

DOCUMENT RESUME

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Report to Rep. Butler Derrick, Chairman, House Committee on Budget: Budget Process Task Force; by Elmer E. Staats, Comptroller General.

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Under the full-funding concept, funds are provided at the outset for the total estimated cost of an item. The concept best applies to major procurements. As used by the Department of Defense, however, it does not provide funding for an entire program in a given year. Instead, it provides for the full cost of funding the number of items for which procurement will be initiated that year. The concept is economically advantageous for many operations and is applicable to most Federal agencies. The lack of full funding has resulted in delays and added costs in water resources projects. Office of Management and Budget (OMB) Circular A-11 provides for full funding of all major procurement and construction programs. However, it provides for inclusion of anticipated future price increases for only certain multiyear programs. Some agencies may use different methodologies for costing out similar long-range programs. In order for the Congress to evaluate programs and allocate resources efficiently, demands for resources should be presented more consistently. Full funding can result in savings through multiyear leasing of automatic data processing equipment and multiyear procurement. The Congress should provide full funding for certain types of procurement and projects and consider directing the OMB to initiate the design and procedures needed to consistently reflect full new budget authority requirements in budget requests for large, multiyear projects. (HTW)

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-165069

23 FEB 1978

The Honorable Butler C. Derrick
Chairman, Budget Process Task Force
House of Representatives

Dear Mr. Chairman:

This responds to your request of November 21, 1977, regarding the advisability and feasibility of applying the full funding concept to additional programs and activities in the Federal budget.

The full funding concept originated in the early 1950's to cope with budgetary problems in the Navy's shipbuilding programs. Construction of a ship for the Navy usually takes from 3 to 7 years. Prior to the use of the full funding concept, the Navy shipbuilding program operated under contract authorizations with funds appropriated in annual increments as estimated to be required for contract expenditures during the budget year. Under the full funding concept, funds were provided at the outset for the total estimated cost of a given item. In 1961, the budget for the shipbuilding program expanded the concept to include what was called "end cost" budgeting. Under this concept the amount budgeted included such growth factors as design and minor characteristic changes and changes in labor and material rates which would affect costs during the construction period.

The concept was also applied to other major procurements such as those involving purchases of missiles and aircraft. As used by DOD, however, the concept does not provide funding for an entire program in a given year; rather it provides for the full cost of funding the number of items for which procurement will be initiated that year. For instance, if a total program provided for procurement of 1,000 missiles to be purchased in increments of 100, full funding would occur if procurement funds were provided in a given program year to complete 100 missiles.

Some persons deem the above illustration as incremental funding since the full cost of the entire program of 1,000

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missiles is not funded at one time. As we see it, however, the significance of the concept is that it permits an agency to contract for the full cost of an item or items, such as ships, airplanes or missiles, with the knowledge that full obligational authority is available to complete the item or items and that completion of the work will not be held up or stretched out by budget cuts or funding delays.

A more complete explanation of the concept is included in the background section of a report we issued in 1969 entitled "Application of the Full Funding Concept and Analysis of the Unobligated and Unexpended Balances in Selected Appropriations." A copy of the background section of that report is included as Enclosure I of this report.

GAO Position on Full Funding

In our 1969 report on the application of the full funding concept in the Department of Defense, we took a position that the full funding concept has encouraged personnel to be conscious of the importance of cost estimating and of the need to include all applicable costs in budget line item requests. Subsequently, in a letter dated August 10, 1971, to Senator McClellan, Chairman of the Senate Government Operations Committee and in testimony before the Joint Committee on Congressional Operations in 1971, we suggested that the Congress, in seeking relief from the pressure of time in which to transact its business, consider greater use of appropriations for a period longer than one fiscal year. We suggested that funds for certain projects and programs, such as construction projects which should be completed in a given length of time, could be appropriated for that specific number of years. Other funds, particularly for the regular ongoing functions of Government made up principally of personnel and related costs, such as Internal Revenue Service, could be appropriated for a period of 2 years instead of 1 year. This would cut the appropriation workload considerably. To balance the workload, approximately half of such appropriations could run for the 2-year period beginning with even-numbered years and the others for a 2-year period beginning with the odd-numbered years. This would enable the total job to be done in considerably less time than is now required. It would provide agencies with more certainty as to what they were going to have and would relieve the Congress of having to go through the hearings cycle every year for agencies where very little additional information is brought in.

We continue to believe that the full funding concept is economically advantageous for many operations and that its concepts have general applicability to most agencies in the Federal establishment.

For the information of the task force, we are including as Enclosure II a schedule of accounts that appear to be fully funded, and as Enclosure III a schedule of accounts that appear to be good candidates for full funding. These schedules were compiled from the fiscal year 1978 Budget Appendix. Due to time constraints on completing our work, we did not fully study these accounts to see how practical full funding might be.

