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THESIS

PROGRAM BUDGETING WITHIN THE
DEPARTMENT OF THE NAVY

by

Robert A. Marks

June 1989

Thesis Advisor: Jerry L. McCaffery

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SECURITY CLASSIFICATION OF THIS PAGE

REPORT DOCUMENTATION PAGE

Form Approved
OMB No. 0704-0188

1a REPORT SECURITY CLASSIFICATION UNCLASSIFIED	1b RESTRICTIVE MARKINGS
2a SECURITY CLASSIFICATION AUTHORITY	3 DISTRIBUTION/AVAILABILITY OF REPORT Approved for public release; distribution is unlimited
2b DECLASSIFICATION/DOWNGRADING SCHEDULE	
4 PERFORMING ORGANIZATION REPORT NUMBER(S)	5 MONITORING ORGANIZATION REPORT NUMBER(S)
6a NAME OF PERFORMING ORGANIZATION Naval Postgraduate School 6b OFFICE SYMBOL (If applicable) Code 54	7a. NAME OF MONITORING ORGANIZATION Naval Postgraduate School
6c ADDRESS (City, State, and ZIP Code) Monterey, California 93943-5000	7b ADDRESS (City, State, and ZIP Code) Monterey, California 93943-5000
8a NAME OF FUNDING/SPONSORING ORGANIZATION 8b OFFICE SYMBOL (If applicable)	9 PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER
8c. ADDRESS (City, State, and ZIP Code)	10 SOURCE OF FUNDING NUMBERS PROGRAM ELEMENT NO / PROJECT NO / TASK NO / WORK UNIT ACCESSION NO.

11. TITLE (Include Security Classification)
PROGRAM BUDGETING WITHIN THE DEPARTMENT OF THE NAVY

12. PERSONAL AUTHOR(S)
Marks, Robert A.

13a TYPE OF REPORT	13b TIME COVERED	14 DATE OF REPORT (Year, Month, Day)	15 PAGE COUNT
Master's Thesis	FROM _____ TO _____	1989 June	72

16 SUPPLEMENTARY NOTATION The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

17 COSATI CODES			18 SUBJECT TERMS (Continue on reverse if necessary and identify by block number)
FIELD	GROUP	SUB-GROUP	Budget, Budget Review, Reclama, PPBS, Planning Programming and Budgeting

19 ABSTRACT (Continue on reverse if necessary and identify by block number)

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20 DISTRIBUTION/AVAILABILITY OF ABSTRACT ☒ UNCLASSIFIED/UNLIMITED ☐ SAME AS RPT ☐ DTIC USERS	21 ABSTRACT SECURITY CLASSIFICATION Unclassified
22a NAME OF RESPONSIBLE INDIVIDUAL Prof. Jerry L. McCaffery	22b TELEPHONE (Include Area Code) (408) 646-2554 22c OFFICE SYMBOL 54Mm

DD Form 1473, JUN 86 Previous editions are obsolete

SECURITY CLASSIFICATION OF THIS PAGE
Unclassified

S/N 0102-LF-014-6603

#19 (Continued)

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Program Budgeting Within the Department of the Navy

by

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
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Kneale T. Marshall, Dean
of Information and Policy Sciences

Availability Codes
Dist | Avail and/or Special
A-1

ABSTRACT

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This analysis found that: Claimants who requested small (0-4.9 percent), increases, were the most successful at gaining budgetary increases. The most successful strategy was to minimize the initial NAVCOMPT cut, and aggressively use the reclama process to restore cuts. This appears to have been achieved through a strategy of aggressive line item justification. The OSD/OMB review was essentially a mechanical, across the board cut, which was modest in size. Most of the review adjustments were pricing changes, or reflected program changes. Some of the Major Claimants are consistently better than others at achieving budgetary success. Keywords: planning programming budgeting (KR)

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I. INTRODUCTION

A. STATEMENT OF PURPOSE

In the United States Navy's budget development process each of the Navy's major claimants submit its own budget for inclusion into the overall Department of the Navy (DON) budget. These budgets are developed over long periods of time and reflect huge amounts of effort in planning for the funds required to support the claimant's operations and expansion plans. As these initial budgets are changed, first by the Comptroller of the Navy (NAVCOMPT) and then by the Office of the secretary of Defense (OSD) and the Office of Management and Budget (OMB), further efforts are expended to change plans and funding requirements to reflect the changes in the budget. Through the understanding of the roles and strategies used by NAVCOMPT and OSD/OMB in their budget review process, the claimants may be able to produce initial budgets which will be more resistant to unfavorable changes. This could result in a savings of effort involved in the budget planning time and more stable budgeting practices.

The budgeting process is explored in detail to give the reader a firm understanding of the budgeting process.

Similar studies conducted in this area of research are utilized as supporting analysis for similar findings and to examine conflicting findings for causal relationships.

Through the data provided by the office of the Comptroller of the Navy (NAVCOMPT) for fiscal year FY1990, the Operations and Maintenance, Navy (O&M,N) appropriations account is examined. The data is analyzed to identify consistent patterns of behavior in the roles and strategies of the budget review authorities. Claimant strategies are reviewed to identify strategies that predict budget review reactions. Strategies used by NAVCOMPT and OSD/OMB to change budgets are analyzed for consistency, causal effect relationships and criteria used to make changes. Conclusions are drawn indicating the expected reactions to the various strategies available to the major claimants in developing their initial budgets.

B. BUDGETING WITHIN THE NAVY

The Navy's budget is developed through the planning programming and budgeting system (PPBS). This system develops a five year defense plan and updates it yearly to develop a biennial budget. The first fiscal year of this budget is submitted to congress for funding. Through the understanding of PPBS, its history, how it works, and its positive and negative aspects, the reader will better understand the roles and strategies of the agencies involved.

1. The History of PPBS

The path of budgetary reform in the Department of Defense (DOD) was laid in 1949 with the Hoover Commission on

Organization of the Executive Branch of the Government. They recommended that the government adopt a budget based upon functions, activities, and projects. [Ref. 1:p.138] This was followed by the Rand study, Efficiency and Economy in Government Through New Budgeting Procedures in 1954. This recommended a program budgeting method to be used by the DOD. In 1955 the Committee for Economic Development presented a statement calling for program budgeting to be used throughout the federal government.

In 1963 the Secretary of Defense, Robert McNamara instituted the Planning Programming And Budgeting System (PPBS) into the DOD budget process. Since then DOD has used the PPBS to develop every budget. On August 25, 1965, President Johnson announced that PPBS would be used throughout all executive branch agencies.

During the next few years the executive agencies made various attempts to institute budgeting through the use of programs, none were completely successful. In many cases implementation never went beyond the stage of agreeing to implement. [Ref. 2] Other agencies never quite understood what was expected of them. When the Nixon administration failed to show any interest in instituting the PPBS, the agencies ended their program budgeting efforts. This left DOD as the only department using PPBS.

2. The PPBS Process

The PPBS is a decision making process of allocating defense resources. Using this process DOD is able to look at objectives, present costs, and future expenditures while preparing their budget. It breaks the budget into eleven basic programs: Strategic Forces, Intelligence and Communications Forces, Supply and Maintenance Forces, General Purpose Forces, Airlift and Sealift Forces, Reserve and National Guard Forces, Research and Development Forces, Training and Personnel Forces, Administration Forces, Support of Other Nations, and Special Operations Forces. These programs consist of over 800 different elements. The programs cross service lines and enable the Secretary of Defense to make allocation of resource decisions among competing programs and alternatives.

Previously defense budgets had been formulated by focusing on the existing base and adding incremental improvements to it. The whole question of how much a weapon system costs over time was overlooked, as the traditional budgeting format of focusing on the immediate future did not allow for its inclusion. Budgets were prepared for one year at a time. The PPBS develops a five year budget, and updates it yearly.

The focus of PPBS is on objectives, purposes, and the long-term alternative means for achieving them. In his statement to his cabinet members and agency heads on August

25, 1965, President Johnson proclaimed that PPBS will enable us to:

1. Identify our national goals with precision and on a continuing basis.

2. Choose among those goals the ones that are the most urgent.

3. Search for alternative means of achieving those goals most effectively and at the least cost.

4. Inform ourselves not merely on next years costs, but on second, and third, and subsequent year's costs of our programs.

5. Measure the performance of our programs to insure a dollar's worth of service for each dollar spent. [Ref. 1:p. 150]

In summary PPBS is a cyclic process containing three distinct but interwoven phases. It looks at anticipated threats and a strategy is developed. From this strategy, requirements are estimated and programs are developed to execute the strategy. Once the programs are developed, the costs of the programs are put into a budget.

3. Planning

The first phase of PPBS is the planning stage. In this stage biennial plans are developed that encompass 15 years. They include the FYDP and a 10 year planning period beyond the FYDP. The Joint Chiefs of Staff (JCS) assess the threats which face this nation. They produce the biennial Joint Long Range Strategic Appraisal (JLRSA), and the biennial Joint Strategic Planning Document (JSPD). The JLRSA contains the military departments long range plans and provides a transition from long-range to mid-range strategic

planning. Its purpose is to stimulate focused strategic studies and to influence the development of the JSPD. The JSPD assesses threats to the United States and our interests world wide. It recommends military objectives, strategies and force levels to meet these threats. It also includes an appraisal of the capabilities and risks associated with programmed force levels, and recommends changes to force planning and program guidance. The estimates and recommendations it provides are not fiscally constrained. Their job is to determine what level of defense we need not what level we can afford.

