



OFFICE OF THE SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1000

MAY 8 2007



MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
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ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
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DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES
DIRECTOR OF NATIONAL INTELLIGENCE

SUBJECT: Procedures and Schedule for FY 2009-2013 Integrated Program and Budget Review

This memorandum provides guidance for the FY 2009-2013 Program and Budget Review for the Department of Defense. The approach this year reflects a hybrid between a “full-year” and an “off year” review in order to provide the Secretary the insights and flexibility he needs to make resource decisions. Accordingly, the components will provide their program and budget inputs as follows:

- The FY 2008 President’s Budget will form the baseline for the FY 2009-2013 review. There will not be a POM submission.
- Requests to change this baseline will be submitted as change proposals consisting of fact-of-life adjustments, programmatic resource offsets necessary to fund fact-of-life adjustments, and a limited number of other issues.
- Components will submit a complete Budget Estimate Submission (BES) that reflects any changes requested in their change proposals. Components that do not submit budgets to OSD Comptroller may also submit change proposals.
- Changes to the baseline will be approved through Program Budget Decisions (PBDs) or Program Decision Memoranda (PDM).
- Components are to focus on refining the FY 2009 estimate in the FY 2008 President’s Budget.
- Components will submit estimates for FY 2009 costs associated with the global war on terror.
- The Office of Management and Budget will participate in the FY 2009-2013 Program and Budget Review and may recommend additional funding adjustments.

- Issues not resolved at lower levels will be elevated to the Deputy Secretary's Advisory Working Group (DAWG) for deliberation.
- The Secretary of Defense will make final resource decisions.

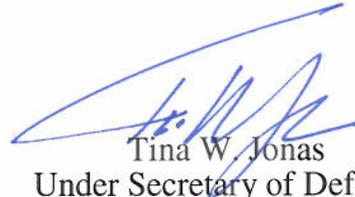
DoD Components must submit the FY 2009-2013 electronic budget data, all change proposals and a full set of justification materials no later than August 31, 2007. The FY 2009 global war on terror estimates are due no later than September 14, 2007. The full schedule and details concerning the form, content, thresholds and authorized submitters of change proposals are in the attachments

We continue to pursue the Deputy Secretary's initiative of portfolio management. We plan to display resources requirements by portfolio in the Secretary's FY 2009 Summary Justification materials. Additional guidance will be forthcoming.

The OSD staff will provide detailed instructions regarding the process and procedures under separate cover.



Brad Berkson
Director
Program Analysis and Evaluation



Tina W. Jonas
Under Secretary of Defense
(Comptroller)

Attachments:
Appendices A through C

Key Elements of the FY 2009-2013 Integrated Program and Budget Review Process

Ground Rules

- Focus priority on FY 2009
- Program of record remains FY 2008 President's Budget request
- Minimize programmatic changes
- Change Proposals (CPs) request changes to the program of record
- Submit FY 2009 global war on terror estimates
- No POM submissions
- No FYDP update until FY 2009 President's Budget
- Complete BES submission provided to OUSD(C) must incorporate all requested baseline changes
- Approved changes and decisions documented in PDMs and PBDS

Schedule

- | | |
|--|---------|
| • CIS and PRCP open for BES electronic data submission | Aug 8 |
| • FYDP Composite Military Pay Rates update due to OD, PA&E | Aug 31 |
| • BES Transmission and Change Proposal Notification Memorandum due to Program Review Website | Aug 31 |
| • Change Proposal submission due to Program Review Website | Aug 31 |
| • OUSD(C) data systems lock | Aug 31 |
| • Detailed budget justification material due to OUSD(C) | Aug 31 |
| • FY 2009 Component's GWOT requirements due | Sep 14 |
| • Program and Budget Review decisions | Oct–Nov |
| • Program and Budget Review complete – Budget Lock | Nov 16* |
| • Topline | Dec 10* |
| • DoD budget submitted to OMB | Dec-Jan |
| • President's Budget submitted to Congress | Feb 4 |

* *Dates depend on timing of final decisions*

Constraints

- All changes proposed for consideration in the Program and Budget Review must reflect resource neutral approaches.
- Components must not make adjustments to the National Intelligence Program (NIP). NIP programs will be considered in the Program and Budget Review process.
- Components must refrain from making changes to the Military Intelligence Program (MIP). Any change must be coordinated in advance with OUSD(Comptroller) and the OUSD (Intelligence).
- Requested changes should not anticipate the outcome of legislation.

Program and Budget Review Process

The FY 2008 President's Budget is the baseline for the review. Change proposals will be the mechanism for introducing changes to this baseline. Change proposals may only address: fact-of-life adjustments, programmatic resource offsets necessary to fund fact-of-life adjustments, and a limited number of other program change issues.