Position of Office of Management
and Budget on Full Funding

Office of Management and Budget (OMB) Circular No. A-11, issued in July 1962 provided for full funding of all major procurement and construction programs. In 1968, the financing of construction programs was treated separately. However, the 1977 version of Circular A-11 states that:

"Requests for major procurement and construction programs will provide for full financing of the entire cost."

The President, in submitting the 1979 budget to the Congress, has continued to support the full funding concept and has directed that all "new starts" be included under the full funding concept.

Lack of Full Funding Results in Delays and
Added Costs in Water Resource Projects

Generally, the funding of major water resource (construction) projects is on an annual basis. The projects, once authorized, are planned in phases; and each year the Congress is asked to appropriate funds to sustain incremental construction phases of the various projects during that fiscal year. For example, as of February 10, 1977, the U. S. Army Corps of Engineers had 283 civil works projects with an estimated Federal cost of \$21.5 billion under construction. Approximately \$10.9 billion had been allocated to these projects through fiscal year 1977, with about \$1.5 billion budgeted for fiscal year 1978. The Corps estimated that it would cost about \$9.1 billion to complete these ongoing projects.

Our reviews have shown substantial slippage in construction schedules resulting in increasing costs. Although many factors have been mentioned as contributing to the delays, funding restrictions have been cited by agency officials as a major contributor. In a GAO report issued July 18, 1977 (PSAD 77-131), on the Clarence Cannon Dam and Reservoir (Missouri), we showed that the original schedule provided for the project, including the hydroelectric power portion, to be completed in June 1973. A revised schedule prepared in October 1976 provided for the power units to be in service by October 1979 and for the total project to be completed in June 1981, 8 years later than originally scheduled.

Agency officials informed us that about 3 years of the delay is due to funding restrictions imposed by Corps headquarters or the Office of Management and Budget. Over 2 of the 3 years delay was caused by reductions of \$2.7 million, \$1.3 million, and \$5.7 million from amounts recommended by the Corps Division Office and district offices in fiscal years 1969, 1970, and 1972 respectively. The additional 1-year delay resulted from Office of Management and Budget requirements that projected funding for the project for fiscal years 1978-81 be limited to prescribed amounts. The other 5 years delay resulted from reassessing construction schedules and from difficulties in negotiating with the State on road relocation designs.

In a GAO staff study completed in April 1975 on the Harry S. Truman Dam and Reservoir (Missouri), we pointed out that the Corps of Engineers was projecting a completion date 9 years later than originally scheduled. The Corps attributed one-half of the 9-year extension to planning delays and the other half to budgetary restrictions.

Since construction funds were first appropriated for the Truman project in fiscal year 1965, the Corps has generally not requested or received sufficient funds to permit progress toward completion at a rate equal to the Corps' capability. For example, in fiscal year 1970 when the Corps extended the completion date 1 year, the Corps' District Office estimated a capability to efficiently use \$14 million for the project, but the Corps requested only \$10 million and allocated only \$9.5 million to the project.

The Corps estimates project completion dates on the basis that it will receive the amount of funds requested for the

budget year, and all the funds it can efficiently use for the project in future years. Funds allocated to the project since fiscal year 1965 have averaged 75 percent of Corps' capability as shown in the following schedule.

<u>Fiscal year</u>	<u>Capability</u> ------(millions)-----	<u>Funds Allocated</u> -----
1966	\$ 14.0	\$ 7.0
1967	12.1	10.5
1968	13.0	5.8
1969	14.0	5.2
1970	14.0	9.5
1971	17.0	10.1
1972	35.0	26.2
1973	32.0	26.5
1974	35.0	31.6
1975	43.0	38.6
	<u>\$229.1</u>	<u>\$171.0</u>

Appropriation hearings in recent years show the Corps has not requested sufficient funds to allow maximum progress toward completing the Truman project. The hearing records contain Corps statements that funding requests for the project were being limited to amounts necessary to maintain a minimum construction schedule. The President is responsible for the final budget request each year. As shown by the 10-year budget history that follows, these requests are below the amounts previously recommended by various levels of Corps management.

<u>Fiscal year</u>	<u>Corps Division Office recommendation</u>	<u>Corps Headquarters recommendation</u>	<u>Amount Approved by President's Budget</u>	<u>House/Senate Conferees allowance</u>	<u>Actual allocation</u>
	------(in millions of dollars)-----				
1966	14.0	7.0	7.0	8.5	7.0
1967	22.0	15.0	12.1	12.1	10.5
1968	10.0	10.0	8.8	10.0	5.8
1969	17.5	9.0	7.0	6.8	5.2
1970	19.0	10.0	6.5	9.5	9.5
1971	17.0	10.0	10.0	11.0	10.1
1972	35.0	17.5	17.4	18.0	26.2
1973	40.0	19.5	19.5	23.0	26.5
1974	48.0	27.5	27.5	27.5	31.6
1975	48.9	36.4	30.5	43.0	38.6

GAO has consistently held that budgets for similar programs should be presented to the Congress in as consistent a manner as possible. The rationale for this concept is that each program should be competing equally, and on its merits, for its share of a finite Federal budget.

