



OFFICE OF THE SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1000

MAY 12 2005



MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
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INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES
EXECUTIVE DIRECTOR, INTELLIGENCE COMMUNITY
AFFAIRS

SUBJECT: Procedures and Schedule for FY 2007-2011 Integrated Program and Budget Review

This memorandum outlines the procedures and schedule for this year's integrated Program and Budget Review. The FY 2006 President's Budget submission and the FY 2006-2011 Future Years Defense Program (FYDP) establish priorities consistent with the Secretary's goals for the Department. Therefore, the FY 2006 President's Budget submission and the FY 2006-2011 FYDP will form the baseline for the FY 2007-2011 Program, Budget, and Execution Review and for the preparation of the FY 2007 President's Budget.

The Program and Budget Review will provide three mechanisms for introducing changes to this baseline: the ongoing Quadrennial Defense Review (QDR); fact-of-life changes (i.e., pricing, congressional action, etc.); and a limited number of issues not currently included in the QDR but worthy of consideration. All changes proposed for consideration in the Program and Budget Review must reflect resource-neutral approaches for acceptance of increased risk. Guidelines on review procedures are provided in Appendix A.

The following general procedures will be used in the FY 2007-2011 Program and Budget Review process:

- Issues addressed in the QDR will be presented to the Senior Leaders' Review Group (SLRG) for decision. The SLRG's decisions will be recorded in one or more Program Decision Memoranda (PDMs).
- Components must not make adjustments to the National Intelligence Program (NIP). NIP programs will be considered in the Program and Budget Review process.
- **Fact-of-Life Changes/BES.** The Services and Defense Agencies will not submit Program Objective Memoranda (POMs) for FY 2007-2011. Instead, they will provide Budget Estimate Submissions (BES) that account only for fact-of-life changes during those years. Fact-of-life changes for FY 2006 will be accepted only for Revolving Fund programs.



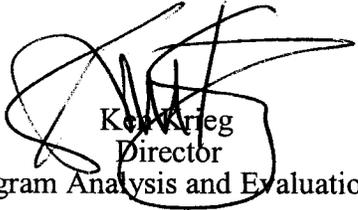
- Fact-of-life changes included in the BES should not anticipate the outcome of BRAC deliberations and legislation.
- Prior to submitting proposed fact-of-life changes, components must provide written notification to the Under Secretary of Defense (Comptroller) (USD(C)) and the Director, Program Analysis and Evaluation (D, PA&E), identifying and explaining the effects of the changes on their budget and program (see Appendix B for format).
- OSD will review the proposed fact-of-life changes for compliance and acceptability, in accordance with the rules provided in Appendix A. OSD staff will submit comments through the Program Review website for consideration by USD(C) and D, PA&E. Fact-of-life changes proposed by a component and found unacceptable by OSD will be denied and returned to the submitting component. The component may resubmit the proposed change for consideration as a Change Proposal (CP), if desired.
- Supplemental guidance will be issued specifying the budget exhibits to accompany the fact-of-life electronic data submissions. The budget exhibits should only address changes from the FY 2006 President's Budget baseline, as modified by accepted fact-of-life adjustments.
- **Change Proposals.** At the time components provide their BES electronic data submissions incorporating accepted fact-of-life changes, they will submit, separately, Change Proposals through the Program Review website for consideration by USD(C) and D, PA&E. The effects of the Change Proposals **must not** be reflected in the Budget Estimate submissions. The budget estimate electronic data submissions will serve as the baseline for consideration of all Change Proposals.
 - Each Change Proposal must:
 - Explain why the issue is not appropriate for consideration in the QDR;
 - Explain why the issue cannot be deferred for resolution in the FY 2008-2013 program/budget cycle;
 - Identify specific, unique reductions that fully offset all proposed enhancements;
 - Identify offsets consistent with the Secretary's planning guidance and with decisions from the FY 2006-2011 program and budget preparation cycle.
 - Supplemental guidance will be issued and posted on the Program Review website with procedures for nomination of Change Proposals and technical guidance concerning submission of FYDP data and composite rates. Appendix C provides the format for Change Proposals.
 - 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. Defense Agencies will submit Change Proposals through their Principal Staff Assistants. Combatant Commanders will submit Change Proposals to their Executive Agents for action and to the Joint Staff for information.

