sometimes fail to take full advantage of training lectures and seminars presented at CNSP annual comptroller conference. Activity comptrollers do not always implement proposed or recommended changes in budget preparation methods. When seminars are conducted for procedure improvements CNSP staff discover the information was not disseminated by the comptroller to their staff, thus the improvements are never implemented.
2. Many activity comptrollers have failed to foster changing budget attitudes in their respective offices. Shore activities still have the attitude that was prevalent in the early 1980's of "here are my programs that I am going to support, I need more money". That frame of reference makes it impossible for shore activities to adequately prepare budget submissions. The current fiscal restrictions require the perspective of "Given the funds available, this is what we will do, this is what we will not do, and here are the impacts of not providing appropriations for the unfunded requirements". The difference in attitudes enables the activity closest to the source of information to propose intelligent program cuts as opposed to reviewing authority making indiscriminate reductions.

3. Activities fail to think in programmatic terms. Many field comptrollers still feel they must reduce spending through horizontal program cuts. CNSP and higher authority feel that the time for horizontal reductions has passed and it is now time for vertical program cuts or the elimination of programs and services. CNSP is having a difficult time in changing this attitude at the field level.

4. Some activity comptrollers use the budgeting technique known as "throwing the gold watch on the table". This technique involves using the strategy of funding all locally
supported programs and not funding DoD or DoN mandated programs. This technique relies on the premise that "if the Navy really wants this problem, they (i.e. higher reviewing authority) will release funds to support it". When this ploy is successful, the activity is happy because all of the locally sponsored programs receive continued funding and the mandated programs are provided for out of someone else's budget. This technique was used extensively during the relatively fat times of the earlier 1980's. It is not well received today. As a result a great deal of friction is created when budget submissions are returned to the local activities for re-evaluation or modified by CNSP to follow published budget guidelines.

5. Field activities inadequately plan for the annual budgeting process. Some activities operate under the assumption that the budgeting process is a once a year evolution that takes about three months. Those with this perspective see themselves more as cash disbursement agents that budget planners. Through a series of seminars, memorandums, and discussions, CNSP is attempting to change this to a realization that the budgeting process is an ongoing, year round event that must be constantly prepared for. The objective of year round planning ultimately is to increase the quality of long term budget planning and budget submissions.
6. Failure of higher command to transmit advance notices of changes in budgeting instructions, exhibits and procedures from higher command. This results in CNSP and activities preparing budget submissions that are flawed from the beginning and ultimately require extra time and effort to correct.

7. Field activities fail to read and implement changes required by notices and instructions and prepare budget submissions in the format used last year. As a result the staff of CNSP must either return the budget for proper preparation or incorporate the changes. In either case, the process is encumbered and delayed.

8. Field activities fail to adequately ensure figures and balances in exhibits are correctly totaled and correctly transcribed to other exhibits, despite the integration of computer spreadsheet programs into the CNSP budgeting procedures. This inattention to detail obviously requires CNSP to spend many hours ensuring budget figures are correct prior to evaluating the budget submission.

9. Various exhibits lack adequate supporting details and justifications. In particular field activities seem reluctant to state what projects will be terminated without the funding.
In some cases, activities quote "CNSP funding constraints". Field activities must provide documented statistical data and be able to demonstrate the results if not funded. Exhibits must be modified by CNSP or returned to the field activity. The process is further delayed.

10. Various exhibits require similar detailed explanations. Exhibits are separated at the fleet and higher reviewing level. Detailed explanations of issues in the exhibits is therefore essential for serious consideration. Many field activities fail to appreciate this situation and present abbreviated explanations throughout the different exhibits or stated "see exhibit _". This failure to adequately provide full and detailed explanations requires CNSP to either return budget submissions to the field activities or make the corrections. In either situation, further delays in the budgeting process result.