The JCS presents the JSPD to the Secretary of Defense and the Defense Resource Board (DRB) in June of the odd numbered years. On alternate years the Joint Strategic Planning Document Supporting Analyses is provided.

Commanders of the Unified and Specified Commands also provide the Secretary of Defense and the DRB with their personal appraisals of major issues and problems of their commands. [Ref. 3] The DRB is responsible for managing the planning process.

The Office of the Secretary of Defense (OSD) considers the military advise of the JCS submitted in the JLRSA and the JSPD, and develops a draft of the Defense Guidance (DG). This draft is submitted to all DOD components, the National Security Council, the Department of State, and the Office of Management and Budget for comment.

They comment on major issues, problems, and resource constraints which affect the policy, strategy, and management required to meet the threat.

The OSD then drafts a final version of the DG. The DG is developed biennially and revised annually by the Under Secretary of Defense (Policy). [Ref. 4] It contains the statement of threat, military objectives, strategy, and force planning guidance. It consists of the following elements:

- Near and long-term threat assessment and opportunities.
- Policy and strategy guidance.
- Force planning guidance.
- Resource planning guidance.
- Fiscal guidance which gives each department its specific outlay by fiscal year.
- Unresolved issues requiring further study.

The publishing of the DG occurs in January of even numbered years, 23 months prior to the beginning of the fiscal year. This marks the end of the planning stage of PPBS.

4. Programming

In the programming stage each DOD component takes the DG and develops programs that are prioritized and costed out. These programs, expressed in the form of a Program Objective Memorandum (POM), are based on and comply with the DG. Proposed programs are projected for five years, and forces are projected for eight years. [Ref. 4:p. A-2] The

programming stage begins in September before the DG is published, and ends in May, 16 months prior to the FY.

The Secretary of the Navy issues the Department of the Navy Planning and Programing Guidance (DNPPG). This identifies areas requiring attention by the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC) and civilian executive assistants in the development of the POM. The CNO uses this to develop the CNO Policy and Planning Guidance, and the CNO Program and Fiscal Guidance (CPFG).

Using this guidance CNO Program Analysis Memorandum (CPAM) are developed. The CPAMs are issued in the areas of support and logistics, manpower, personnel and training, fleet support and strategic mobility, tentative program summary, and program decision summary. The CPAMs address the Navy's capability to carry out its goals and objectives. Each CPAM is fiscally balanced in accordance with the (CPFG), and developed from the inputs presented by the major claimants.

Program issues and alternatives presented in the CPAMs are reviewed by the Program Development Review Committee (PDRC), the CNO Executive Board, and OSD. After review they are updated and CPAMs 2 are released.

The program sponsors update the program data base to reflect the fiscal and manpower controls and tentative CNO program decisions. Major changes are described and justified

in program summary documents produced by the resource sponsor. The PDRC reviews these issues and submit the Program Decision Summary (PDS) to the CNO for approval and resolution as needed. The appropriation sponsors review the PDS and advise as to what packaging changes can be made to improve the likelihood of success at the DOD budget table. After these changes are made, the Navy POM is ready to submit to OSD, and the JCS. The Navy POM contains detailed recommendations for application of DON resources. It contains an analysis of the missions and objectives to be achieved, alternative methods of accomplishing them, and the allocation of resources. In addition to the budget year, the program period is the four years beyond the budget year for cost and manpower, seven years beyond the budget year for forces. [Ref. 3]

The JCS review the POMs submitted by the DOD components for the adequacy of the composite force, and resource levels presented. They issue a risk assessment of the ability of the forces to execute the strategy outlined in the DG, in the form of the Joint Program Assessment Memorandum (JPAM) to OSD. The JPAM may recommend changes to improve overall defense capabilities within alternative funding levels directed by the Secretary of Defense.

Based on a review of the POM in relation to the DG and JPAM, issues shall be prepared by the OSD staff, the DOD components and the OMB. One page outlines of proposed major

issues may be submitted by any DRB or Program Review Group (PRG) (a working group subordinate to the DRB) member. The issues should have broad policy, force, program, or resource implications. Particular emphasis should be given to cross-service issues that have not been adequately, or consistently, addressed in the POMs. Major issues that were decided during the previous year's program and budget review should be addressed only if some major new factors have appeared since that decision. [Ref. 3:p. A-14]

These issues are reviewed by the PRG and appropriate ones are included in Issue Books (IBs) and sent to the DRB for consideration. The full DRB meets to discuss the issues. Major issues are measured against the DG, budget resources, and management initiatives. The Deputy Secretary of Defense makes all appropriate decisions after consulting with the Secretary. The review decisions are recorded in a set of Program Decision Memorandum (PDM), signed by the Secretary or the Deputy Secretary of Defense, and distributed to the DOD components and the OMB in May, 16 months prior to the FY The PDMs are the basis for the budget decisions.

5. Budgeting

In DON, budgeting consists of four steps: (1) the submission of budget estimates to the Comptroller of the Navy (NAVCOMPT) for review and approval by SECNAV; (2) the submission of budget estimates to the OSD and the OMB for review and approval by SECDEF and the President; (3) the

submission of the President's Budget to the congress for its review and approval; and (4) the execution by the DON of enacted appropriations. A DON budget is developed for each of these phases, consistent with the Department's decentralization policy, i.e., that the offices responsible for budget execution will participate in developing budget estimates, subject to the guidance of higher authority. [Ref. 4:p. A-3] This thesis is only concerned with the first two steps. The actions congress takes on the DON budget, and the budget's execution are beyond the scope of this thesis.

Long before the programming phase ends Naval offices are busy collecting data, developing budgets, and submitting them to NAVCOMPT. These initial budgets are based on congressional, OMB, OSD, and SECNAV actions. From these actions NAVCOMPT compiles information and develops a budget call which it sends to Navy Claimants. From this guidance and standing instructions the Claimants prepare and submit their initial budgets.

When the POM is completed AVCOMPT issues another budget call. This budget call includes estimates based on the first year of the FYDP. These spending levels are called control numbers. The Claimants use this budget call to revise and resubmit their budgets to NAVCOMPT. This budget is based on the approved programs. All program increases, decreases and realignments from the previous year are identified, and new emergent unfunded deficiencies are

included. After collecting all of their claimants inputs, NAVCOMPT reviews the budgets [illegible] recommends changes referred to as the mark-up. These [illegible] based on the following criteria:

- Appropriation and fiscal s[illegible] and implications
- Financial feasibility and [illegible]nce
- Validity and responsibleness of cost and pricing
- Validity and relationship to planned objectives
- Legality [Ref. 6]

After NAVCOMPT has made the mark-ups, claimants are allowed to challenge them with a reclama. A reclama is a one page document which addresses a specific issue and the rationale used in the mark-up. Differences between NAVCOMPT and the claimant's budgets are resolved by the Director of Navy Program Planning. After resolving all the budget issues NAVCOMPT submits the DON budget to OSD and OMB concurrently in mid-September, 13 months prior to the FY.

During the Fall the OSD staff conducts a budget review with the OMB. All DOD components participate in this review, and recommend changes with reclamas. Program Budget Decisions (PBDs) signed by the Secretary or the Deputy Secretary of Defense are issued once decisions are reached. These decisions will address all of the resources in the budget request and be related to the appropriation and budget activity structure of the DOD. The decisions will include the current year, the budget year, the authorization year

(budget year + 1) and an estimate of the resource impact on the three succeeding program years. Priority will be placed on assuring that budgets are prepared to true program cost for all years and that affordability in the out-years is explicitly reviewed and examined.

While the review is progressing, the DRB shall meet periodically to consider component appeals of Secretary or Deputy Secretary of Defense decisions, to discuss proposed decisions, to examine out-year affordability of current decisions, to prepare or agree on recommendations to the President, and to provide to the components the results of the Secretary's meeting with the President. The DRB shall also provide guidance and recommendations for program cancellations or reductions to meet fiscal guidance, and provide for budgeting-to-cost of individual programs.

After review of the tentative budget decisions, DOD Components may identify issues that are serious enough to warrant a major issue meeting with the Secretary of Defense. Later decisions made by the Secretary will be announced in revisions to issued PBDs. [Ref. 3] The final PPBS decisions are then incorporated into the Presidents Budget and submitted to Congress in January.

This thesis examines the initial budgets submitted by the navy major claimants, NAVCOMPTs actions on these budgets and the reclamas submitted, and OSD/OMB actions on the budgets and reclamas submitted to them.

6. Benefits of PPBS

Traditional budgeting methods used prior to the implementation of PPBS were concerned with inputs or resources. The PPBS focuses on outputs. Previously, defense expenditures had been considered in traditional line-item form, focusing on categories such as maintenance, supplies, personnel, and equipment; and the budget presented by the Secretary of Defense was really a combination of Army, Navy, and Air Force budgets. The whole question of how much a weapon system cost was not brought in systematically, either to determine the feasibility of the program or to evaluate its efficiency. [Ref. 1:p. 138] The Defense Department often looked like a collection of warring principalities, with decision-making colored at all levels by one-upmanship of interservice rivalry. [Ref. 1] For the first time, under PPBS, many Components were forced to define what their objectives really were. This may be the greatest advantage to PPBS.

