

Funding Policies, Part 1
Introduction

Introduction to Funding Policies (Part 1)

Page 1 of 5



Approximate Length: 50 minutes

Welcome to the Funding Policies Lesson, Part 1. It is important that you have an understanding of DoD funding policies, their applicability, and their implementation. The Funding Policies Lesson, Part 1, provides basic information about the major funding policies. The lesson covers both the annual and incremental funding policies in detail, along with specific examples and exceptions to those policies. The full funding policy is covered in another lesson, Funding Policies, Part 2. The following topics are part of this lesson:

- Annual Funding Policy
- Incremental Funding Policy
- Lesson Summary

Located throughout and at the end of this lesson are Knowledge Reviews, which are not graded but enable you to measure your comprehension of the lesson material.

Learning Objectives

Page 2 of 5

By completing this lesson, you should be able to:

- Identify the funding policy (annual, incremental, or full) that applies to each of the five major appropriation categories of interest to the defense acquisition community (RDT&E, Procurement, O&M, MILCON, and MILPERS).

- Describe the three major funding policies used in the defense acquisition financial management community (annual, incremental and full).
- Recognize situations where exceptions to the funding policies are appropriate for the major appropriation categories of RDT&E, Procurement and O&M.
- Identify the most appropriate time-phased cost estimate and budget request for RDT&E funds for a given program description.

Portions of the learning objectives above are taught in the Funding Policies Lesson, Part 2.

DoD Funding Policies (1 of 2)

Page 3 of 5



DoD funding policies are the ground rules, derived from Congressional direction, concerning the amount and timing of budget requests for various appropriations; in other words, how much budget authority may be requested to support a particular effort during a fiscal year. Essentially, these funding policies serve to ration scarce budget authority among DoD's many activities and programs.

Remember that costs budgeted in the Operations and Maintenance (O&M) and Military Personnel appropriations are considered expenses; costs budgeted in the Procurement and Military Construction appropriations are considered investments; while costs budgeted in the Research, Development, Test and Evaluation (RDT&E) appropriation include both expenses and investments. Since the appropriations fall into these three basic groups, DoD has three funding policies for budgeting.

DoD Funding Policies (2 of 2)

Page 4 of 5

<u>Funding Policy</u>	<u>Appropriations</u>
Annual	O&M MILPERS
Incremental	RDT&E
Full	Procurement MILCON

A complete discussion of DoD funding policies can be found at this url: [DoD Financial Management Regulation 7000.14-R, Volume 2A, Chapter 1](#), paragraph 0102.

The three basic DoD funding policies and the categories of appropriations to which they apply are shown here.

Long Description

This table shows which appropriations are associated with each funding policy: Operations and Maintenance (O&M) and Military Personnel (MILPERS) appropriations are associated with the Annual funding policy; Research, Development, Test and Evaluation (RDT&E) appropriations are associated with the Incremental funding policy; finally, Procurement and Military Construction (MILCON) appropriations are associated with the Full funding policy.

Knowledge Review

Page 5 of 5

This page completes the Lesson Introduction. Select a lesson from the Table of Contents to continue. The following Knowledge Review is a matching question. Select a letter associated with the answers below and type that letter in the space next to the best corresponding phrase or statement. Then, select the Submit button and feedback will appear.

Match each of the three listed appropriation categories with the funding policy that applies to each.

1. Annual Funding.

2. Incremental Funding.

3. Full Funding.

a. Military Construction. b. Military Personnel. c. RDT&E.

Correct

Military Personnel appropriations are subject to the Annual Funding Policy, RDT&E appropriations are subject to the Incremental Funding Policy, and Military Construction appropriations are subject to the Full Funding Policy.

Annual Funding Policy

Annual Funding Policy

Annual Funding Policy

Page 1 of 5



The annual funding policy applies to appropriations that are only available for obligation for one year, that is, the Operations & Maintenance (O&M) and Military Personnel appropriations. Simply stated, the policy requires that you request budget only for the estimated cost of the goods and services needed in a given fiscal year.

Select the following hyperlink to access an [O&M example of annual funding](#).

Select the following hyperlink to access information on the [exception to the annual funding policy for O&M](#).