11. Timely budget submissions from field activities are not provided. In reality field activities are strongly challenged to provide well documented and statistically supported budget submissions within prescribed time limits. The time limitations may be of their own inadequate planning or it may result from the late delivery of official budget guidelines from CPF or higher. As might be expected, every year some activity is late in submitting its budget. CNSP
must wait for the late submission or develop a budget submission for the field activity. If developed, the budget is based on historical/statistical data. This obviously does not take the activity's future plans and priorities into consideration, but it is better than not submitting a budget.

B. SUMMARY.

Perennial budget issues such as those discussed in this chapter impede the budgeting process and force greater effort in the budget process. CNSP addresses these problems at the annual comptroller meetings in the fall and again at the mid-year review conferences. CNSP conducts training to correct procedural errors and seminars are presented to attempt to foster new attitudes. Inspite of this effort, some issues remain and must be dealt with year after year.
V. COMNAVSURFPAC BUDGETING STRATEGIES

CNSP currently has to make major budget decisions in changing fiscal climate. Resources are falling short of full funding requirements. Additional programs are being mandated by Congress and supported by higher authority. Reduction in the quality of services combined with a smaller Navy makes the importance of keeping high quality personnel in the service even more of a challenge. Faced with these facts, CNSP is focusing its budgeting strategies on several key issues.

A. ISSUES

1. CNSP is making a greater effort to issue CNSP budget guidance as early in the fall as possible. The goal is to inform field activity comptrollers of anticipated CPF budget guidelines in early November. Effective implementation of this strategy should allow more time to field activities in the preparation of budget exhibits and increase the quality of budget submissions.

2. The CNSP budgeting strategy for allotted civilian personnel positions will remain the same. Civil service positions are to be fully budgeted and funded at all times. The policy continues to be based on the historical perspective
that positions not funded will be eventually eliminated by higher authority, and once eliminated will be very difficult to reacquire. Recent losses of civilian personnel positions and the command's inability to reinstate them reenforces the belief that this is the correct strategy.

3. The third strategy is the most critical. CNSP and similar commands have been attempting to solve budget reductions to the maximum extent possible through reprogramming and program reduction. Further reprogramming and program reduction would serve no useful purpose as it would only restrict already severely under funded programs and render them ineffective. As presented by VADM R. K. U. Kihune in his FISCAL YEAR 1991 APPORTIONMENT/1992/1993 BUDGET dated 19 APRIL 1990, "The bottom line is that if additional funding is not received, substantial programmatic changes will have to be effected to remain within the controls suggested in this budget". He further submits that failing to restore funding to requested levels will necessitate "a fleet coordinated planning effort ... to identify the programmatic adjustments necessary to enable us to live within the FY91 budget controls". This quotation is now over a year old and the funding situation has worsened. CNSP's position has further solidified and its strategy in addressing further budget reductions is clear. Further horizontal reductions will be ineffective. Vertical program cuts must now be made. CNSP
intends to recommend specific program cuts in the event of further budget reductions. This is not "throwing the gold watch on the table". This is a seriously considered effort of officers who are proposing the elimination of total bases, programs, and services in order to live within the budget controls presented to them by higher authority. The strategy has been forwarded to the field activities and CNSP expects subordinate commands to follow suit and recommend the elimination of programs and services in the event of further budget reductions and failure to provide adequate funding to under funded programs.

B. SUMMARY.

In FY91, fiscal resources are falling short of adequately funding programs and services. Additional programs are mandated by Congress and supported by higher authority while budget reductions are rendering current programs ineffective. CNSP has determined that in the areas of civilian personnel, field activities must maintain every position possible because, once lost, may never be regained. CNSP has also determined further horizontal budget reductions would be useless and render severely underfunded programs ineffective. The strategy of offering vertical cuts, eliminating bases and total programs in response to future budget reductions has been adopted. CNSP has tasked its subordinate commands to
make vertical reduction proposals in the event of future budget reductions.
VI. CONCLUSION