The former budget was projected for only one year into the future, and the Secretary of Defense and the Secretaries of the three departments put all their emphasis on "next year's budget"-a budget that could not translate resources into objectives, could not project the future resource implications of proposed actions, and that did not distinguish between one-time investment outlays and recurring, or annual operating, expenses. [Ref. 7]

The need for PPBS stems from two sources. First, the resources of government are limited so they must be distributed to gain the most value. Second, government needs a regulator that tells us when an activity stops being productive and should be altered or replaced. The importance of thinking in program terms is that, in addition to clarifying objectives, it helps move discussion away from the fairly useless absolutes of (a) what fixed amounts of money to spend no matter what the goals, or (b) what fixed objectives to achieve no matter what the costs. [Ref. 1:p. 141]

Wildavsky argues that PPBs greatest success, has been in changing the budgetary atmosphere. It brought increased attention to the need to improve analysis and to develop more rational decision rules. [Ref. 2]

PPBS provides for forward planning in its FYDP and provides for techniques to evaluate costs and benefits. All programs must be quantified in specific benefit and cost terms. Although all policies are ultimately made on the basis of judgement they don't need to be made in the fog of inadequate and inaccurate data prevalent prior to the implementation of PPBS. PPBS provides data to help officials make decisions. It is not a mechanical substitution for the good judgement, political wisdom, and leadership of those officials. [Ref. 1]

7. Weaknesses of PPBS

Wildavsky calls PPBS an elaborate apparatus that does not work. He claims that PPBS does not work because it can not work. Failure is into its very nature because it requires ability to perform cognitive operations that are beyond present human (or mechanical) capabilities. [Ref. 2:p. 206]

One major problem is that there is no agreement on the definition of a program. Just what one means by an end-product or a program is not unambiguous. The line of demarkation between programs and objectives is not clear cut. Is the Military Air Transport Service a program or simply an activity supporting, say, the Tactical Air Program? Or is even the latter merely something to be purchased for a program that might be called deterrence and fighting of limited wars? Even such tasks as providing nuclear striking power and providing forces for limited war have interrelationships. Neither is solely a supporting activity of the other, yet each can influence the credibility and effectiveness of the other. It may seem that one is driven to regard every military item and activity as an object purchased for and contributing to one program--national security. The unique function of a program budget is to implement the conclusions of a political philosophy through the assignment of resources. In a number of areas no clear objectives have been laid down. [Ref. 1:pp. 140-141]

Another problem is in the measurement of costs and benefits. A precise measure of benefits or effectiveness of one method of achieving a goal verses another is impossible to achieve. The decision then comes down to judgement and political bargaining. How costs are measured is just as impossible, political costs, dollar outlays, the cost of human lives, all have to be weighed and compared. It is critically claimed that, in order to justify their pet programs and personal judgments; officials produce vast amounts of useless information, characterized by premature quantification of irrelevant items. [Ref. 2] These massive doses of information are too much to evaluate, thus the system is overloaded and the decisions are made through pure judgement.

The President's Blue Ribbon Commission or Defense Management pointed out numerous problems with PPBS. They reported:

- A lack of clarity in the strategic goals of DOD
- An inability of the JCS system to make meaningful program inputs
- Instead of rational choices of programs and weapons most needed to serve national purposes, such choices are still largely determined by service needs and service interests, resulting in duplication of some programs, misallocation of resources to others, and most important, neglect of still others.
- Failure of the PPBS to emphasize the output side of the defense program
- An insufficient relationship between strategic planning and fiscal constraints.

Insufficient attention in the PPBS to execution oversight and control. [Ref. 10]

Wildavsky is extremely critical of PPBS. In addition to the problems already mentioned he makes the following points:

- PPBS is not cost effective. It produces costly rationales for inevitable failures.
- PPBS sacrifices the rationality of ends to the rationality of means.
- Five-year budget conceived in the hodgepodge terms of the program structure serves no purpose.
- PPBS discredits policy analysis. To collect vast amounts of random data is hardly a serious analysis of public policy. [Ref. 2]

It can be argued that any budgeting system, designed to construct a budget as large and complex as the DOD's is, will be flawed in many ways. The PPBS process is no exception to this. While it has its' faults, it does work, and will be used for the foreseeable future.

Through the understanding of the PPBS process, provided in this chapter, the reader can better appreciate the roles and strategies of the participants. The next two chapters examine how the PPBS process is used, and detail the actions of the Major Claimants, and the reviewing agencies.

II. BACKGROUND

A. LELOUP/MORELAND STUDY ON BUDGETING IN THE DOA

Other studies have been done to examine the methodologies used by governmental reviewing authorities in cutting budgets. Lance T. LeLoup, and William B. Moreland reviewed the budgets of the department of agriculture (DOA), from 1946 through 1971. They looked at the budgets submitted by the agencies and the subsequent changes made by the DOA, the OMB, and congress.

While the aggregate budgets appeared to change in smooth increments, they found great variations in the budgets of the agencies which make up the DOA. They traced the degree of success or budget expansion to the extent the agency was assertive or aggressive in its budget request. Assertiveness or aggressiveness is defined as the tendency for agencies to pursue an active strategy of expansion in their programs and fundings. [Ref. 12:p. 182] A requested increase of ten percent or more was defined as aggressive.

They found that the larger the increase requested the more it was cut, but budgets are not cut in proportion to the requested increase or decrease. Agencies asking for large increases wound up with a larger share than those requesting moderate increases In fact agencies requesting moderate increases averaged an overall decline in appropriations. Tables 2-1 and 2-2, indicate the results of their research.

TABLE 2-1

CHANGES IN AGENCY REQUESTS MADE BY REVIEWING BODIES

relative assertiveness

Change in Agency Request from Previous Budget	Number of Cases	Average % Change by Department	Average % Change by OMB	Average % Change by Congress	Budget Results Average % Change in Agency Appropriation
Request Decrease	60	25.5%	- 6.5%	2.4%	-21.0%
Request Increase 0-9.9%	99	- 2.0%	- 3.0%	- 0.3%	0%
10-24.9%	121	1.3%	- 8.0%	- 0.5%	1.3%
25-49.9%	103	-13.0%	-11.0%	- 0.7%	4.6%
50-99.9%	79	-16.5%	-14.4%	- 1.3%	17.0%
Greater than 100%	36	-20.2%	-16.2%	-10.5%	130.0%
Average for All Agencies	498	- 4.0%	- 9.0%	- 2.0%	11.0%

TABLE 2-2

REQUEST PATTERNS BY CATEGORIES OF ASSERTIVENESS

Agency Assertiveness Categories	Average Agency Increase Requested		Average Department Increase Requested		Average OMB Increase Requested		Average Growth	N
Decrease	-19.4%	>	-14.9%	>	-22.3%	>	-21.1%	(60)
0-9.9%	5.0%	>	3.5%	>	0.3%	>	- .02%	(99)
10-25%	16.1%	>	17.5%	>	1.9%	>	1.3%	(121)
25-50%	36.2%	>	18.9%	>	6.0%	>	4.6%	(103)
50-100%	68.0%	>	40.2%	>	18.9%	>	17.0%	(79)
Over 100%	290.0%	>	115.0%	>	71.0%	>	130.0%	(36)
								(498)

[Ref. 12:pp. 185-186]

They found that the department(DOA) attempted to balance the extremes. It protected the moderate agencies by adding back to decreases requested, and cut very little from moderate requests. It increased the budgets of those asking for ten-25 percent increases and it cut deeply into the most aggressive requests. The greater the increase asked for the larger the cut. This however; still left the more aggressive agencies with much larger dollar increases than any other category.

The OMB it was found is the main obstacle to agency growth. It cuts across the board in a mechanical method, and it does not increase the budgets of any group. Even more significant is the finding that moderation in requests certainly confers no advantages in terms of support from the OMB. [Ref. 12:p. 186]

Congress makes the smallest changes overall. it cut more deeply into the larger increases requested, but increased the requests from the largest category. They also restored some of the OMB cuts to the agencies requesting a decrease. The increase given to the most assertive group is attributed to actions by those agencies to build support in congress.

In summary they found that the normal strategy of moderation postulated by the incremental theorists is more myth than reality. The strategy of moderation may be desirable for agencies seeking certainty, stability, and high support of their initial request, but it will not lead to

agency growth and may in fact lead to agency decline. To obtain substantial nonincremental increases in programs and budgets, an agency must attain a position of political strength (with support inside and outside of government) to justify a large increase. Don't come in too high is poor advice for an agency wishing to receive more money; come in as high as you can justify would appear to be better advise based on the results of this study. [Ref. 12:p. 191]

B. PAST RESEARCH IN ASSERTIVE BUDGETING

Lieutenant Jack Housley, United States Navy (1986) examined the Department of the Navy; operations and maintenance, Navy (O&M,N) budget for FY 1987. Like LeLoup and Moreland, he looked at the budgets submitted by the agencies, in this case the navy major claimants. He classified the claimants' initial budget requests as aggressive or moderate. The aggressive or assertive requests were those requesting an increase of ten percent or more over the preceding years budget. He examined the budget cutting actions of NAVCOMPT, OSD/OMB, and the actions that each took on reclamas submitted to influence these cuts.

He found that the O&M,N budget changed in smooth increments, but that budget participants didn't receive changes in proportion to their previous budget share. The claimants using an aggressive budgeting strategy received the bulk of the increases. Although the average claimant asked

for budget increases, more asked for a decrease than requested increases greater than ten percent. This differs significantly from the DOA agencies in the LeLoup-Moreland study. In that study only 60 agencies requested a decrease and 339 asked for more than ten percent. This indicates that the Navy's claimants may be less aggressive in seeking budget increases than the agencies of the DOA.