Funding Practices

OMB Circular A-11, in the section on long-range estimates, provides for inclusion of anticipated future price increases for only certain multiyear, fully funded major procurement or construction programs. The existing practice of allowing some executive agencies, at OMB discretion, to cost-out their long-range but similar programs by financial methodology different from others places the Congress at a marked disadvantage in its deliberations on National priorities and spending levels for these costly, multiyear programs. For example, the National Aeronautics and Space Administration (NASA), and the Energy Research and Development Administration (ERDA), (now Department of Energy) have devised their own methodology to accommodate full funding of their major, multiyear projects.

ERDA has interpreted OMB Circular A-11 to say that system cost estimates for the budget are stated at a current cost which can include a factor reflecting "changes in the cost of living."

To fully fund its major, multiyear projects NASA incorporates an allowance for contingencies factor in its budget estimates which it terms a "factor for technical uncertainties." While neither agency has been exempted by OMB from the general prohibition on estimating a factor for inflation in their budget justifications for their various multiyear projects, they have overcome this restriction by developing their own cost estimating methodology.

In December 1970, the Defense Department obtained an exception to OMB's general prohibition against including a factor for inflation in its budget justifications for major multiyear "military" construction, procurement, and research and development programs. Since that time, requests for new budget authority from the Defense Department to initiate new programs incorporate the anticipated impact of inflation on the program as well as those other factors necessary to fully fund the program in the budget year. The Civil Works program

of the Corps of Engineers was not considered in the exception. Therefore, in its budget justifications to the appropriation committees on the various construction projects, the Corps: (1) applied a different financial methodology to the ultimate cost estimates of civil construction projects versus military construction projects; (2) underestimated costs to the extent that the inflationary impact of the ultimate cost of the various projects was not included; and (3) managed inconsistently the concept of requesting and applying new budget authority by requesting it on an annual "project capability" basis for civil construction programs in contrast to the military's fully funded requests.

Impact of Full Funding on Multiyear Leasing
of Automatic Data Processing Equipment

Leasing of automatic data processing (ADP) equipment provides another example where full funding would result in savings. In many cases, agencies are precluded by law from entering into multiyear leases because payments for rented ADP equipment are made from 1-year appropriations which are available for incurring obligations only during a specified fiscal year. Consequently, the Government cannot take advantage of substantial savings available through multiyear leasing of ADP equipment. We have recommended in the past that the Congress consider legislation authorizing the General Services Administration, through the ADP Fund, to contract on a multiyear basis without the necessity of obligating the total anticipated payments at the time of entering into the leases.

By full funding for the estimated amounts of such contracts, through the use of multiple-year or no-year appropriations, the above problem would be alleviated and thus result in substantial savings to the Government.

Multiyear Procurement Offers Opportunities
for Significant Savings

Multiyear procurement provides another example where multiple-year or no-year appropriations would result in savings.

Most Federal agencies operating with annual appropriations are prohibited from contracting for more than 1 year. The Commission on Government Procurement recommended that

legislation be enacted to permit multiyear contracting by all agencies when judgment dictates that the Government will benefit. Legislation is now under consideration to accomplish this.

In a GAO report issued January 10, 1978 (PSAD-78-54), we reassessed the advantages and disadvantages of multiyear procurement and found that where authority exists for such contracting, annual savings of \$3 million were identified in 26 contracts having an annual cost of \$14 million. We recommended that the Congress enact legislation authorizing general multiyear contracting authority for Federal agencies. In this report we favor legislation authorizing no-year or multiple-year appropriations as a way to provide funding for such efforts.

Increases in Unobligated Balances

An argument raised against full funding is that it increases the unobligated balances. It should be pointed out that an unobligated balance is the portion of budget authority that has not yet been obligated. In 1-year accounts the unobligated balance expires at the end of the fiscal year. In multiple-year accounts the unobligated balance may be carried forward and remain available for obligation for the period specified. In no-year accounts the unobligated balance is carried forward until the purposes for which the appropriation was made have been fulfilled or if no disbursements have been made against the appropriation for two full consecutive fiscal years it is withdrawn.