The mission of the Comptroller of COMNAVSURFPAC and his staff is to distribute and monitor the efficient spending of Operating and Maintenance, Navy funds provided by Chief of Naval Operations via Commander in Chief, Pacific Fleet to assigned afloat and shore based activities. Additionally, the staff is responsible for collecting, evaluating, assigning priorities, and providing recommendations on budget requests presented by assigned afloat units and shore activities for consideration by the Department of the Navy for inclusion in the Department of Defense's Planned Objective Memorandum (POM). In fulfilling its mission COMNAVSURFPAC, not unlike any large organization, experiences perennial budget problems. This thesis documents the type commander’s budgeting process, discusses some perennial budget issues, and addresses the budget strategies and techniques employed by COMNAVSURFPAC in the development and submission of the annual budget.

In the military, the budget is much more important than the distribution of funds. It provides a vehicle of communication between the cost centers and reviewing authority. The federal budget process consists of three main phases:

1. Executive formulation and transmittal;
2. Congressional Action;

The Planning, Programming, and Budgeting System (PPBS) coordinates the national planning efforts of the federal government's civilian and military organizations. In the Department of Defense, it assists the Secretary of Defense in resource allocation decisions among competing proposed or existing projects designed to accomplish specific goals or missions. It is fundamentally concerned with the management of resources and transforms force requirements described in the Joint Strategic Planning Document (JSPD) into budget requirements to be presented to Congress as a portion of the President's budget. It brings fiscal reality to the resource allocation process.

The PPBS is a decision-making process for proposing resources to be allocated to the Department of Defense. The process takes in excess of two-years and involves the Office of Budget and Management (OMB), Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), and the Service Secretaries and comptrollers. Field activities are linked to PPBS by the major claimant and component commanders. Through this system, field activities and type commanders play an essential role in the budgeting process as it moves from broad planning through definitive program objectives to specific budget estimates.
The Planning, Programming, and Budgeting System is based on a simple concept and sequence of events. A specific threat is determined through careful analysis of all available information. Based on the threat, a strategy is developed to meet the threat. Requirements are determined to support the strategy. Programs are started to provide the elements of the requirements. Finally, a budget is authorized to fund development, testing, production, and fielding of the program.

The goal of PPBS is optimum allocation of limited resources to program alternatives available to accomplish the stated objectives, in the case of the Department of Defense the protection of the United States.

The Secretary of Defense issues the Program Decision Memorandum (PDM). The PDM approves the POM with modifications resulting from the Defense Resource Board Program Reviews and the Joint Program Assessment Memorandum. A separate PDM is issued for each service and defense agency. It is formatted by major mission and support categories and serves as the basis for the upcoming Department of Defense budget. Changes can still be made through formal requests or reclaimas or in meetings with the Secretary of Defense. Amendments are documented in Amended Program Decision Memorandums.

The approved Program Decision Memoranda (PDM's) provides a framework for developing. The key budget choices are made by OSD based upon military department budget proposals. The OSD budget reflecting the Program Budget Decisions (PBD's) are
reviewed by the military departments and then submitted to the President as the Department of Defenses budget.

CNSP is a $4 billion a year corporation. Nearly half of the $4 billion is military personnel related, with the majority of the remaining funds Operational and Maintenance, Navy (O&M,N). Virtually all of the remaining funds fall under the Other Procurement, Navy account.

Funds are apportioned from CNSP to shore activities and operational commands. Funds are issued, managed and accounted for at four levels:

1. Appropriation,
2. Budget Activity (BA),
3. Activity Group (AG),
4. Subactivity Group (SAG).

CNSP operates on a biennial budgeting cycle. The focus of the two year budget cycle is planning for the next immediate two years resulting in more careful analysis and planning.

The apportionment/budget review occurs in April of each year and is a significant part of the budget submission. It normally takes in excess of two months to prepare and typically contains more than forty exhibits. This year's submission (FY92) included nine major unfunded issues. The mid-year review submission is forwarded to CPF annually in February.
Program Object Memorandums are submitted on a biennial basis of every odd year. The POM normally represents CNSP's only opportunity to propose adjustments to the budget base. POM-92 submissions were restricted only to programmatic adjustments, those adjustments resulting from higher authority policy and force structure changes which impact on the funding bases.