The support of NAVCOMPT he found, was critical to the aggressive claimants. Without it OSD/OMB cut their requests and with support, their increases were a most always approved. For non aggressive claimants NAVCOMPT support is not as important. Their initial request is the strongest determinant of their budget.

His analysis differs with that of LeLoup-Moreland in that, NAVCOMPT unlike OSD did not attempt to balance the extremes. It is just as likely to increase the requested budget as to decrease it. He found that the role NAVCOMPT took was to check the claimants requests for budget feasibility, verify the accuracy of estimates, and evaluate to see if it reflects PPBS decisions.

His findings like those of LeLoup-Moreland, show that OSD/OMB is the main obstacle to growth and that they are very mechanical in their cuts. In addition, moderation in budget requests appears to have no advantage in securing support from the OSD/OMB budget review. [Ref. 13:p. 32] Moderate increases are cut along with aggressive increases. He also

found that the claimants requesting the largest increases, received the largest cuts, but still wound up with far greater increases than their moderate counterparts. The actions of NAVCOMPT and OSD/OMB are displayed below.

TABLE 2-3

Changes in Agency Requests Made by Reviewing Authorities

Claimant Assertiveness Categories	Average Claimant Increase Requested	NCOMPT Request Mark-up Increase	OSD OMB Request Mark-up Increase	Average Growth	N
Decrease	-0.29	-0.01	-0.03	-31%	(10)
0-4.9%	0.03	-0.02	-0.02	-3%	(3)
5-9.9%	0.07	-0.01	-0.02	6%	(17)
10-14.9%	0.13	0.09	-0.02	18%	(3)
Over 15%	0.17	-0.01	-0.06	11%	(5)

[Ref. 13:p. 33]

In the area of reclama success he found that although both NAVCOMPT and OSD/OMB are just as likely to cut, only NAVCOMPT is likely to restore funds as a result of the reclama process. He attributes this to four reasons. First DOD and DON discourage reclamas to OSD/OMB cuts. Next, most OSD/OMB cuts are conducted on line items for which the claimant has very little input. OSD/OMB makes a significant number of their cuts based on congressional action, revised

services rates, revised economic assumptions, and repricing of commodities (i.e. fuel). Finally, NAVCOMPT screens out the insupportable budget requests. [Ref.13:p. 36]

His results also show that NAVCOMPT restored more funds than it initially cut. This increases the importance of the reclama process as it could be utilized to increase the initial budget request. Since NAVCOMPT's budget is not as secure on political grounds and updated pricing and economic assumptions as OSD/OMB's budget it is much more willing to entertain reclamas.

He recommends that claimants take an aggressive role in budgeting, as the initial budget request is the strongest determinant of the final budget. The changes of NAVCOMPT and OSD/OMB are not usually significant enough to greatly change the initial request. With this assertive budget the claimant can and should use the reclama process on all cuts made by NAVCOMPT and generally accept changes made by OSD/OMB.

A study on the relationship between budget assertiveness and success in various department of defense budget accounts was conducted by Lieutenant Joseph Scarpa, USN in 1988. Using the 23 major military appropriations within the Department of Defense, he looked at this assertive relationship on the fiscal year budgets of 1977-1988 By comparing the initial budget request of the claimant to the budget approved by congress he determined the amount of the requested change that was ultimately approved. The measure

used for assertiveness and success was the percentage increment over the base which was requested and received.

His study agreed with the last two mentioned in that the largest increases in budgets go to assertive claimants. The marine corps was particularly successful in gaining large increases through aggressive budgeting strategies. He found that "The budget accounts which seem to be most rewarded by budget assertiveness for Fiscal Years 1977-1988 are Procurement, Marine Corps; the four services' Military Personnel accounts; Other Procurement, Air Force; and Other Procurement, Army. The budget accounts which seem least responsive to budget assertiveness are Aircraft Procurement, Navy; Weapons Procurement, Navy; and Research, Development, Test, and Evaluation, Army. [Ref. 16:p. iii]

Additional studies linking aggressiveness to budgetary increases have made similar conclusions. Davis, Dempster, and Wildavsky (1966) suggest that agencies will gain through advocacy, but that if they ask for amounts much larger than the appropriating bodies believe reasonable, their credibility will suffer. This could have a negative effect on the budget request, and future budgets. Sharkansky (1968) shows aggressiveness to be a prerequisite for a substantial budget increase. Sharkansky also finds a high correlation between gubernatorial support and agency budget success. It seems to be a safe extrapolation to further suggest that presidential support of an initiative--budgetary or

otherwise--is essential for federal agency success. [Ref. 16:p. 17]

From these studies one can conclude that the most effective strategy would be to ask for the largest increase that can be reasonably justified each year. This is not possible for all agencies every year. Agency assertiveness is a function of several factors: the values, attitudes, and orientation of agency administrators, the extent of external support for the agency and its programs, and the environmental constraints. [Ref. 12]

Department of Defense budgeting is still very much a political process in spite of all the attempts to make it more analytical. The support of the public, the president or the congress is essential to justify any large incremental increases in budgets. When a popular call goes out for a 600 ship navy, a strategic defense initiative, or a B-2 bomber, this is the time to relate an agencies growth to a popular issue. The budget reviewing agencies will be less willing to cut funds if they think that the next reviewer will restore the cuts due to popular or political support for the program. Agencies with popular or political support of this nature find it easy to be aggressive.

Economic conditions also play an important role in shaping the degree to which a claimant may be aggressive. Since all of the interservice budgets will eventually come together as the navy budget, they are all interrelated. In

times of fixed or reduced spending, increases in one budget require a cut in another. It is much easier for reviewing agencies to cut growth in one budget than to cut into the base of another. Over aggressiveness at these times may also cause the claimants budget to loose credibility. It will be examined much more carefully for areas of excess, and the unwarranted aggressiveness of the agency could be detrimental to its budget. This limits the ability of the agency to submit an aggressive budget.

In the next chapter, the budget data for Fiscal years 1990-1994 is analyzed. The actions of the reviewing agencies are examined to determine if they change during periods of fiscal constraint, compared to periods of growth. The methods and patterns used by the reviewing agencies are analyzed, and the budget strategies available to the Major Claimants are documented.

III. DATA BASE

The data used in this thesis was provided by the NAVCOMPT Budget Evaluation Group (NCBG). It contains the Operations and Maintenance, Navy (O&M,N) budget changes made while formulating the FY 1990 Presidents' Budget, and was produced in the late fall of 1988. The data contains the changes made to the FYDP (Fiscal Years 1990-1994), and to FY 1988 and 1989. These changes include: The initial FYDP budget (00), The Major Claimants' requested change (01), NAVCOMPTs' mark-up (02), NAVCOMPTs' restorals (03), Other DON miscellaneous adjustments (04), OSD/OMBs' Program Budget Decisions (PBD) adjustments (05), In some cases other OSD miscellaneous adjustments (06), and the final O&M budget with these changes included.

A. DATA ANALYSIS

From this data I analyzed the O&M budgets of 20 Major Claimants. Together, their budgets comprise 98.2 percent of the total O&M,N budget. These Claimants are listed in Figure 3.1 with their NCBG code. These codes are used throughout the remainder of this study to identify the major Claimants. Table 3-1 shows the amounts of the Major Claimants budgets. This study analyzes:

1. The aggressive/assertive correlation to budget growth mentioned earlier.

2. The amount and directions of changes made during each budget review, and the effect of the change on each years budget.

3. The methodology used in the changes made by each budget reviewing body.

4. The effects of the changes on each of the Major Claimants Budgets.

1. **Aggressive/Assertive Correlation**

The Claimants aggressiveness is determined by the amount of the increase in one years budget over the prior years budget. Through the examination of the Claimants requested budgets for the fiscal years 1990-1994, and comparing the amount of each to the prior years budget, the requested budget increases are measured. The aggressiveness of the Claimants over this five year period can be seen in Table 3-2.

Claimants	NCBG Code
Chief of Naval Operations (OP-09B)	11
Assistant for Administration, Under Secretary of the Navy	12
Naval Intelligence Command Headquarters	15
Commander, Naval Medical Command	18
Naval Air Systems Command	19
Naval Military Personnel Command	22
Naval Supply Systems Command	23
Naval Sea Systems Command	24
Naval Facilities Engineering Command	25
Marine Corps	27
Strategic Systems Project Office	30
Space and Naval Warfare Systems Command	39
Commander-in-Chief, U.S. Atlantic Fleet	60
Commander-in-Chief, U.S. Naval Forces, Europe	61
Chief of Naval Education and Training	62
Naval Telecommunications Command Headquarters	63
Naval Oceanographic Office	65
Naval Security Group Command Headquarters	69
Commander-in-Chief, U.S. Pacific Fleet	70
Commander Naval Reserve Force	72

Figure 3.1 Major DON Claimants

TABLE 3-1
Total O&MN Budget Levels by Claimant

(Numbers are in Thousands)