O&M Example of Annual Funding

During Fiscal Year 2010 (FY 10), you require 12 months of O&M-funded janitorial services that are expected to cost \$5,000 per month during the budget year. Your O&M budget request for FY 10 would be \$60,000 (12 months times \$5,000 per month) for this purpose.

Annual Funding Policy Exception for O&M

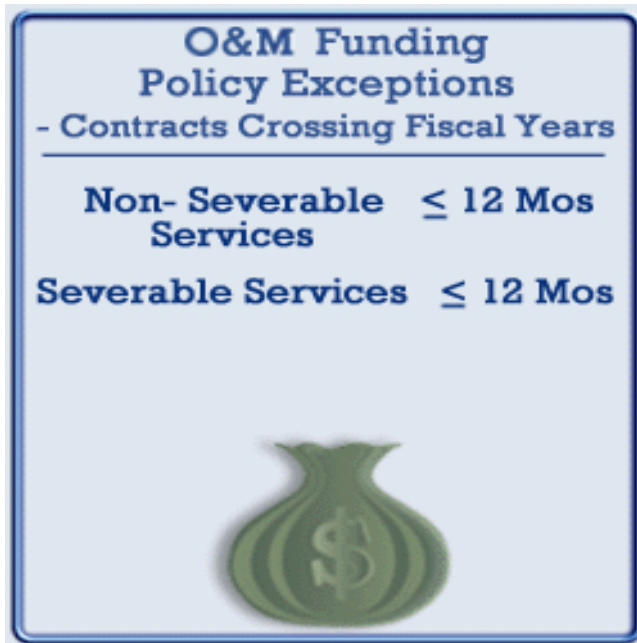
A notable exception to the annual funding policy concerns DoD financing of services contracts whose period of performance crosses fiscal years. If the contract period is 12 months or less in duration, or if the contract produces a single outcome, product or report (that is, is nonseverable), DoD may finance the entire period of performance with budget authority available for obligation at the time of the contract award (Title 10, US Code, Section 2410a).

Thus, an O&M-funded service contract covering the period from April 2010 to March 2011 (12 months, starting in FY 10 and ending in FY 11) may legally be financed entirely with FY 10 funds, and may be budgeted for accordingly.

Note, however, that component, agency, or lower-level authorities can prohibit use of this exception as a matter of policy, strictly limiting O&M budget requests to the needs of a particular fiscal year.

O&M Funding Policy Exceptions

Page 2 of 5



DoD may finance the entire period of an O&M contract performance with budget authority available for obligation at the time of the contract award for both severable and non-severable services of 12 months or less in duration.

A severable service is one that can be separated into components that independently meet a separate need of the government. For example, the annual janitorial services for a building could be separated into smaller components (for example monthly, weekly, daily).

Long Description

Exceptions to the O&M funding policy for contracts crossing fiscal years include both non-severable services contracts of up to 12 months and severable services contracts of up to 12 months.

Multiyear Service Contracts (1 of 2)

Page 3 of 5



Congress has granted DoD permission to enter into multiyear contracts for certain types of services for which DoD has ongoing requirements (for example, base services). Such contracts call for the contractor to provide multiple years' worth of services (up to a maximum of 5) under a single contract.

A multiyear service contract may include provisions for a cancellation charge to be paid by the government to the contractor if the government elects to cancel one or more remaining years on the contract. Such provisions are similar to those used in multiyear procurement contracts.

Multiyear Service Contracts (2 of 2)

Page 4 of 5

Budgeting - Multiyear Service Contract	
FY 11	\$ 1.4 M
FY 12	\$ 1.7 M
<hr/>	
Total Contract Cost	\$3.1 M

The full value of a multiyear service contract is not budgeted for in the year in which the contract is awarded. Rather, the contract is to be budgeted and funded in increments based on the value of the services to be provided during each year of the contract.

For example, suppose that DoD intends to enter into a \$3.1 million multiyear service contract in FY 11. \$1.4 million of the services are to be provided in FY 11, with the remaining \$1.7 million worth of services to be provided in FY 12. The budget request for this multiyear service contract should be \$1.4 million for FY 11 and \$1.7 million for FY 12.