The Budget Call and controls from CINCPACFLT (CPF) structure budget submissions into Other Procurement, Navy, (OPN) funded and unfunded, and Operations and Maintenance, Navy, (O&M,N) funded and unfunded accounts.

Investment type expenditures are funded with OPN funds apportioned by CNSP. To qualify under this category each item must cost in excess of $15,000 and not have a federal stock number. Funded projects and funding levels are determined by the field activities and operating forces.

Unfunded requirements for OPN are administered exactly the same for operating forces and field activities. Unfunded requirements consist of investment type spending requirements that activities can justify based on inspection criteria, stated command mission requirements, newly developed programs, and newly mandated or expanded programs. Unfunded requirements are divided into three general categories for reporting purposes:

1. General Purpose (shop equipment, etc.).
2. Waterfront (camel, cranes, brows, etc.), and
3. Reprographics (xerox).

CNSP prioritizes all qualifying requests. A matrix is developed based on station priorities. Points are assigned for the level of stations' priorities. The two issues with the highest ratings per category are forwarded to CPF.

During the execution phase apportioned funds can be spent legally on either the funded projects or the unfunded projects at the request of the field activities and the discretion of the CNSP. O&M,N budgets and the apportioned funds are treated differently from OPN. O&M,N is annually appropriated operational and Maintenance funds provided to naval activities for the performance of maintenance, purchase spare parts, and the conduct of daily business. The O&M,N budget submission is in two packages:

1. O&M,N
2. CIVPERS, O&M,N.

CNSP is the Operating Budget (OB) Holder for all operational forces O&M,N funds, also known as OPTAR. In essence, an OB Holder retains the legal responsibility for the funds and is responsible for 1517 and 1305 violations. Shore Activities are delegated 1517 and 1305 responsibilities with the apportionment of their O&M,N from CNSP. Although operational unit commanding officers are held accountable to
CNSP for legal violations of the use of funds, CNSP retains the ultimate responsibility to the Dept of Navy. CNSP is tasked with sole budget planning responsibilities of the O&M,N account for two hundred and twenty operational forces or cost centers, with the notable exception of the Explosive Ordnance Group and the Beach Master Unit that provide an informal inputs. CNSP does not provide any of the described planning functions for Shore activities.

Non-discretionary expenses make up about sixty-five percent of the O&M,N expenses incurred by an activity.

Unfunded O&M,N requirements consist of all other programs the command determines as necessary to successfully carry out assigned missions and services. CNSP encourages shore activities to submit up to fifteen unfunded requirements. CPF allows CNSP to forward five unfunded issues for shore activities and five unfunded issues for operational forces. CNSP uses three methods to prioritize unfunded O&M,N:

1. Issues are subdivided into Subactivity Groups (SAG) and evaluated under the following guidelines:
   - Costs must exceed one percent of the total SAG planning figure.
   - The issue must be nominated by at least five shore activities with costs that exceed one percent of the SAG planning figure.

2. A rating process similar to unfunded OPN requirements is utilized. Activities issues are assigned points based on the priority assigned by the submitting activities.

3. CNSP staff uses statistical data, historical knowledge, and informal budget information to evaluate issues with respect to current budgeting environment for likelihood
of funding by higher authority; i.e. "what's hot and what's not".

Top ranking issues are combined under a category, i.e. Quality of Life. An issue paper for each major category is then prepared for submission to CPF. Justification for issues is developed from issue exhibits submitted by field activities.

The CNSP budgeting policy for allotted civilian positions is simple and clear. Civil service positions are to be fully budgeted and funded at all times. Although civil service positions account for a significant amount of the non-discretionary portion of O&M,N funds, CNSP strongly encourages subordinate commands to vigilantly pursue this policy and monitors budget submissions for compliance. A civilian position lost due to an activity's failure to adequately budget or staff receives little sympathy.