NCBG Code	FY90	91	92	93	94
11	988,577	1,069,652	1,102,097	1,115,695	1,155,388
12	276,956	282,132	289,435	296,616	303,412
15	156,200	164,205	191,749	208,355	212,235
18	1,963,075	2,116,999	2,314,320	2,347,048	2,496,825
19	2,417,646	2,497,945	2,552,497	2,594,376	2,768,406
22	521,060	526,333	544,306	554,292	596,838
23	1,424,046	1,440,575	1,482,098	1,547,509	1,588,186
24	3,846,095	3,954,613	4,257,408	4,565,767	5,046,895
25	347,511	344,162	350,308	362,302	369,734
27	1,745,100	1,802,500	1,872,701	1,962,351	2,030,825
30	987,892	972,772	1,087,702	1,123,595	1,086,580
39	708,256	745,906	771,461	810,535	843,210
60	4,910,108	5,059,951	5,407,382	5,579,224	6,340,590
61	218,009	220,603	226,739	235,939	262,347
62	1,186,891	1,238,705	1,247,090	1,301,315	1,301,734
63	349,774	358,083	374,616	384,582	396,450
65	220,469	246,105	246,050	257,994	254,642
69	101,679	105,062	112,221	114,076	117,221
70	5,335,130	5,552,867	5,000,623	5,670,780	6,510,804
72	541,636	568,974	576,794	566,417	590,808

TABLE 3-2
Claimant Assertiveness: Increase in Claimant Request to NAVCOMPT from the Previous Year's Request

Request Decrease	0% - 4.9%	5% - 9.9%	10% 14.9%	15% & Above	Total
7	48	28	11	6	100

The table shows that the majority of Claimants, (76 percent), requested increases of between 0 and 9.9 percent, and 17 percent requested an increase of greater than 10 percent. This compares with Housley's findings of 53 percent with a 0-9.9 percent increase request, and 21 percent requesting more than 10 percent. The LeLoup/Moreland study measured 20 percent requesting a 0-9.9 percent increase and 68 percent seeking more than 10 percent. Both of these past studies were conducted during periods of budget expansion, during which aggressiveness was encouraged. The current data indicates that the Claimants become more moderate in their quest for budget growth, during periods of fiscal constraint.

In order to assess the success that aggressive Claimants achieved over this five year period, the growth or shrinkage of each category of budget request is compared to the actual budgetary level achieved. Table 3-3 displays the results of this comparison.

TABLE 3-3

Changes in Agency Requests Made by Reviewing Bodies

Change in Claimant Request from Previous Budget	Number of Cases	Avg% (02) Change NAVCOMPT	Avg% Change OSD/OMB	Avg% Change Budget
Request Decrease	7	-7.8	- .6	-2.97
Increase 0-4.9	48	-4.4	-2.1	+ .2
Increase 5-9.9%	28	-7.4	- .8	-4.3
Increase 10-14.9%	11	-7.7	+ .1	-1.2
Increase > 15%	6	-15.2	-1.7	-8.1

The results of this comparison show that the most aggressive category of Claimants received the largest cuts, followed by those requesting a 5-9.9 percent increase and those requesting a decrease. The Claimants requesting a small (0-4.9 percent), increase received a small increase, and those requesting an increase of 10-14.9 percent received a slight decrease.

These findings conflict with those of past studies, and indicate that an aggressive strategy does not necessarily result in a budgetary increase. During periods of budgetary constraint a strategy of seeking a small (0-4.9 percent), increase is more likely to result in some budgetary growth.

The one area of consistent agreement is that those Claimants who request a budget cut, will be cut deeper than the requested.

Another strategic option available to aggressive Claimants is to adjust upward the budget being submitted to Navcompt. Only one Claimant of the twenty studied, employed this tactic. Table 3-4 shows the amount of their adjustments to each year's budget, the actions of the reviewing agencies, and a comparison to the other Major Claimants budget changes.

TABLE 3-4

Budget Review Results for Claimants Adjusting Their NAVCOMT Submittal Compared to Those that Did Not Adjust Their Budgets

Fiscal Year	(01) Change Percent Change Requested	Number of Claimants Requesting The Change	(02) Change NAVCOMPTS Mark-up	(03) Change NAVCOMPTS	(04) Change Other O&M Adjustments	(05) Change OSD Adjustments	Percent Average Growth
1990	+4.6	1	-17	+8.8	+7.2	+2	+1.5
	0	19	- 4.26	+4.2	+1.4	-1.6	- .1
1991	+1	1	-17	+8.6	+7.3	+3.5	+3.5
	0	19	- 5.6	+5.9	+1.3	-2.4	- .99
1992	+1	1	-15	+6.5	+3	+3	-1.5
	0	-19	- 4.3	+4.2	+1.4	- 1.5	- .69
1993	+ .9	1	-16.3	+6.9	+ .7	+ 3	-4.7
	0	19	- 5.81	+4.5	+1.4	- 1.6	-1.5
1994	+ .8	1	-16.4	+6.3	-3.7	+ 4.4	-8.6
	0	19	- 6.2	+4.2	+ .5	- .7	-2.6

This Claimant's aggressiveness resulted in an increase in their FY 1990, and 1991 budgets, but their FY

1992-1994 budgets were cut. The average effect on the five year budget was a negative 1.9 percent yearly cut in its budget. This compares to a negative 1.2 percent, average yearly cut in the budgets of the other 19 Claimants who did not request a budget adjustment.

Although this sample of one aggressive Claimant does not provide conclusive evidence; it does indicate that at least in this case, aggressive use of requested adjustment increases, during a period of fiscal constraints, did not pay off.

One assertive strategy which is readily available to all Claimants is that of program justification. Through proper justification of each program during the programming stage of the PPBS process, a Claimant can minimize NAVCOMPT's initial 02 cut to their budget. The justification for each line item, submitted with the budget to NAVCOMPT, will have a large impact on the size of the budget approved. If NAVCOMPT can relate a line item to an approved program they tend to approve it. Since the 02 modification to the budget is consistently the largest budget cut, in every year; if it can be reduced or eliminated a Claimant will improve the chances of his budget's final approval. See Tables 3-5 through 3-9, which show each change to the claimants' budgets.

TABLE 3-5

Major Claimant Budget Changes
Fiscal Year 1990

NCBG Code	Claimant Adjustment 01	NAVCOMPT Mark-up 02	NAVCOMPT Restoral 03	NAVCOMPT Adjustment 04	OSD/OMB Adjustment 05	OSD/OMB Misc. Adjustments 06	Total
11	0	+ 4.8	+ 4	- 1.3	- 1.2	0	+ 6.3
12	0	+ 6.8	+ 3.5	+ 8	-16.4	0	+ 1.9
15	0	- 1.7	+ 1.9	- 6.3	+ 1	0	- 5.2
18	0	- 6.1	+ 1.9	+ .8	- 1.4	0	- 4.8
19	+4.6	-17	+ 8.8	+ 7.2	2	0	+ 1.5
22	0	- 3.7	+ 3.6	+ .5	- .3	0	+ .1
23	0	- 5.1	+ 4.7	+ 6	- .7	0	+ 4.8
24	0	-33	+17.7	+ 2.5	+ .4	0	-12.5
25	0	+ 4.3	+ .5	- 6.5	+ .9	0	- .75
27	0	+ .3	+ 2	+ .4	+ 1	0	+ 3.7
30	0	-24.6	+21.4	+ .1	- 2.4	0	- 5.6
39	0	-9.7	+ 6.7	- .6	- 1	0	- 4.6
60	0	- .6	- 1.3	+ 2.5	- 4.2	-.02	- 3.6
61	0	+11	0	+ 1.7	+ .7	+.4	+13.8
62	0	- .6	+ 1	+ 3.7	+ .6	0	+ 4.7
63	0	-12.5	+ 6.5	+ .5	+ .6	0	- 5.1
65	0	-11.7	+ 4	+ 9.9	- 4.3	0	- 2.2
69	0	+ 1.1	+ .5	+ 2.8	+ 2.9	0	+ 7.3
70	0	+ 1.7	+ 2.9	+ 2.9	- 4.6	0	+ 2.7
72	0	- 3.9	+ 2.4	+ .5	- 2.5	0	- 3.5
Average		- 5.01	+ 4.64	+ 1.77	- 1.45	+.02	- .05
Number of cuts		13	1	4	10	1	10
Percentage of Claimant's Budgets Cut		65	5	20	50		50

All Numbers are in percent

TABLE 3-6
Major Claimant Budget Changes
Fiscal Year 1991

NCBG Code	01	02	03	04	05	06	Total
11	0	+ 4.6	+10.3	- 8.3	- 2.5	0	+ 3
12	0	+ 8.8	+ 3.4	+ 8.7	-19.2	0	+ 1.6
15	0	- 1.9	+ 2.1	+ 2.2	+ 5.1	0	+ 7.4
18	0	- 7.4	+ 2.9	+ .7	- 2	0	- 5.7
19	+1	-17	+ 8.6	+ 7.3	+ 3.5	0	+ 3.5
22	0	- 2.8	+ 3.1	+ .5	- 1.6	0	- .9
23	0	- 4.8	+ 4.8	+ 6.2	- 2.9	0	+ 3.3
24	0	-32	+20	+ .9	- .2	0	-11.3
25	0	+ 5.3	+ .6	- 9.9	- .1	0	- 5
27	0	- .03	+ 2	+ .4	+ .2	0	+ 2.5
30	0	-46	+32.2	+ .1	- 2	0	-16.2
39	0	-12.7	+ 9.3	- .6	- 1.6	0	- 6.6
60	0	+ 5.3	-4	+ 1.4	- 5.5	-.02	- 2.8
61	0	+11	0	+ 1.7	- 1.7	+.4	+11.4
62	0	- .3	+1	+ 3.4	- .8	0	+ 3.3
63	0	-12	+ 5.8	+ .4	- .7	0	- 6.4
65	0	- 7.6	+ 3.7	+13	- 3.4	0	+ 5.6
69	0	+ 1.2	+ .5	+ 4.6	+ 1.4	0	+ 7.8
70	0	-11.1	+12	- .04	- 6.4	0	- 5.6
72	0	- 3.4	+ 2.3	- .06	- 2.5	0	- 4.2
Average		- 6.14	+ 6.03	+ 1.60	- 2.15	+.02	- .77
Number of cuts		14	1	5	16	1	10
Percentage of Claimant's Budgets Cut		70	5	25	80	5	50