The following general procedures will be used in the FY 2009-2013 Program and Budget Review process:

- The program and budget review will be conducted in three phases: (1) Submission of data, change proposals, and full budget justification material; (2) Change proposal disposition, issue development and program/budget reviews; (3) Decisions.
- OUSD(C) and OD, PA&E will review the Change Proposals for compliance with guidance and acceptability of offsets. Those proposals accepted for consideration in the Program and Budget Review will be assigned to OUSD(C) or OD, PA&E for issue development and resolution.
- The three-star review group will oversee an open, transparent issue identification and development process during the integrated Program and Budget Review. Major issues will subsequently be briefed to the Deputy's Advisory Working Group (DAWG).
- Budget issues will be reviewed and coordinated through the Program Budget Decisions (PBD) process. Draft PBDs will be coordinated with Components. Major issues will be presented to the Deputy Advisory Working Group (DAWG).
- The Secretary of Defense will make final resource decisions.
- Decisions will be recorded in Program Decision Memoranda (PDMs) and Program Budget Decisions (PBDs).

Participating Organizations

- Change Proposal nominations will be accepted only from the Secretaries of the Military Departments, the Chairman of the Joint Chiefs of Staff, the Under Secretaries of Defense, the Assistant Secretary of Defense for Network Information and Integration (NII), the Director of Operational Test and Evaluation, and the Commander, U.S. Special Operations Command, and the Capability Portfolio Managers of the four prototype Capability Portfolios. Defense Agencies will submit Change Proposals through their Principal Staff Assistants. Combatant Commanders will submit Change Proposals to the Joint Staff for action and to their Executive Agents for information.
- Components who normally submit budgets to OSD (Comptroller) will coordinate with their Principal Staff Assistants to ensure consistency between the information the Component provides to OSD (Comptroller) and the transmission document and change proposals the Principal Staff Assistant submits on their behalf.

Submission Instructions

- Components will not submit Program Objective Memoranda (POMs) for FY 2009-2013.
- Components will not update the Future Years Defense Program (FYDP) until the FY2009 President's Budget position.
- Components who normally submit budget material to OUSD(C) will submit no later than August 31, 2007:
 - complete Budget Estimate Submissions (BES) that incorporate all requested baseline changes (i.e. Changes Proposals – including fact-of-life adjustments) for FY 2009-2013;
 - a transmittal memorandum with the PB-1A format attached (Appendix B);
 - data transactions for all change proposals to the OUSD(C) systems.
- Components will separately submit, no later than August 31, 2007, Change Proposals through the Program Review website for consideration by OUSD(C) and OD, PA&E. Appendix C provides the format for Change Proposals.
- The Military Services will submit, no later than August 31, 2007, FYDP Composite Military Pay Rates to OD, PA&E, in accordance with the Management by Endstrength policies.

Change Proposal Definitions and Thresholds

- Requested changes to the baseline can be either due to fact-of-life adjustments, programmatic offsets necessary to fund fact-of-life adjustments, or other program change issues.

Fact-of-life adjustments

- Fact-of-life adjustments generally result from changes in pricing or program execution. Adjustments mandated by congressional action should be treated as fact-of-life adjustments if an appropriation act is signed by July 1, 2007.
- Consider any requested change as a fact-of-life adjustment unless specifically required to be a separate Change Proposal as outlined below.
- The first Change Proposal from a component who normally submits budget material to OUSD(C) must account for all fact-of-life adjustments, except for programmatic offsets.

Programmatic offsets to fund fact-of-life adjustments

- The second Change Proposal from any Component submitting a fact-of-life Change Proposal must identify only programmatic offsets (i.e. offsets that exceed Change Proposal thresholds) necessary to balance exactly any increase due to fact-of-life adjustments.

Other Programmatic Changes

- All other Change Proposals will consist of any other change exceeding Change Proposal thresholds and not necessary to fund the fact-of-life adjustments.
- Components that do not normally submit budget material to OUSD(C) may submit other programmatic Change Proposals.
- Collectively, a Component's other programmatic Change Proposals must balance.