It should be emphasized that the results of increases in unobligated balances do not impact on the amount of cash available. The Treasury does not have to make funds available, by borrowing or otherwise, until disbursements are made. It should also be pointed out that full funding could reduce Congress' ability to exercise shortrun control over outlays; a greater part of each year's outlays will result from budget authority granted in earlier years and not automatically be subject to current congressional action. Further, full funding could increase the fluctuation of budget estimates if obligation and outlay rates are not accurately estimated.

Summary

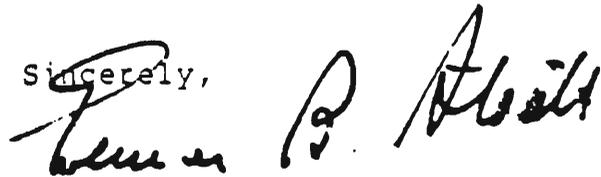
We believe that before Congress can efficiently allocate resources, the demands for those resources must be presented as consistently and realistically as possible. The ultimate cost of discrete programs and projects should be readily apparent so that they may fairly compete against one another. We believe that complete responsibility for a project cannot pass from the Congress to the agency charged with its execution until the project has been fully funded. To insure equality, similar programs should be justified in as similar a format as can be devised.

In addition, we believe the Congress should provide full funding for the types of procurement and projects described in this report.

The Congress should consider directing the OMB to initiate the design and procedures needed to consistently reflect full new budget authority requirements in the various agency budget requests for large, multiyear projects. The design should also include a price index to uniformly account for anticipated price escalation factors affecting similar programs.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of the report. My staff remains available to answer any questions you may have on the full funding concept. Please contact Richard Maycock on 275-5071.

Sincerely,



Comptroller General
of the United States

Enclosures - 3

(Exerpt from General Accounting Office Report of February 17, 1969, entitled, "Application of the Full Funding Concept and Analysis of the Unobligated and Unexpended Balances in selected Appropriations (B-165069))

BACKGROUND

The concept of full funding was initially applied to Navy shipbuilding authorized by the act of March 10, 1951 (65 Stat. 4). Prior to enactment of the act, the Navy shipbuilding program operated under contract authorizations with funds appropriated in annual increments as estimated to be required for contract expenditures during the budget year. After the passage of the act, the Congress appropriated funds for the entire cost of the Navy shipbuilding programs as then envisaged on the basis of prevailing prices, regardless of the period of expenditures under the individual contracts. No provision was made for anticipated increases in costs of materials and labor.

In a letter dated May 15, 1957, to the Secretary of Defense, Congressman Mahon, as Chairman of the Department of Defense Subcommittee, House Committee on Appropriations, stated, in part, that:

"The general prevailing practice of this Committee is to provide funds at the outset for the total estimated cost of a given item so that the Congress and the public can clearly see and have a complete knowledge of the full dimensions and cost of any item or program when it is first presented for an appropriation.

"During the course of these hearings, the Committee has learned that one or more contracts have been executed for materiel on a partially funded basis with the apparent expectation of completing the financing by ultimately fully obligating the transactions with succeeding years appropriations."

* * * * *

"It is recommended that all necessary action be taken to prevent such practice in the future and to insure that procurement funds are

administered so as to accomplish the full program for which the appropriation was justified."

On May 21, 1957, the Office of the Secretary of Defense issued DOD Directive 7200.4 "Funding of Procurement Contracts and Interdepartmental Requests and Orders for Procurement," which had been in preparation. This directive was responsive to the suggestions expressed by Congressman Mahon in his letter of May 15, 1957. The directive was issued for the purpose of ensuring the orderly execution of the procurement programs within the appropriations and funds available. It states in part, that:

"No procurement of materiel, equipment, or work or services in connection therewith shall be directed or authorized unless adequate appropriations and funds are available under the applicable Department of Defense Financial Plan (1) for obligation, (2) set aside in the form of a commitment, or (3) set aside in a reserve account in an aggregate amount sufficient (a) to complete the procurement of a specified number of end items (including, where applicable, initial spares and spare parts) usable either in service units or for test and evaluation, or (b) when specifically provided for under a current apportionment of funds, to complete a pre-production program or procure components in advance of the fiscal year in which the related programmed end item is directed to be procured."

The directive also requires that:

"*** all estimates shall be based upon the latest available firm prices. In the event firm prices are not available the best current working estimate of cost shall be used and adjustments will be made promptly when evidence of significant variation in costs becomes available."

The directive expresses funding policies for all procurement actions subsequent to fiscal year 1957 and requires

that all procurements not wholly consummated but entered into up to and including fiscal year 1957 be modified to conform to the full funding concept. Procurements from research and development appropriations are not subject to the provisions of the directive, and other procurements may be specifically excepted by the Secretary of Defense from its provisions. Under these provisions, exceptions were granted to the Air Force for activities undertaken under procurement appropriations for development-type projects, such as the intermediate range ballistic missile and the intercontinental ballistic missile.