All Numbers are in percent

TABLE 3-7
Major Claimant Budget Changes
Fiscal Year 1992

NCBG Code	01	02	03	04	05	06	Total
11	0	+ 3	+ 7.7	-3.9	- 1.5	0	+ 5.3
12	0	+ 1.9	+ 2.9	+8.9	-11.2	0	+ 2.5
15	0	- 1.7	+ 1.9	+6.7	+ 6.5	0	+13.4
18	0	- 9.8	+ 5.7	+ .7	- .9	0	- 4.3
19	+1	-15	+ 6.5	+3	+ 3	0	- 1.5
22	0	- 3.2	+ 2.6	+ .3	- 1.3	0	- 1.6
23	0	- .8	+ 1.5	+6.2	- 3.6	0	+ 3.2
24	0	- 7.4	+ 4.1	+ .2	- .06	0	-11.4
25	0	+ 5.5	- .9	-8.5	- .5	0	- 4.5
27	0	+ .3	+ 1.9	+ .4	+ .2	0	+ 2.8
30	0	-42.7	+29.4	+ .1	- 1.1	0	-14.4
39	0	-16.4	+10.3	- .5	- 1.1	0	- 7.7
60	0	+ 2.5	- .8	- .4	- 4.7	-.01	- 3.4
61	0	+ 9	0	+ .6	- .4	+.4	+ 9.6
62	0	- 1.5	+ 1	+3	- 2.6	0	- .1
63	0	-13.2	+ 8.1	+ .5	- 1	0	- 5.6
65	0	- 6.1	+ 2.9	+9.8	- 3.6	0	+ 2.9
69	0	+ 1.1	+ .5	+2.6	+ 5.6	0	+ 9.8
70	0	+ 1.3	- .8	+1.3	- 6.6	-.005	- 4.8
72	0	- 3.5	+ 2.2	-1.2	- 2.5	0	- 4.9
Average		- 4.8	+ 4.3	+1.5	- 1.4	+.02	- .74
Number of cuts		12	3	5	16		12
Percentage of Claimant's Budgets Cut		60	15	25	80		60

All Numbers are in percent

TABLE 3-8
Major Claimant Budget Changes
Fiscal Year 1993

NCBG Code	01	02	03	04	05	06	Total
11	0	- 2.3	+ 6.5	+3.9	-2.7	0	+ 5.5
12	0	- 4.1	+ 2.3	+8.7	-6.4	0	+ .5
15	0	- 1.6	+ 1.7	+4.4	+7.2	0	+11.8
18	0	- 9.3	+ 5	+ .7	-1.3	0	- 4.9
19	+.9	-16.3	+ 6.9	+ .7	+3	0	- 4.7
22	0	- 3.2	+ 2.5	+ .2	-1.8	0	- 2.3
23	0	- 1	+ 1.7	+6	-3.8	0	+ 2.8
24	0	-25.2	+12	+1.8	+ .1	0	-11.3
25	0	+ 4.7	- 2	-8.2	-1.4	0	- 7
27	0	- .1	+ 1.9	+ .4	- .1	0	+ 2
30	0	-42	+28.3	+ .1	-1.5	0	-15
39	0	-13.2	+ 8.9	- .5	-1.2	0	- 6
60	0	+ 2.5	- .9	-3.6	-4.9	-.08	- 6.9
61	0	+ 8.9	0	+ .6	- .7	+.4	+ 9.2
62	0	- 1.8	+ .9	+2.9	-3	0	- 1.1
63	0	-14.2	+ 9.4	+ .5	-1.4	0	- 5.7
65	0	- 5.6	+ 2.8	+9.3	-4	0	+ 2.4
69	0	+ 1.2	+ .5	+3.3	+4.5	0	+ 9.5
70	0	- .8	+ 2.5	-3.4	-5.9	+.06	- 7.6
72	0	- 3.4	+ 2	- .5	-2.9	0	- 4.8
Average		- 6.3	+ 4.7	+1.4	-1.4		- 1.7
Number of cuts		16	2	5	16	1	12
Percentage of Claimant's Budgets Cut		80	10	25	50	5	60

All Numbers are in percent

TABLE 3-9
Major Claimant Budget Changes
Fiscal Year 1994

NCBG Code	01	02	03	04	05	06	Total
11	0	- .5	+ 6.1	+4.1	- 3.6	0	+ 6.1
12	0	- 9.2	+ 2.3	+8.4	- 2.5	0	- 1.1

TABLE 3-9 (Continued)

15	0	- 1.5	+ 1.6	-5	+10.6	0	+ 5.7
18	0	-11	+ 6.5	- .5	- 1.8	0	- 6.9
19	+.8	-16.4	+ 6.3	-3.7	+ 4.4	0	- 8.6
22	0	- 3.4	+ 2.4	-1.7	- 2.2	0	- 5
23	0	- 1.7	+ 1.9	+6.1	- 2.3	0	+ 4
24	0	-19.6	+ 7.2	+4.2	+ 1.2	0	-15.4
25	0	- .2	- 2.4	-7.6	- 2.2	0	-12.4
27	0	+ .4	+ 1.9	+ .4	- .6	0	+ 2
30	0	-42.6	+28.4	-1	- 2.1	0	-17.2
39	0	-13	+ 9	-3.4	- 1.1	0	- 8.4
60	0	+ 1.5	- .8	-5.7	+ 2	+.2	- 2.9
61	0	+ 5.9	0	+9.3	- 1.2	+.4	+14.3
62	0	- 2.5	+ 1	+1.4	- 3.7	0	- 3.9
63	0	-14.5	+ 9.7	+ .1	- 1.8	0	- 6.6
65	0	- 5.5	+ 2.7	+5.2	- 4.7	0	- 2.3
69	0	+ 1.1	+ .5	+2.4	+ 5	0	+ 9.1
70	0	+ 1.3	- .7	-5.4	+ .8	-.2	- 3.2
72	0	- 3.3	+ 1.8	-1.1	- 3.4	0	- 5.9
Average		- 6.74	+4.3	+ .33	- .46	+.02	- 2.93
Number of cuts		15	3	10	14	1	14
Percentage of Claimant's Budgets Cuts		75	15	50	70	5	70

All Numbers are in percent

Programs which lack strong justifications, often receive large cuts from NAVCOMPT. Of the Claimants with the biggest 02 cuts, specifically NCBG codes 24, and 63, many programs were reduced or eliminated completely due to inadequate justification. For NCBG code 24, 31 percent of its cut consisted of reductions and unjustified program cuts. For NCBG code 63 they consisted of 18.5 percent of the cuts. The Claimants with the smallest NAVCOMPT cuts, and in some

cases, increases, were able to better justify their programs. Over the coarse of the five years reviewed, NAVCOMPT increased Claimants budgets 28 times. In these cases very few cuts were made for programs being unjustified. The few that were made were so small in size, that they did not impact on the budget.

This data clearly indicates that an aggressive justification strategy is an effective method of avoiding budget cuts, during periods of fiscal constraint.

Another option available is to utilize the Reclama process to nullify the initial NAVCOMPT cut, or to actually increase the budget. In 17 percent of the cases over this five year period, Claimants were able to achieve a budget increase in the initial NAVCOMPT mark-up, and another increase from the Reclama-restoration process. In another 19 percent of the cases. Claimants were able to get back more in the Reclama-restoration process than was cut in the initial mark-up.

The key to success in this area, is to fully understand the reasons for the initial NAVCOMPT cuts, and to justify well enough to prevent cuts, or achieve its restoral after the cut. Some Claimants are clearly better at this than others.

A detailed description of the reasons for all cuts is provided to the Claimants when their budgets receive cuts. The more aggressive Claimants will study and research each

one of these cuts, and plan a strategy to have each restored. A reclama is then submitted for each line item which was cut. These reclamas must address the specific concerns of NAVCOMPT and be convincing enough to cause a restoration of funding.

2. Changes of Reviewing Authorities

In Tables 3-5 through 3-9 the budget changes of NAVCOMPT's mark-up, NAVCOMPT's restoral, NAVCOMPT's miscellaneous adjustment, and the OSD/OMB adjustments are shown. From this data clear patterns of action are seen.

The initial NAVCOMPT (02), mark-up is clearly a budget cut, for the average Claimant. This cut is deepest, and affects the largest number of Claimants in the last two years of the FYDP. For FY1993 and FY1994 cuts apportioned by NAVCOMPT (02) adjustments effects 80 percent of the Claimants and averages -6.30 percent and -6.74 percent respectively. For the first two years, FY1990 and FY1991, it cuts 65 percent and 70 percent of the Claimants, and averages -5.01 percent, and - 6.14 percent. The middle year of the FYDP, FY1992 is the smallest cut, and it only affects 62 percent of the Claimants. This cut averages -4.8 percent in size. This indicates that an appropriate strategy would be to request the largest budgetary increase for the third year of the FYDP.