Programmatic Change Proposal thresholds

- Change Proposals must be submitted for any change to the FY 2008 President's Budget baseline that implies any of the following:
 - Any deviation, other than pricing, from previous guidance provided in PDMs or PBDs.
 - Out-year "tails" of enacted legislation affecting major programs.
 - Any change to programs governed by international or multiservice/component agreements.
 - The following issues by appropriation (change thresholds):
 - Procurement and RDT&E
 - ACAT 1A Programs - any change of +/- 10% or more in any appropriation in any year within a program
 - All other ACAT 1 programs—any change to the quantity profile; any change of +/- 10% or more in any appropriation in any year within a program
 - ACAT 2 programs—any program start or termination
 - S&T—any reduction below the component's PB08 position in any year
 - Military Construction/Family Housing
 - For FY 2009 only—any additional or deletion to the FY 2009 project list
 - Military Personnel
 - Any change more than +/-0.5% to projected end strength or average strength in any year
 - Any new personnel benefits (except those mandated by Congress)
 - All manpower changes involving DHP, SOCOM, COCOMs and Defense Agencies must be codified in MOAs and submitted as Change Proposals
 - Operations and Maintenance
 - Any change more than +/-10% to OPTEMPO program metrics (e.g., steaming hours, flying hours, tank miles, Marine Corps ready days)
 - Revolving Funds
 - All issues become Change Proposals. Revolving Fund change proposals must be consolidated as Operating Budget (including FTE changes not associated with functional transfers), Capital Budget, or Functional Transfers.

- Each Change Proposal must:
 - Explain why the issue is not appropriate for consideration in the FY 2010-2015 program/budget cycle;
 - Identify specific and unique reductions;
 - Identify offsets consistent with the Secretary's planning guidance and with decisions from the FY 2008-2013 program and budget preparation cycle;
 - Offer a single, coherent enhancement of defense capability.
- Functional transfers must be documented in MOAs submitted as appendices to each affected component's Change Proposal notification memorandum and its PB-1A exhibit. The effect must be shown in the electronic data transactions provided to OUSD(C) systems.

Manpower Specific Instructions

- All changes that result in military manpower transfers between components, including functional transfers, must be documented in Memoranda of Agreement (MOAs) that include PE-RIC level detail for all resource changes associated with the military manpower transfers. Additional guidance on the format and required signatories for MOAs will be provided under separate cover.
- All MOAs documenting military manpower changes must be submitted as Change Proposals.
- The Military Departments must submit a fully priced Military Personnel program. The Military Personnel program must be priced using the best information available at that time and must be fully accommodated with the Military Departments' topline. On August 31, 2007, the Military Departments must also submit the FYDP Military Personnel composite rates that were used in the construction of their Fact-of-Life change proposal.

Additional guidance will be issued and posted on the Program Review website and OUSD(C) websites with procedures for nomination of Change Proposals and technical guidance concerning submission of data and justification material.

Format for Change Proposals Notification Memorandum

CLASSIFICATION¹

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, PROGRAM AND ANALYSIS AND EVALUATION

SUBJECT: Change Proposals for FY 2009-2013

The text of the memorandum should include the following:

- A general description of the tradeoffs made by the component in constructing its submission.
- At a minimum, a paragraph outlining the changes occurring within each appropriation title.

As attachments, the memorandum should provide:

- A listing of all change proposals (including fact-of-life changes)
- An amended PB-1A exhibit showing a track to the PB08 baseline

Components must make every effort to keep the notification memoranda Unclassified/For Official Use Only.

//signed by component head//

Attachments
As stated

¹ All documents and electronic media must be marked and handled in accordance with DoDD 5200.1R, "Information Security Program Regulation." Diskettes must be marked to show the highest level of classified information they contain. In addition, top and bottom page-classification markings and paragraph and table markings must be included in all documents. The classification authority and declassification instructions must appear on the first page of each document.

**FY 2009-2013 Resource Track
DoD Component _____**

(TOA in thousands of dollars)

FY 2009 FY 2010 FY 2011 FY 2012 FY 2013

PB 2008 RESOURCE LEVEL

**FUNCTIONAL TRANSFERS
(See Note 1)**

FACT-OF-LIFE CHANGES

INITIAL OFFSET CHANGE PROPOSAL

ADDITIONAL CHANGE PROPOSALS

**OTHER
(See Note 2)**

**TOTAL PROGRAM AND BUDGET REVIEW
SUBMISSION
(See Note 3)**

APPROPRIATION TITLE

- Mil Pers**
- Operation and Maintenance**
- Procurement**
- RDT&E**
- Military Construction**
- Family Housing**
- Revolving Funds**
- Total by Appropriation**

Notes:

- 1. Must be identified by appropriation and totals must agree with PB-14.**
- 2. Use of this entry must be fully explained.**
- 3. Totals should be separately displayed by Appropriation.**

Amended Exhibit PB-1A Resource Track

Format for Change Proposals

CLASSIFICATION¹

Change Proposal Title (U)

(Identify the program/issue that needs to be addressed)

Priority: Outline [#] of [#]²

(U) **Summary.** Provide a brief description, no more than two paragraphs, of the issues involved in the change proposal.