Though the directive does not employ the term "full funding," it states the concepts which express the essentials of full funding.

Further, in a letter dated June 22, 1957, to the Chairman of the Subcommittee on the Department of Defense, Senate Committee on Appropriations, the Assistant Secretary of Defense (Comptroller) summarized the answers to certain questions which had arisen during the hearings on DOD appropriations concerning DOD Directive 7200.4. This letter, subsequently placed in the record of the hearings, explained the provisions of the subject directive and its implementation in fulfillment of the full funding principle which, it noted, had been applied generally by the Congress in providing funds for DOD procurement programs. DOD officials still cite the letter as authoritative in describing their procedures. In illustration of the full funding principle, the Assistant Secretary stated in his letter that:

"It has the merit of providing, at one time, for the total estimated cost of a given item or program so that the Congress and public can clearly see its full dimensions and costs at the time it is first presented for approval and appropriations. As you are well aware this system provides that when any Department directs a contracting officer to procure a hundred aircraft, tanks, etc., funds must be available (and set aside - some for obligation at once and some for obligation at a later date) to cover the total estimated cost to be

incurred in completing delivery of one hundred usable end items plus their initial spares and spare parts when required."

The letter from the Assistant Secretary also clarified the use of full funding of preproduction preparations for new items to be procured and placed in production in a subsequent year. The letter clarified also the treatment of advance procurement of long-lead-time components, budget estimating, and cost increases under the full funding concept.

The military services issued formal implementation instructions on the full funding concept at different points in time. The Secretary of the Navy Instruction 7043.2 was dated June 22, 1957. Army Regulations 37-42 was issued on July 1, 1957. A letter from the Deputy Chief of Staff, Materiel, United States Air Force, to the Commander, Air Materiel Command, implementing DOD Directive 7200.4 was dated August 20, 1957.

As noted on page 7, the Air Force was granted exceptions from the full funding requirements for certain programs. In the fiscal year 1963 budget, these included the ATLAS, TITAN, MINUTEMAN, and SKYBOLT missile procurement programs which were incrementally funded to cover only expenditures plus contractor commitments.

The Assistant Secretary of Defense (Comptroller) felt, however, that the capability existed in 1962 to develop realistic programs and budgets for Air Force ballistic missiles on a fully funded basis and establish a consistent policy for funding all procurement programs.

Subsequently, the Deputy Assistant Secretary of Defense (Comptroller) issued instructions to the military services on March 30, 1962, that the fiscal year 1964 budget be developed on the basis of providing new obligational authority to fully fund all budget line items and specifically the Air Force's ATLAS, TITAN, MINUTEMAN, and SKYBOLT missile procurement programs.

It was recognized within the Office of the Secretary of Defense that the implementation of the full funding policy would require a change in Air Force missile contracting from the "work effort" basis to the basis of the total cost of delivery for a specific number of missiles. The exception for Air Force ballistic missiles, which had been in effect for several years, represented a carry-over of research and development funding policies into the production phase of those items.

Shipbuilding has been the procurement program most consistently reviewed and revised within DOD with respect to full funding. This is due to the length of procurement lead time, 3 to 7 years depending primarily on the type of ship. Procedures have been refined as the need arose from the unique nature of the product. Prior to the fiscal year 1961 budget, ship cost estimates were based on the design concept and on labor and material rates existing at the time the estimates were prepared with increases over the initial estimates being provided for by requesting additional funds in subsequent years or by reducing shipbuilding programs.

The fiscal year 1961 budget initiated a new policy in financing shipbuilding programs termed "end cost" budgeting. Construction and conversion cost estimates in that budget represented the full amount required to complete all ships in the 1961 fiscal year and prior years' programs and included allowances for such growth factors as design and minor characteristics changes and changes in labor and material rates which would affect costs during construction and conversion periods.

Through the fiscal year 1965 budget, the projected costs included estimates for the correction of deficiencies in a new ship through its first overhaul. This period was curtailed by NavShips Instruction 7301.25A, dated November 24, 1967, to a period of 11 months following preliminary acceptance trials or through post shakedown availability, whichever is earlier, for fiscal year 1964 and subsequent ship programs.

••
A recent Navy Program/Budget Decision "SCN [Shipbuilding and Conversion, Navy] Financial Policy and Funding of

Prior Year Programs," approved by the Deputy Secretary of Defense on December 9, 1968, refined the definition of full funding as it applied to ships. Estimates for outfitting and postdelivery deficiency corrections would be funded when required, that is funded on a lead-time basis rather than as part of the basic estimate. This change in application of the full funding concept to shipbuilding put shipbuilding procurement on the same basis as aircraft and electronics procurements with respect to postdelivery costs and outfitting. It also resulted in a substantial reduction of fiscal year 1969 and prior years' funding requirements for shipbuilding programs still in process.