The NAVCOMPT (03) restoral gives back almost as much as the initial mark-up takes away. This restoral however; does not necessarily give back the funds to the Claimants who

had their budgets cut. The (03) restoral redistributes the budgets by returning little to the Claimants with the deepest cuts, and giving more to the Claimants with (02) increases. In FY1990 the agencies with the five deepest cuts, had cuts which averaged 19.76 percent. Their restorals averaged 11.68 percent. This is a restoral rate of 59.11 percent of their cuts. The Claimants with the five biggest (02) increases, had increases which averaged 5.72 percent, and (03) additional increases of 2.13 percent. This is a restoral rate of 38.11 percent of their initial increase. This relationship of budgetary redistribution was consistent for every year of the FYDP.

The ten Claimants which fell in the middle of the deepest cuts, and the smallest cuts or increases, were able to get most of their (02) cuts restored. These ten Claimants averaged a FY1990 cut of 3 percent, and had a restoral rate of 2.35 percent. This is a restoral rate of 78.33 percent. Of these ten claimants, only one was restored more than it was cut, while one which was cut received an additional cut, and two who received increases gained a further increase. Every Claimant which received an (02) increase also received an (03) increase. These findings also remained relatively constant throughout the FYDP.

The NAVCOMPT (04) miscellaneous adjustment was a slight budget increase for most Claimants. It averaged +1.32 percent over the FYDP period, and cut only 29 percent of the

Claimant's budgets. Most of these cuts came in the outyears. In FY1990 only 20 percent were cut. In FY1991-1993, 25 percent received cuts, and in FY1994 50 percent received cuts.

While the (04) adjustment did not have a significant affect on most of the Claimants, it did greatly change the budgets of a few. Of the 29 cuts over the FYDP period, 25 of them affected the same 7 Claimants. Two Claimants, NCBG codes 25, and 39 were cut every year. Code 25 averaged a 7.02 percent yearly cut, while Code 39 only received a 1.2 percent average yearly cut. Other Claimants received large yearly increases. Code 65 received an average 9.44 percent yearly increase, and Code 12 received a 8.54 percent yearly increase.

The (05) OSD/OMB adjustment was an average cut in every year. It averaged -1.37 percent over the FYDP period, and cut 72 percent of the budgets. These cuts were fairly evenly distributed over the FYDP period, with FY1990 receiving the least. While most of these cuts were small in size, and only a few Claimants gained, a small number were affected significantly. Code 12 received an average annual cut of 11.14 percent, and Code 65 received a 4.02 average yearly cut. These two were the biggest losers. Codes 15 and 69 were the biggest gainers. Code 15 received an average 6.08 percent increase, and Code 69 averaged a 3.88 percent increase.

The (06) OSD/OMB miscellaneous adjustment is a very small increase which averaged +.02 percent yearly, and only affected three Claimants. This adjustment reflects the budget fine tuning done by NAVCOMPT to align the budget to the OSD/OMB total cut. Due to its size it is of little importance to the overall budget or the results of this study.

3. Reviewing Methodologies

Most budget changes fall into three categories. These categories are: pricing, timing, and programming. The pricing cuts or increases reflect the amount to be spent on a program. Through spending more or less on a program, or reacting to economic conditions which affect input prices, a program's price can be increased or decreased. Timing changes refer to when a program is to come on line, or the growth of a program. Through stretching out of a program or cutting growth, the amount spent per year can be reduced. Program modifications are made by cancelling a program, adding a new program, or altering a current program's size. Program modifications are made to reflect decisions made during the programming phase of the PPBS process.

The reviewing agencies use all of these methodologies, plus miscellaneous adjustments to make their budget changes. Through the examination of the five largest Claimant's line item changes, the methodologies of each reviewing phase are analyzed. Table 3-10 shows the results

of this analysis, and Table 3-11 displays the amount of each change with its percent of total change.

TABLE 3-10

Number of Budget Changes by Type and Level of Review
PR = Pricing T = Timing P = Program

NCBG	02			03			04			05		
Code	PR	T	P	PR	T	P	PR	T	P	PR	T	P
18	48	1	6	33	0	0	14	0	0	23	2	8
19	22	10	9	12	10	4	31	2	0	32	1	26
24	71	13	10	42	10	3	39	0	4	47	0	26
60	73	4	13	23	0	0	40	2	14	55	1	34
70	65	3	25	27	2	7	48	0	9	56	2	29
Total	279	31	63	137	22	14	172	4	27	213	6	123

TABLE 3-11

Amount of Change by Category
($000)

	02			03			04			05		
	PR	T	P	PR	T	P	PR	T	P	PR	T	P
Amount	1420333	270100	236580	927494	117663	64875	115148	76225	378090	80442	15328	517193
Percent of Change	73.7	14	12.3	83.6	10.6	5.8	20.2	13.4	66.4	-19.1	-3.6	122.7

The budget changes of the reviewing agencies are the product of budget evaluations. These evaluations do not make program decisions, but they do make program validity judgements. If a line item does not justifiably support an approved program, it is not funded. Previously approved and budgeted programs are also affected by program changes and cuts are made to reflect decisions made during the programming phase of PPBS. Since a particular line item may apply to more than one program, it could be partially cut to reflect changes to one program. These types of cuts are termed program cuts, as they reflect changes in funding caused by previously made programming decisions. Pricing cuts are made to distribute the limited DON resources to all of the approved programs. Timing cuts are made stretch out programs and cut the immediate expenditures due.

The initial NAVCOMPT mark-up of these five claimants involved changes to a total of 373 line items. Many of the line items were affected by more than one change. Most of the NAVCOMPT mark-up changes (74.8 percent), involved pricing changes. Timing changes affected only 8.3 percent of the line items changed. This low figure indicates NAVCOMPT's possible reluctance to stretch out programs. Program changes reflect 16.9 percent of the line item changes. The amount of the adjustments also indicate that pricing changes represent most of the total change (73.7 percent). These changes cut

into the share of line items that support scaled back or cancelled programs.

The NAVCOMPT restoral phase affects 173 line items or 46.4 percent of the number involved in the initial mark-up. Of these line items, 79.2 percent are pricing changes, 12.7 percent are timing changes, and 8.1 percent are programing changes. The amount of these changes also reflect the number of changes in weight, see Table 3-11.

The NAVCOMPT miscellaneous adjustment phase is concerned primarily with economic projections, and seldom effects the same line items that were changed in the first two phases. It involves changes to 204 line items. These changes are broken down into pricing (84.3 percent), timing (2.5 percent), and programming (13.2 percent). The amount of these changes indicates that the actual size of the programming changes are much larger than the pricing changes. Although the programming changes reflect 13.2 percent of the number of changes, they comprise 66.4 percent of the amount of change.

The OSD/OMB review affects 342 line items. This is a broad based review which cuts more heavily (36 percent), into line items reflecting program support than the other budget reviews. Still the largest number of changes (62.3 percent), reflect pricing changes. Timing changes involve only 1.7 percent of the line items. The pricing and timing changes act to offset the programming cuts. While the pricing and

timing adjustments increase the budgets, the programming cuts account for the entire budget decrease.

The majority of all the changes made (73.4 percent) are classified as pricing changes. The next largest category is programing changes with 20.7 percent of the total. Timing changes only account for 5.9 percent of the total. In dollar amount the programming changes are the largest category. They reflect 46.5 percent of the total change, while pricing changes account for 44.4 percent. Timing changes reflect 9.1 percent of the total amount of change.

Since pricing and programming changes together make up 94.1 percent of the number of budget changes, and 90.0 percent of the amount of change, the Major Claimants should focus on this area to strengthen their budget proposals. The strategy of effectively justifying line item budget levels to approved programs is strongly recommended.

A Claimant must be careful in drafting line item justifications, which are submitted with the line items to NAVCOMPT for their Initial mark-up. If the share of a line item which is perceived to be allocated to a changed program is too large, the cut could negatively effect the other programs supported. To avoid this the Claimant should follow the programming process closely. When program support changes, the line item justifications can be reviewed to ensure that they properly reflect the support provided to each program. This will prepare Claimants for the reclama

process early, and enable them to develop a strategy to defend budget levels. This strategy will help restore both pricing and programming cuts.

During the reclama restoral process NAVCOMPT, will give back almost as much as it initially cut. These restorals will favor the claimants who best justify their funding levels to approved programs. If a claimant has done an effective job in his initial POM justification it will make the task of drafting strong reclamas that much easier. It is important that each cut be countered with a reclama, and that each reclama tie the funding level budgeted to the success of a program.

The NAVCOMPT adjustment phase is more difficult to prepare for, as it is primarily concerned with NAVCOMPT's economic projections, and reclamas are not submitted to change them. The initial line item justification of funding is the strongest defense for this phase of the review process.

The OSD/OMB review is essentially an across the board cut, primarily affecting the areas of pricing and programming. The best strategy to defend against this cut, is to gain the support of NAVCOMPT during the initial three phases of the review process. Through an aggressive justification strategy, the Claimant can affect the success of his budget as it progresses through the budget review process.

4. The Effects of the Changes on Each Major Claimant

Some of the Major Claimants were much more successful at budgeting than were others. Tables 3-12 and 3-13 list the budget growth by years, and the yearly average growth for each of the Major Claimants. From these tables the clear winners and losers can be identified.