(U) **Rationale for Not Waiting for PBR 10.** Explain why the issue cannot be deferred to the FY 2010 program/budget review.

(U) **Proposed Increases in Risk.** Identify the risks (i.e., operational, future, institutional, or force management) that would be incurred in order to free resources for the recommended program change. Identify the specific programs in which offsets would be taken. Reductions proposed in a Change Proposal may be applied to enhancements addressed in that Change Proposal or they may be used to fund other initiatives. Generalized overall reductions or program skims are not acceptable.

(U) **Risk Summary³**

UNCLASSIFIED	TOA (Current \$M)						
	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY09-13</u>
				Baseline^a			
Program 1 PB08 FYDP Funding	560	652	748	650	100	100	2,250
Program 2 PB08 FYDP Funding	100	100	100	100	100	100	500
				Offsets^b			
Program 1 Proposed Offset		-100	-100	-100	-100	-100	-500
Program 2 Proposed Offset		-50	-50	-50	-50	-50	-250

^a Include, for each program in which risk would be incurred, a row showing the PB08 FYDP funding amounts by year. Format these entries as shown in the sample table above.

^b Include, for each program from which offsets would be taken, a row showing the resource reductions by year. Format these entries as shown in the sample table above.

¹ All documents and electronic media must be marked and handled in accordance with DoDD 5200.1R, "Information Security Program Regulation." Diskettes must be marked to show the highest level of classified information they contain. In addition, top and bottom page-classification markings and paragraph and table markings must be included in all documents. The classification authority and declassification instructions must appear on the first page of each document.

² Each component must rank its CPs from highest to lowest priority.

³ CP1 and CP2 for FOL adjustments and associated programmatic offsets must collectively balance risk and enhancements. Collectively, a Component's other programmatic CPs must balance.

(U) **Effect of Proposed Reductions**

(U) Describe the effect of each proposed reduction in sufficient detail to define the ramifications clearly.

(U) **Program 1.** [Name of Service or Agency]. Describe quantitatively the effects of the proposed reduction relative to the PB08 FYDP program. Include procurement quantities, costs, numbers of personnel, or other meaningful and measurable characteristics affected. Start each sentence with an action verb. (Example: Slips the start of System X procurement from FY08 to FY10. Procures 10 systems in FY07, toward a total of 40 by FY11.)

(U) **Program 2–N.** Describe other proposed offsets in the same programmatic detail as the first.

(U) **Proposed Program Enhancements.**⁴ Identify the enhancements that would be afforded with the offsets identified above. Specify the risk category of each.

(U) **Summary of Proposed Enhancements**

UNCLASSIFIED	TOA (Current \$M)						
	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY09-13</u>
Baseline^a							
Program A PB08 FYDP Funding	652	748	650	100	100	100	1,698
Program B PB08 FYDP Funding	75	75	75	75	75	75	375
Enhancements^b							
Program A Proposed Enhancement		75	75	75	75	75	375
Program B Proposed Enhancement		75	75	75	75	75	375

^a Include, for each program in which enhancements are proposed, a row showing the PB08 FYDP funding amounts by year. Format these entries as shown in the sample table above.

^b Include, for each program in which enhancements are proposed, a row showing the resource increases by year. Format these entries as shown in the sample table above.

(U) **Effect of Proposed Enhancements.** Describe the effect of each proposed enhancement in sufficient detail to define the ramifications clearly. If enhancements are proposed in more than one program, describe how they would combine to improve defense capability.

(U) **Enhancement 1.** [Name of Service or Agency]. Describe quantitatively the effects of the proposed increase relative to the FYDP program. Include procurement quantities, costs, numbers of personnel, or other meaningful and measurable characteristics affected. Start each sentence with an action verb. (Example: Accelerates the start of System X procurement from FY10 to FY08. Procures 10 systems in FY09, toward a total of 40 by FY11.)

(U) **Enhancements 2–N.** Describe other proposed enhancements in the same programmatic detail as the first.

(U) **Programming Data.** As a separate file attachment, provide a table with detailed programming and budget data for the Change Proposal, formatted as shown below. The table must be in Microsoft Excel, and it must include all of the elements shown below.

⁴ A Change Proposal may propose enhancements in more than one program, but the changes must offer a single, coherent enhancement of defense capability.

(U) Detailed Programming Data

Classification			TOA (Current \$K)										
Change Code (Submitting Org & Priority)	Account Code (Treas)	Treasury Agency Code (Component)	PE	RIC	2008	2009	2010	2011	2012	2013	2014*	2015*	2016*
Classification													

*FY2014-2016: Only for forces data associated with the CP