Bureau of the Budget Circular No. A-11, issued in July 1962, stated that:

"Requests for major procurements and construction programs will provide for full financing of the complete cost***."

A revision to Circular A-11⁽¹⁾ on July 25, 1968, stated:

"Request for major procurement programs will provide for full financing of the entire cost."

Although the Bureau of the Budget uses the terms "full financing," "complete cost," and "entire cost" and the Office, Secretary of Defense, uses the term "total cost of an end-item" as stated in DOD Instruction 5000.8 "Glossary of Terms Used in the Areas of Financial, Supply and Installation Management," dated June 15, 1961, it is generally understood that all four terms refer to the same concept as does the term "full funding."

To supplement the concept of full funding as expressed in DOD Directive 7200.4 quoted on page 6, we have formulated the following expression of the concept based on our discussions with DOD personnel.

¹The revision treated the financing of construction programs separately.

Full funding exists when adequate obligational authority is available in the procurement appropriation to meet the currently estimated cost of a budget line item. A budget line item includes a specific quantity of end items, the procurement of which is authorized to be initiated in the program year.

During informal discussions, we noted that some persons viewed full funding as being closely associated with program budgeting. They concluded that full funding did not exist unless funds were provided in the procurement appropriation for the entire program rather than for the number of items to be authorized for procurement in a given program year. For example, if a program embraced 1,000 missiles, but procurement funds were provided in a given program year to initiate procurement to complete only 75 missiles, some would deem the program to be incrementally, not fully funded.

In this report we have consistently followed the DOD concept that a given quantity of an end item is fully funded if procurement funds are available for a given program year to complete the number of end items authorized for initiation in that program year.

It should be stated that full funding, by itself, provides disclosure of only the estimated cost of a specific number of end items. It does not necessarily provide disclosure of the cost of an entire program or a complete weapon system nor does it provide disclosure of related current or future costs to be financed from other appropriations.

Reprogramming procedures have been established to provide funds to cover increased costs due to such factors as price changes, unforeseen requirements, and changes in operating conditions. The total full funding cost of a budget line item for a procurement program does not necessarily remain constant. Reprogramming is established to provide needed flexibility in the management of procurement programs, since full funding of a budget line item can exist only as of a point in time.

By agreement with the House and Senate Armed Services Committees and the House and Senate Appropriations Committees, DOD is allowed to reprogram funds, i.e., to make changes in the application of financial resources from purposes originally contemplated, budgeted for, testified to, and described in budget justifications. Reprogramming actions are subject to several restrictions.

The specific regulations regarding these reprogramming restrictions are contained in DOD Directive 7250.5 "Reprogramming of Appropriated Funds," dated March 4, 1963, and DOD Instruction 7250.10 "Implementation of Reprogramming of Appropriated Funds," dated March 5, 1963.

With reference to the procurement appropriations, these regulations specify, in part, as follows:

"VIL A. ***personal specific approval [is required] of the Secretary of Defense or the Deputy Secretary of Defense of all reprogramming actions prior to their submission to the House and Senate Committees on Armed Services and to the House and Senate Committees on Appropriations for their approval or for notification. These reprogramming actions include:

"1. Any reprogramming action involving the application of funds, irrespective of the amount, to:

- a. Items or activities omitted or deleted by the Congress from programs as originally presented.
- b. Items or activities for which specific reductions in the amounts originally requested were made by the Congress.
- c. An increase in procurement quantity of an individual aircraft, missile, or naval vessel, fund authorization

for which has been enacted in compliance with Section 412 (b) of Public Law 86-149, as amended.

"2. Any reprogramming actions, single or cumulative, involving the application of funds to:"

* * * * *

"b. An increase of \$5 million or more in a procurement line item or the addition to the procurement line item base of a new item in the amount of \$2 million or more."

* * * * *

"3. Any reprogramming action involving the application of funds, irrespective of the amount, to items in which any one or more of the Congressional Committees is known to have a special interest.

"B. The prior approval of the House and Senate Committees on Armed Services and of the House and Senate Committees on Appropriations will be obtained with respect to reprogramming actions specified in paragraphs VII.A.1. (a) through (c) above prior to their implementation, when such items or activities have been covered by legislation authorizing the appropriation of the funds involved.

"C. The prior approval of the House and Senate Committees on Appropriations will be obtained with respect to all other reprogramming actions specified in paragraphs VII. A.1. (a) and (b) above, prior to their implementation.