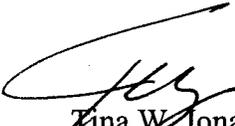
- USD(C) and D, PA&E and will review the Change Proposals for compliance with guidance and acceptability of offsets. Those proposals that are accepted for consideration in the Program and Budget Review will be assigned to OUSD(C) or OD, PA&E for issue development, consideration, and resolution.
- OSD will develop accepted Change Proposals as issues for consideration by the Secretary and the SLRG. Decisions on the issues will be published in PDMs or Program Budget Decisions (PBDs).
- ***Special Instructions for Reporting Military Manpower Changes.*** Special procedures apply to requests to change military manpower levels or pricing.
 - 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 involving the Defense Health Program (DHP) or Special Operations Command (SOCOM) must be submitted as Change Proposals.
 - All MOAs documenting military manpower transfers between components, excluding DHP and SOCOM, must be submitted as appendices to each affected component's fact-of-life notification memorandum and itemized in the associated fact-of-life electronic data submission.
 - MOAs that are not reflected in the fact-of-life submissions will be considered for "out-of-court" agreements and, following review, will be codified in a PDM or PBD.
 - The Military Departments must provide updated FYDP Military Personnel composite rates to USD(C) and D, PA&E by May 31, 2005.
 - USD(C) and D, PA&E will review the FYDP Military Personnel composite rates submitted by the Military Departments on May 31, 2005.
 - D, PA&E will post the FYDP Military Personnel composite rates by June 3, 2005. DHP and SOCOM must use the posted rates in preparing their fact-of-life submissions.
 - D, PA&E will post the FY 2006-2011 PB FYDP Military Personnel composite rates for DHP and SOCOM use if components do not provide updated FYDP Military Personnel composite rates on May 31, 2005.
 - In preparing their fact-of-life submissions, DHP and SOCOM must accommodate *within their existing topline* the Military Personnel composite rates posted by June 3, 2005.
 - The Military Departments must identify in their August 1, 2005 fact-of-life notification document any changes to the FYDP Military Personnel composite rates posted on June 3, 2005. The Military Departments must submit a detailed

explanation of any changes to FYDP Military Personnel composite rates relative to those reflected in the FY 2006-2011 PB FYDP, whether or not the rates were updated in May. The changes and their effects must be explained in the document. There is not a requirement to submit new rates with the August 1, 2005 fact-of-life notification document.

- The Military Departments must submit a fully priced Military Personnel program as part of their fact-of-life electronic data submissions on September 6, 2005. The Military Personnel program must be priced using the best information available at that time and must be fully accommodated within the Military Departments' topline. On September 6, 2005, the Military Departments must also submit the FYDP Military Personnel composite rates that were used in the construction of their fact-of-life electronic data submissions.
- Functional transfers must be documented in MOAs submitted as appendices to each affected component's fact-of-life notification memorandum. The transfers must be itemized in the component's fact-of-life electronic data submission and in its PB-1A exhibit.
- The Office of Management and Budget will participate in the FY 2007-2011 Program and Budget Review and may recommend additional funding adjustments.

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


Kevin Krieg
Director
Program Analysis and Evaluation


Tina W. Jonas
Under Secretary of Defense
(Comptroller)

Attachments:
Appendices A through C

Key Elements of the FY 2007-2011 Integrated Program/Budget Review Process

Ground Rules

- Focus on SECDEF priorities
- Program of record remains FY 2006 President's Budget request
- No POM submissions
- BES submissions include only approved fact-of-life changes
- Minimize number of programmatic changes
- Change Proposals due to D, PA&E and USD(C) on September 6, 2005
- Decisions documented in PDMs and PBDs

Schedule

- | | |
|--|-----------|
| • Military Departments' composite rates due | May 31 |
| • Fact-of-life budget estimate notification memoranda due | Aug. 1 |
| • OSD disposition of fact-of-life changes | Aug. 15 |
| • Change Proposals due | Sept. 6 |
| • BES electronic data submission begins | Sept. 6 |
| • PRCP and SDCS updated to incorporate accepted fact-of-life changes | Sept. 6 |
| • Data submission complete | Sept. 23 |
| • Detailed budget justification material due | Sept. 28 |
| • Change Proposal adjudication complete | Sept. 30 |
| • Program and Budget Review/QDR decisions | Oct.–Nov. |
| • Program and Budget Review complete | Dec. 20 |
| • DoD budget submitted to OMB | Jan. |