Knowledge Review

Page 5 of 5

The following Knowledge Review is a True or False question. Select the best answer and feedback will immediately appear.

An exception to annual funding policy concerns financing of service contracts whose period of performance crosses fiscal years. If the contract period is 12 months or more in duration, DoD may finance the entire period of performance with the budget authority available for obligation at the time of the contract award.

a. True

b. False

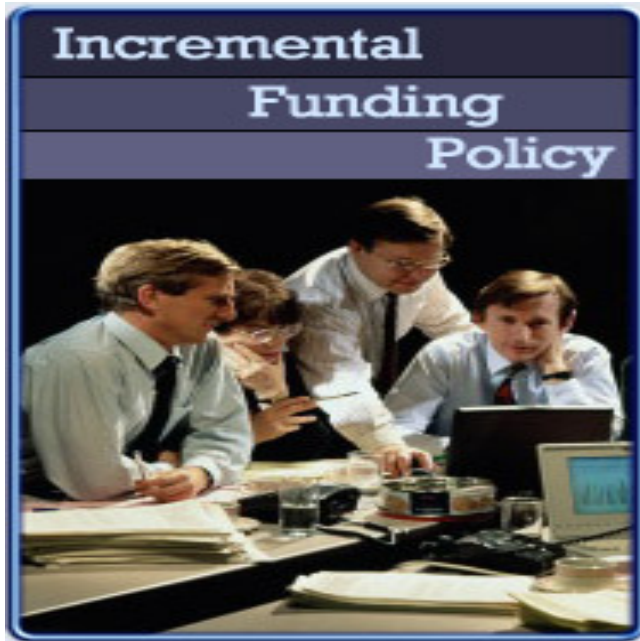
Correct!

*Regarding DoD financing of service contracts whose period of performance crosses fiscal years: if the contract period is **12 months or less in duration**, or if the contract produces a single outcome, product or report (that is, is nonseverable), DoD may finance the entire period of performance with budget authority available for obligation at the time of the contract award (Title 10, US Code, Section 2410a).*

Incremental Funding Policy

Incremental Funding Policy

Incremental Funding Policy



The incremental funding policy applies to Research, Development, Test & Evaluation (RDT&E) appropriations. Although RDT&E efforts often span several years, the incremental funding policy requires that the effort generally be budgeted in annual increments based on when costs are expected to be incurred.

Therefore, the key to establishing an RDT&E budget is estimating when costs will be incurred. This is simple in theory, but can be much more difficult in practice. Financial managers must consult with engineering, testing, and other personnel involved in RDT&E-funded projects to produce a budget request that complies with the incremental funding policy.

Incremental Funding Policy Example



A research effort is expected to take 28 months to complete. The total cost of the effort is \$260 million. The effort will begin in January 2011 (FY 11) and end in April 2013 (FY 13). Based on analysis of the tasks to be completed, it is estimated that costs will be incurred according to the following distribution:

- FY 11 = 35%
- FY 12 = 45%
- FY 13 = 20%

Using the incremental funding policy, the budget request for this effort would be:

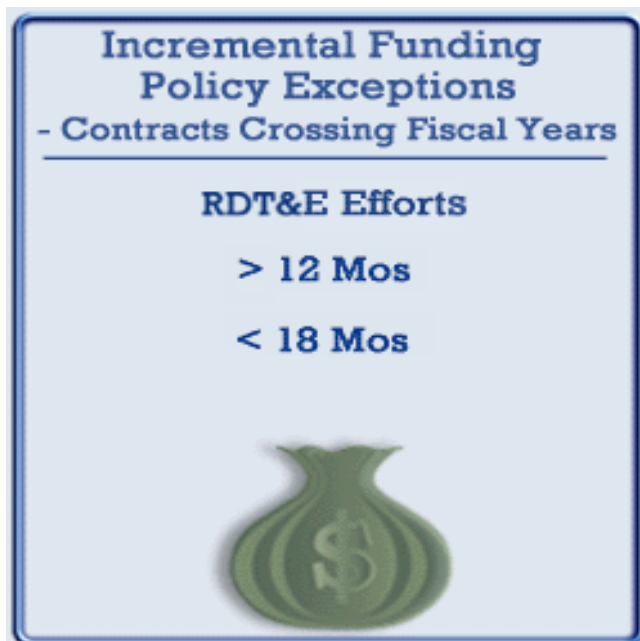
- FY 11 = 35% of \$260 million = \$91 million
- FY 12 = 45% of \$260 million = \$117 million
- FY 13 = 20% of \$260 million = \$52 million
- TOTAL = \$260 million