"D. Notification will be furnished promptly (within 48 hours after Secretary of Defense or Deputy Secretary of Defense approval) of reprogramming actions specified in paragraphs VII. A.2. above to:

- "1. The House and Senate Armed Services Committees and the House and Senate Appropriations Committees when the items or activities are covered by legislation authorizing the appropriation of the funds involved.
 - "2. The House and Senate Appropriations Committees with respect to all other such reprogramming actions.
- "E. Representatives of the DOD will endeavor to discuss with the Committees, prior to taking action, any other cases involving matters, such as administrative aircraft, which are known to be of special interest to one or more of the Committees."

SCHEDULE OF ACCOUNTS THAT
APPEAR TO BE FULLY FUNDED

AGENCY BUREAU <u>ACCOUNT/REFERENCE (FY-78 APPENDIX)</u>	<u>COMMENTS</u>
Department of Transportation Coast Guard "Acquisition, Construction, and Improvements" (69-0240-0-1-406) p. 545	Budget authority repre- sents full amount for construction etc., for projects commenced in the year of the recorded budget authority.
Federal Aviation Administration "Facilities, Engineering, and Development" (69-1303-0-1-405) p. 552	do
Urban Mass Transportation Adminis- tration "Urban Mass Transportation Fund" (69-4119-0-3-404) p. 581	do
Department of Justice Bureau of Prisons "Buildings and Facilities" (15-1003-0-1-753) p. 497	Full amount of budget authority necessary to complete the cost of constructing a facility is requested in the budget year.
Department of State "Acquisition, Operations, and Maintenance of Buildings Abroad" (19-0535-0-1-152) p. 520	do (except for the new embassy in Moscow which is being funded incre- mentally)
Department of Commerce Maritime Administration "Ship Construction" (13-1708-0-1-406) p. 214	Full budget authority necessary to pay the subsidy of an individual ship's construction is requested in the budget year.

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ACCOUNT/REFERENCE (FY-78 APPENDIX)COMMENTS

Department of Housing and
Urban Development
Housing Programs

"Annual Contributions for
Assisted Housing"
(86-0164-0-1-604) p.381

Multiyear contract pro-
grams are fully funded
with budget authority
in the first year of
the contracts.

Community Planning and Development
"Community Development Grants"
(86-0162-0-1-451) p. 400

do

Department of Agriculture 1/
Soil Conservation Service
"Conservation Operations"
(12-1000-0-1-302) p. 152

Multiyear contracts re-
ceive budget authority
recordings for the full
amount of the contract
in the year of the con-
tract signing.

"River Basin Surveys and
Investigations"
(12-1069-0-1-301) p. 154

do

"Watershed and Flood Prevention
Operation"
(12-1072-0-1-301) p. 156

do

"Great Plains Conservation
Program"
(12-2268-0-1-302) p. 158

do

"Watershed Planning"
(12-1066-0-1-301) p. 155

do

"Resources Conservation and
Development"
(12-1010-0-1-302) p. 159

do

1/Agriculture accounts with high use of multiyear contracts. In many cases, the dollars associated with multiyear contracts represents only a portion of the account total.

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ACCOUNT/REFERENCE (FY-78 APPENDIX)COMMENTS

Forest Service

"Forest Protection and
Utilization"

(12-1100-0-1-302) p. 172

do

"Construction and Land Acquisition"

(12-1103-0-1-302) p. 175

do

"Forest Roads and Trails
Liquidation of Contract
Authority"

(12-2262-0-1-302) p. 176

do

"Forest Roads"

(12-2263-0-1-302) p. 177

do

[Cooperative Range] "Rangeland
Improvements"

(12-5207-0-2-302) p. 179

do

"Service Permanent Appropriations"

(12-9922-0-2-302) p. 180

Multiyear contracts re-
ceive budget authority
recordings for the full
amount of the contract
in the year of the con-
tract signing.

"Trust Funds-Cooperative Work"

(12-8023-0-7-302) p. 183

do

Agricultural Stabilization and
Conservation Service

"Water Bank Program"

(12-3320-0-1-302) p. 125

do

"Forestry Incentives Program"

(12-3336-0-1-302) p. 127

do

"Agricultural Conservation Program"

(12-3315-0-1-302) p. 124

do

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BUREAUACCOUNT/REFERENCE (FY-78 APPENDIX)COMMENTS

Environmental Protection Agency
"Abatement and Control"
(68-0108-0-1-304) p. 628

Full amount of budget authority necessary to complete the cost of constructing a facility is requested in the budget year.

"Construction Grants"
(68-0103-0-1-304) p. 630

Budget authority appears to fully fund commitments. (Proposed legislation for a 10-year program of \$4.5 billion per year appears not to fully fund the proposed total Federal commitment. (See EPA "Construction Grants" on page 3 of Enclosure III.)

Department of Defense

Navy

"Shipbuilding and Conversion,
Navy"
(17-1511-0-1-051) p. 245

Full budget authority for ships programmed and funded in the budget year.