Budget Estimate Submission Process

- BES Electronic Data Submission: Include only fact-of-life changes in the September 6, 2005 submission.
- Fact-of-Life Thresholds: Fact-of-life changes generally result from changes in pricing or program execution. Adjustments mandated by congressional action should be treated as fact-of-life changes if an appropriation act is signed by August 1, 2005. All fact-of-life changes must be summarized in a notification memorandum due to OSD on August 1, 2005. Certain issues that are considered "fact-of-life" changes but that must be specifically highlighted and explained in the notification document include:
 - Procurement and RDT&E
 - Any changes greater than +/- 10% in any appropriation in any year within a particular program (excluding ACAT 1 or 2 programs)
 - Any realignments within S&T
 - Military Construction/Family Housing
 - For FY 2007-2011, any funding change greater than +/- 10% in any appropriation in any year
 - Any change to recapitalization metrics in any year

- Military Personnel
 - MOAs documenting any change in service support manpower provided to combatant commands, defense agencies, or other defensewide components. Exception: Adjustments in service support manpower provided to DHP and SOCOM *must* be submitted as Change Proposals rather than included in the fact-of-life submissions.
 - Any congressionally-mandated benefit adjustments
- Operations and Maintenance (O&M)
 - Any change to facilities sustainment and recapitalization metrics in any year
 - Any change to O&M metrics other than OPTEMPO metrics
- Revolving Funds
 - Any changes in pricing based on FY 2005 execution that result in changes to FY 2006 and FY 2007 estimates
 - Any changes to capital purchase programs that do not change the total dollar amount for capital purchases reflected in the FY 2006 President's Budget
- All other fact-of-life changes should be explained generally in the notification memorandum.
- If a fact-of-life change exceeds programmatic thresholds, it must be submitted as a Change Proposal. The thresholds that trigger a conversion from fact-of-life to Change Proposal status are listed in the Change Proposal section below. As with all other Change Proposals, fact-of-life changes elevated to Change Proposals may not be included in a component's BES submission.
- Supplemental guidance will be issued specifying the budget exhibits to accompany the BES electronic data submissions. The budget exhibits should only address changes from the FY 2006 President's Budget baseline, as modified by the accepted fact-of-life adjustments.

Change Proposal Submission Process

- Change Proposals may propose enhancements in more than one program, but the changes must offer a single, coherent enhancement of defense capability.
- Refrain from identifying offsets or enhancements to Tactical Intelligence and Related Activities, or to the Joint Military Intelligence Program.
- Programmatic/resource adjustments reflecting results from studies mandated by the FY 2006-2011 Joint Programming Guidance or by FY 2006-2011 PDMs and PBDs should be submitted as Change Proposals, provided that the adjustments were not included in the FY 2006 President's Budget.
- Change Proposals must be submitted for any change to the FY 2006 President's Budget baseline that implies any of the following:
 - Any deviation, other than pricing, from previous guidance provided in PDMs or PBDs (including PBD 753 prepared for PB06).
 - Any changes, other than pricing, resulting from guidance provided in PBD 753 (e.g., itemized liquidation of efficiency wedge).

- Out-year “tails” of enacted legislation affecting major programs.
- Any change to programs governed by international or multiservice/component agreements.
- Issues by appropriation:
 - Procurement and RDT&E
 - 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 PB06 position in any year
 - Military Construction/Family Housing
 - For FY 2007 only—any change to the FY 2007 project list submitted to Congress; any change in project scope
 - Note: Any Change Proposal impacting military construction and/or family housing must include a statement describing the effect of the change on the recapitalization metric.
 - Military Personnel
 - Any change to projected end strength or average strength in any year
 - Any new personnel benefits (except those mandated by Congress)
 - Any Permanent Change of Station funding change of +/- 5%
 - Note: All manpower changes involving DHP and SOCOM must be codified in MOAs and submitted as Change Proposals.
 - Operations and Maintenance
 - Any change to OPTEMPO program metrics (e.g., steaming hours, flying hours, tank miles, Marine Corps ready days)
 - Revolving Funds
 - Any changes to a component’s obligation authority that result in a change in customer rates
 - Any changes that result in an increase or decrease to customer budget authority from the amounts reflected in the FY 2006 President’s Budget
 - Any changes to capital purchase programs that increase or decrease the total dollar amount for capital purchases reflected in the FY 2006 President’s Budget
- Each component must submit a single package comprising all of its Change Proposals. The Change Proposal submission is due to OSD on September 6, 2005 (see page 5). Appendix C provides a format and instructions for preparing Change Proposals. Further guidance on CP preparation will be posted on the Program Review website.

Format for Fact-of-Life Notification Memorandum

C L A S S I F I C A T I O N¹

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

SUBJECT: Fact-of-Life Changes for FY 2007-2011

The text of the memorandum should include the following:

- A general description of the risk tradeoffs made by the component in constructing its submission.
- At a minimum, a paragraph outlining the changes occurring within each appropriation title.
- For each appropriation, an explanation of changes in areas for which Appendix A establishes special reporting requirements.
- A specific explanation of changes required by the BES data call memorandum (to be distributed under separate cover).