TABLE 3-12

Major Claimants Ranked by Percent of Total Change

90	91	92	93	94
(61) +13.8	(61) +11.4	(15) +13.4	(15) +11.8	(61) +14.3
(69) + 7.3	(69) + 7.8	(69) + 9.8	(69) + 9.5	(69) + 9.1
(11) + 6.3	(15) + 7.4	(61) + 9.6	(61) + 9.2	(11) + 6.1
(23) + 4.8	(65) + 5.6	(11) + 5.3	(11) + 5.5	(15) + 5.7
(62) + 4.7	(19) + 3.5	(23) + 3.2	(23) + 2.8	(23) + 4
(27) + 3.7	(23) + 3.3	(65) + 2.9	(65) + 2.4	(27) + 2
(70) + 2.7	(62) + 3.3	(27) + 2.8	(27) + 2	(12) - 1.1
(12) + 1.9	(11) - 3	(12) + 2.5	(12) + .5	(65) - 2.3
(19) + 1.5	(27) + 2.5	(62) - .1	(62) - 1.1	(60) - 2.9
(22) + .1	(12) + 1.6	(19) - 1.5	(22) - 2.3	(70) - 3.2
(25) - .75	(22) - .9	(22) - 1.6	(19) - 4.7	(62) - 3.9
(65) - 2.2	(60) - 2.8	(60) - 3.4	(72) - 4.8	(22) - 5
(72) - 3.5	(72) - 4.2	(18) - 4.3	(18) - 4.9	(72) - 5.9
(60) - 3.6	(25) - 5	(25) - 4.5	(63) - 5.7	(63) - 6.6
(39) - 4.6	(70) - 5.6	(70) - 4.8	(39) - 6	(18) - 6.9
(18) - 4.8	(18) - 5.7	(72) - 4.9	(60) - 6.9	(39) - 8.4
(63) - 5.1	(63) - 6.4	(63) - 5.6	(25) - 7	(19) - 8.6
(15) - 5.2	(39) - 6.6	(39) - 7.7	(70) - 7.6	(25) -12.4
(30) - 5.6	(24) -11.3	(24) -11.4	(24) -11.3	(24) -15.4
(24) -12.5	(30) -16.2	(30) -14.4	(30) -15	(30) -17.2

TABLE 3-13

Claimants Average Yearly Budget Change

NCBG Code	Change in Percent
61	+ 11.66
69	+ 8.7
15	+ 6.62
11	+ 5.24
23	+ 3.62
27	+ 2.6
65	+ 1.28
12	+ 1.08
62	+ .58
22	- 1.94
19	- 1.96
70	- 3.7
60	- 3.92
72	- 4.68
18	- 5.32
63	- 5.88
25	- 5.93
39	- 6.66
24	- 12.38
30	- 13.68

Of the Major Claimants studied, nine received average annual increases, while eleven were cut. The biggest overall winner was NCBG code 61 (Commander-in-Chief, U.S. Naval Forces Europe), with an average increase of 11.66 percent. In second place was NCBG code 69 (Naval Security Group Command Headquarters), with an 8.7 percent increase. The Marine Corps did very well achieving an average annual increase of 2.6 percent. This was the sixth largest average increase in the study. This finding agrees with that of Scarpa's thesis, in that it shows the high level of budgetary success that the Marine Corps enjoys. [Ref. 16] All of the

Claimants which achieved average increases enjoyed strong NAVCOMPT support while only three were not cut on the average by OSD/OMB. This indicates the importance of NAVCOMPTs support, mentioned earlier, in gaining budgetary increases.

Of the eleven losers NCBG code 30 (Strategic Systems Project Office), received the largest cut. Their budget was reduced an average 13.68 percent yearly. Code 24 (Naval Sea Systems Command), was second with an average cut of 12.38 percent. All of the Claimants who received cuts, failed to gain NAVCOMPTs support for their budgets. Only two of these Claimants received OSD/OMB support, and this support was not strong enough to overcome the NAVCOMPT cuts.

B. SIMILARITIES AND DIFFERENCES OF PREVIOUS STUDIES

The past studies done in this area, focus on an aggressiveness strategy of requesting large increases. While that strategy has been successful during periods of budgetary growth, it is not successful during periods of budget constraint. During this period a strategy of requesting moderate increases was the most successful.

The study conducted by Housley found that NAVCOMPTs role was not to balance the extremes, but to check for budget feasibility, verify accuracy, and ensure that the budget reflected approved programs. [Ref. 13] This study agrees with those findings. It also agrees with Housley that NAVCOMPT's budgetary support is critical to achieving a

budgetary increase, and that the key to gaining this support is to utilize the reclama process successfully.

This current analysis also shows that the OSD/OMB cut is very mechanical in nature. Almost all claimants are cut, and various aggressive strategies do not affect this cut. This agrees with the findings of both Housley and the LeLoup/Moreland Study. [Ref. 12] In addition, all of the studies which examined agencies requesting decreases show similar findings. If an agency or Claimant requests a budget cut, they will have that cut increased, and will receive a smaller budget than they requested.

Finally, all of the studies agree that the initial budget request is the strongest determinant of the final budget. This study found that finding to still hold true.

IV. CONCLUSIONS

A. STRATEGIES

A Major Claimant who seeks a budget increase or desires to protect his budget from a sharp cut has various strategies available for use. The Claimant should request a moderate budgetary increase and use an aggressive justification policy to gain support of NAVCOMPT. If the line item budget that NAVCOMPT receives is easily related to approved programs, the size of the initial mark-up cut can be minimized. This may be accomplished by fully relating the spending levels to approved programs during the programming phase. During the reclama phase, the Claimant should aggressively seek to have all of the initial cuts restored. The Claimant should use a strategy of justifying the restoral of funds, and relating these funds to approved programs. This strategy should achieve a high fund restoral rate. After achieving this support from NAVCOMPT the Claimant will be able to accept the cut made by OSD/OMB, and still achieve a budgetary increase, or a modest decrease.

B. NAVCOMPT ACTIONS

The NAVCOMPT reviews align the Claimants budgets to the approved programs, and distributes the limited DON funding to these programs. The NAVCOMPT initial mark-up is usually the largest budget cut, and it cuts deepest into the budgets of

the last two years of the FYDP, while it cuts the least into the middle year. The size of the cut varies significantly for different claimants and many receive a budgetary increase during this review.

The NAVCOMPT reclama review restores almost all of the initial cuts. These restorals favor the claimants who receive initial NAVCOMPT increases, and give little back to the claimants with the deepest cuts. This indicates that the successful Claimants have done a more effective job of relating their line item funding levels to approved programs.

The final NAVCOMPT adjustment was a slight increase for the average Claimant. It averaged +1.32 percent in size, and primarily reflected pricing changes. It seldom affected line items which were altered in the initial two NAVCOMPT reviews.

C. OSD/OMB ACTIONS

The OSD/OMB review is usually (72 percent), a budget cut. On the average it is very small (1.36 percent), but some Claimants were cut up to 11.14 percent, while others gained up to 6.08 percent. This review primarily affects the areas of pricing, and programing. While OSD/OMB does not make restorals, they do make a few economic based, miscellaneous adjustments. These adjustments are very small (.02 percent), and affect only a few Claimants.

D. SUMMARY

This Thesis examined the budgetary process and the actions which the DON budget reviewing agencies take to modify the O&M,N budgets, submitted by the Major Claimants. It identifies the various strategies used by these reviewing agencies to modify the budgets submitted, and analyzes the strategies used by the Major Claimants to protect their budgets.

The study found that the initial budget submitted by the Claimant is the strongest determinant of the size of the final budget. During this period of fiscal constraint the most successful claimants followed a strategy of requesting small budgetary increases (0-4.9 percent).

The initial NAVCOMPT mark-up is usually the largest budget cut. It cuts deepest into the Claimants requesting large increases, and cuts significantly less of the middle year of the FYDP's budget. The Claimants which received budgetary increases were successful in avoiding a sharp budget cuts in this phase.

The NAVCOMPT reclama/restoral review gave back almost as much as was cut in the mark-up phase. These restorals favored the Claimants with the smallest mark-up cuts and those which received initial increases. Claimants should employ a strategy of submitting a reclama for every cut received, and justifying the restoral by relating the funds to approved programs.

The NAVCOMPT miscellaneous adjustment is usually a small increase. It is based primarily on pricing changes based on economic changes.

The OSD/OMB review is an across the board cut. This cut is usually small, and it is applied to most of the Claimants. A few Claimants received cuts up to 11.14 percent, and a few received gains of up to 4.02 percent. This review reflects large cuts to programs, and small increases in the form of pricing and timing changes. These small increases act to decrease the size of the cut. There are not any clearly identifiable strategies to limit this cut as it is mechanical in nature and does not favor any of the major claimants.

The major conclusion is that the budgetary process is complex and ever changing. With a thorough understanding of all the intricacies of the PPBS process, and a firm knowledge of the review process, Major Claimants should be able to better plan and gain approval of their budgets.

E. RECOMMENDATIONS FOR FURTHER STUDY

The question; "Why are some of the Major Claimants consistently more effective at achieving budgetary success than others?", would be worth examining in more depth. A comparison study of the budget organizations of the clear winners and the losers may provide the answer to this question.

The budgetary cuts made by NAVCOMPT's mark-up and listed as unjustified, would also be worth a closer examination. By tracking the initial POM justifications through the programming stage, to the line item budget, it may become clear why some of the line items appear to be unjustified.

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