CNSP is apportioned O&M,N funds from CPF in October annually. CNSP apportions O&M,N funds to operational forces based on historical statistical data maintain by CNSP quarterly through quarterly grants. CNSP apportions O&M,N funds to shore activities based on budget requests, historical statistical data, and the discretion of CNSP. Operational forces and shore activities obligate the funds at the discretion of the Commanding Officers.

Operational forces advise CNSP of spending levels and unfunded requirements quarterly with updates to the Financial
Management Plan. Shore activities report spending levels and unfunded requirements in quarterly reviews.

Perennial budget issues impede the budgeting process and force greater effort in an already cumbersome process. CNSP addresses these problems at the annual comptroller meetings in the fall and again at the mid-year review conferences. CNSP conducts training to correct procedural errors and seminars are presented to attempt to foster new attitudes. Inspite of these efforts some issues remain unchanged and must be dealt with year after year.

Fiscal resources in FY 91 are falling short of adequately funding programs and services. Additional programs are being mandated by Congress and supported by higher authority while budget reductions are rendering current programs ineffective. CNSP has determined that in the areas of civilian personnel, field activities must maintain every position possible because once lost it may never be recovered. CNSP has also determined further horizontal budget reductions would be useless and render severely under funded programs ineffective. The strategy of offering vertical cuts, eliminating bases and total programs in response to future budget reductions has been adopted. CNSP has tasked its subordinate commands to make vertical reductions proposals in the event of future budget reductions.
LIST OF REFERENCES


2. Commander, Naval Surface Forces, Pacific Instruction 7042.2, dated 15 December 1989, Administration of Other Procurement, Navy (OPN) Funds for Naval Stations, Fleet Activities And Amphibious Base, Coronado.


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### APPENDIX A
ACRONYMS AND ABBREVIATIONS

<table>
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADP</td>
<td>Automatic Data Processing</td>
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<tr>
<td>AG</td>
<td>Activity Group</td>
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<td>AY</td>
<td>Apportionment or Budget Year</td>
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<td>BA</td>
<td>Budget Activity</td>
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<td>BAM</td>
<td>Baseline Assessment Memorandum</td>
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<td>BMU</td>
<td>Beach Master Units</td>
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<td>BRY</td>
<td>Budget Review Year</td>
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<td>BY</td>
<td>Base Year</td>
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<td>BY+1</td>
<td>Base Year plus one year</td>
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<td>CEB</td>
<td>Chief of Naval Operations Executive Committee</td>
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<td>CINCPACFLT</td>
<td>Commander in Chief, Pacific Fleet</td>
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<td>CIVPERS O&amp;M,N</td>
<td>Civilian Personnel O&amp;M,N</td>
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<td>CNO</td>
<td>Chief of Naval Operations</td>
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<td>CNSP</td>
<td>Commander, U.S. Naval Surface Forces, Pacific</td>
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<td>COMNAVSURFPAC</td>
<td>Commander, U.S. Naval Surface Forces, Pacific</td>
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<td>CPF</td>
<td>Commander in Chief, Pacific Fleet</td>
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<td>CPFG</td>
<td>Consolidated and Program Fiscal Guidance</td>
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<td>CY</td>
<td>Current or Execution Year</td>
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<td>DNCPPGG</td>
<td>Department of the Navy Consolidated Planning and Program Guidance</td>
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<td>DOD</td>
<td>Department of Defense</td>
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<td>Acronym</td>
<td>Description</td>
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<td>DON</td>
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<td>DFG</td>
<td>Defense Planning Guidance</td>
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<td>Department of the Navy Program Strategy Board</td>
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<td>Defense Resource Board</td>
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<td>Explosive Ordnance Disposal</td>
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<td>FPG</td>
<td>Force Planning Guidance</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>GRH</td>
<td>Gramm-Rudman-Hollings</td>
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<td>Investment Strategy Review</td>
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