"Aircraft Procurement, Navy"
(17-1506-0-1-051) p. 244

Multiyear contracts receive budget authority recordings for the full amount of the contract in the year of the contract signing.

"Weapons Procurement, Navy"
(17-1507-0-1-051) p. 244

do

"Other Procurement, Navy"
(17-1310-0-1-051) p. 246

do

"Military Construction, Navy"
(17-1205-0-1-051) p. 259

do

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ACCOUNT/REFERENCE (FY-78 APPENDIX)COMMENTS

Army

"Aircraft Procurement, Army"
(21-2031-0-1-051), p. 239

do

"Missile Procurement, Army"
(21-2032-0-1-051), p. 240

do

"Procurement of Weapons and Tracked
Combat Vehicles, Army"
(21-2033-0-1-051), p. 241

do

"Procurement of Ammunition, Army"
(21-2034-0-1-051) p. 242

do

"Other Procurement, Army"
(21-2035-0-1-051) p. 243

do

"Military Construction, Army"
(21-2050-0-1-051) p. 258

do

Air Force

"Aircraft Procurement, Air Force"
(57-3010-0-1-051) p. 249

do

"Missile Procurement, Air Force"
(57-3020-0-1-051) p. 250

do

SCHEDULE OF ACCOUNTS THAT
APPEAR TO BE GOOD CANDIDATES FOR
FULL FUNDING

<u>AGENCY</u> <u>BUREAU</u> <u>ACCOUNT/REFERENCE (FY-78 APPENDIX)</u>	<u>COMMENTS</u>
Department of Commerce Maritime Administration "Operating-Differential Subsidies" (13-1709-0-1-406) p. 215	Budget authority is requested only for 1 year at a time. Ship owners have long-term contracts for subsidies.
Department of State International Boundary and Water Commission, United States and Mexico "Construction" (19-1078-0-1-301) p. 529	Budget authority is incrementally requested to cover costs at the several phases of these construction projects.
Department of Defense Corps of Engineers "Construction, General" (96-3122-0-1-301) p. 287	Annual incremental funding to continue construction of projects. (Annual appropriation--budget authority--for obligations for construction during the year)
"Flood Control, Mississippi River and Tributaries" (96-3112-0-1-301) p. 295	do
General Services Administration "Federal Buildings Fund" (47-4542-0-4-804) p. 634	Recognizes only annual payments on multiyear contractual commitments for leases and purchase contracts.

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ACCOUNT/REFERENCE (FY-78 APPENDIX)COMMENTS

Department of Health, Education
and Welfare

National Institutes of Health
"Buildings and Facilities"
(75-0838-0-1-554) p. 318

Multiyear contracts
and incremental record-
ing of budget authori-
ty in amounts needed
each year of the con-
tracts.

Health Resource Administration

"Health Resources"
(75-0712-0-1-550) p. 322

do (construction part)

"Medical Facilities Guarantee and
Loan Fund"
(75-4430-0-3-554) p. 324

do (interest subsidies
part)

Office of Education

"Higher Education"
(75-0293-0-1-502) p. 336

Interest subsidies

"Student Loan Insurance Fund"
(75-4308-0-3-502) p. 341

Interest subsidies

Department of Interior

Bureau of Reclamation

"Construction and Rehabilitation"
(14-5061-0-2-301) p. 426

Budget authority re-
corded incrementally to
fund multiyear contracts.

"Colorado River Basin Salinity
Control Projects"
(14-003-0-1-301) p. 424 B/A 1973

do

"Upper Colorado River Basin Storage
Projects"
(14-4081-0-3-301) p. 433 B/A 1973

do

Bureau of Indian Affairs

"Construction"
(14-2301-0-1-452) p. 463

do

"Road Construction"
(14-2364-0-1-452) p. 469

do

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ACCOUNT/REFERENCE (FY-78 APPENDIX)COMMENTS

National Park Service "Construction" (14-1039-0-1-303) p. 446	Budget authority re- corded incrementally to fund multiyear contracts.
Bureau of Land Management "Acquisition, Construction and Maintenance" (14-1110-0-1-302) p. 414 B/A 1978	do
U.S. Fish and Wildlife Service "Construction and Anadromous Fish" (14-1612-0-1-303) p. 441 B/A 1978	do
Civil Aeronautics Board "Payment of Air Carriers" (70-1236-0-1-405) p. 699	Budget authority re- corded annually based on tonnage carried at annually determined rates. Long-term con- tracts with air car- riers.
Environmental Projection Agency "Construction Grants" (68-0103-2-1-304) p. 632	Proposed legislation for a 10-year funding plan appears not to fully fund the pro- posed Federal commit- ment. We do not know the status of this proposal. (See EPA "Construction Grants" on page 4 of Enclosure II.)