As attachments, the memorandum should provide:

- A PB-1A exhibit showing a track to the PB06 baseline.
- An exhibit showing changes (dollars and manpower), by appropriation, from PB06 to the baseline submission.

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.

Format for Change Proposals

CLASSIFICATION¹

Change Proposal Title (U)
(Identify the program/issue that needs to be addressed)

Priority: Outline [#] of [#]²

(U) **Rationale for Not Addressing in QDR.** Explain why the issue is not appropriate for QDR consideration.

(U) **Rationale for Not Waiting for PBR 08.** Explain why the issue cannot be deferred to the FY 2008 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; ensure the reductions fully offset the proposed enhancements. 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.

(U) **Risk Summary³**

UNCLASSIFIED	TOA (Current \$M)						
	FY06	FY07	FY08	FY09	FY10	FY11	FY07-11
	Baseline^a						
Program 1 PB06 FYDP Funding	560	652	748	650	100	100	2,250
Program 1, APPN #	100	100	100	100	100	100	500
Program 1, APPN #	460	552	648	550	0	0	1,750
<i>etc.</i>							
Program 2 PB06 FYDP Funding	100	100	100	100	100	100	500
Program 2, APPN #	35	35	35	35	35	35	175
Program 2, APPN #	65	65	65	65	65	65	325
<i>etc.</i>							
	Offsets^b						
Program 1 Proposed Offset		-100	-100	-100	-100	-100	-500
Program 1, APPN #		-75	-75	-75	-75	-75	-375
Program 1, APPN #		-25	-25	-25	-25	-25	-125
<i>etc.</i>							
Program 2 Proposed Offset		-50	-50	-50	-50	-50	-250
Program 2, APPN #		-15	-15	-15	-15	-15	-75
Program 2, APPN #		-35	-35	-35	-35	-35	-175
<i>etc.</i>							

^a Include, for each program in which risk would be incurred, a row showing the PB06 FYDP funding amounts by year, along with the corresponding year-by-year breakouts by appropriation. 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, along with year-by-year breakouts of the reductions by appropriation. Format these entries as shown in the sample table above.

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

³ The offset totals must equal or exceed the total increases recommended in the CP. If they do not, the Change Proposal will be rejected.

(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 PB06 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 FY06 to FY08. Procures 10 systems in FY07, toward a total of 40 by FY09.)

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

(U) **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)						
	FY06	FY07	FY08	FY09	FY10	FY11	FY07-11
	Baseline^a						
Program A PB06 FYDP Funding	652	748	650	100	100	100	1,698
Program A, APPN #	100	100	100	100	100	100	500
Program A, APPN #	552	648	550	0	0	0	1,198
<i>etc.</i>							
Program B PB06 FYDP Funding	75	75	75	75	75	75	375
Program B, APPN #	35	35	35	35	35	35	175
Program B, APPN #	40	40	40	40	40	40	200
<i>etc.</i>							
	Enhancements^b						
Program A Proposed Enhancement		+75	+75	+75	+75	+75	+375
Program A, APPN #		+50	+50	+50	+50	+50	+250
Program A, APPN #		+25	+25	+25	+25	+25	+125
<i>etc.</i>							
Program B Proposed Enhancement		+75	+75	+75	+75	+75	+375
Program B, APPN #		+35	+35	+35	+35	+35	+175
Program B, APPN #		+40	+40	+40	+40	+40	+200
<i>etc.</i>							

^a Include, for each program in which enhancements are proposed, a row showing the PB06 FYDP funding amounts by year, along with the corresponding year-by-year breakouts by appropriation. 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, along with year-by-year breakouts of the increases by appropriation. Format these entries as shown in the sample table above.

(U) **Effect of 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

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

sentence with an action verb. (Example: Accelerates the start of System X procurement from FY08 to FY06. Procures 10 systems in FY07, toward a total of 40 by FY09.)

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

(U) **Programming and Budget Data.** As an 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.

(U) **Detailed Programming and Budget Data**

Classification				TOA (Current \$K)											
Change Code (Submitting Org & Priority)	Account Code (Treas)	Treasury Agency Code (Component)	Organization Code	SPC	PE	RIC	BA	BLI	2006	2007	2008	2009	2010	2011	

BLI: For the various appropriations, enter:
 RDT&E—PE or Project Number (as appropriate)
 MILCON—Project Number
 O&M—AG-SAG
 Procurement—BSA-P1 Line Item (item code)
 Revolving Funds—Activity group and customer