Long Description

Table with 3 rows and four columns illustrating the example in the text. The first row contains the column headers for columns b, c, and d, which are FY 11, FY 12, and FY 13, respectively. The second row shows the task cost of \$260M in column a and distribution of this cost across the fiscal years - column b shows 35%, column c shows 45% and column d shows 20%. The last row shows the correct budget request by year for this task: Column a, Budget Request; Column b, \$91 million; Column c, \$117 million; and Column d, \$52 million.

Incremental Funding Policy Exceptions

Page 3 of 9



There are requirements in which there is no logical way to divide the work; it is clearly unfeasible to limit the contract to a shorter period; or the planned technical effort is such that no responsible contractor can be found who will accept a contract for a less than completion increment. For these type efforts that take longer than 12 months but less than 18 months, the Service or Defense Agency may approve financing the total requirement in one fiscal year.

Long Description

A graphic with a heading that reads "Incremental Funding Policy Exceptions - Contracts Crossing Fiscal Years." Below this heading is text indicating exceptions are possible for RDT&E efforts that are greater than 12 months but less than 18 months in duration.

Forward Financing

Page 4 of 9



Budgeting for more RDT&E funds than the costs expected to be incurred in a given fiscal year is known as "forward financing." Forward financing violates DoD's incremental funding policy for RDT&E funds and results in inefficient use of budget authority as programs effectively tie up funds that could be used for other needs of the fiscal year.

To ensure that programs do not engage in forward financing, Service or Defense Agency comptrollers are required to review and approve carryovers of RDT&E funds from one fiscal year to the next. Such approved carryovers may not exceed 3 months worth of funding (except when a funding policy exception applies). Carryovers that are due only to delayed availability of funds (that is, late appropriation) are not considered to be forward financing.

Long Description

Photo of a research facility, with a bar chart indicating that more money is budgeted than expected costs, and a red circle line through over the entire graphic.

RDT&E Budgeting Tool (1 of 2)

Page 5 of 9

The RDT&E Budgeting Tool provides a simple framework for RDT&E budgeting that covers the year for which funds are being requested (the "budget year") and the five years beyond the budget year.

TASK	FY11	FY12	FY13	FY14	FY15	FY16
Research Project A	\$750,000	\$900,000	\$250,000			
Test Articles	\$330,000					
Travel	\$75,000	\$77,000	\$80,000	\$85,000	\$85,000	\$85,000
TOTAL	\$1,155,000	\$977,000	\$330,000	\$85,000	\$85,000	\$85,000

Long Description

Example of an RDT&E Budgeting Tool. Expected tasks are listed in column one. Fiscal year columns show the expected cost incurred by each task, totals are shown at the bottom of each FY column.

RDT&E Budgeting Tool (2 of 2)

Page 6 of 9

The two steps in completing the RDT&E Budgeting Tool are:

Step 1: List all tasks expected to incur costs during the budget year.

Step 2: For each task, determine when costs will be incurred across the life of the task and budget costs accordingly by fiscal year, unless an exception to incremental funding applies (for example, non-severable task crossing fiscal years). Fund exception cases in the year in which they are initiated.

Select the following access a working [example of the RDT&E Budgeting Tool \(Excel Spreadsheet\)](#).

If you need help in downloading the Excel Spreadsheet, click [here](#).

TASK 1	FY 11	FY 12 2	FY 13	FY 14	FY 15	FY 16
Research Project A	\$750,000	\$900,000	\$250,000			
Test Articles	\$330,000					
Travel	\$75,000	\$77,000	\$80,000	\$85,000	\$85,000	\$85,000
TOTAL	\$1,155,000	\$977,000	\$330,000	\$85,000	\$85,000	\$85,000

Long Description

Example of an RDT&E Budgeting Tool. Expected tasks are listed in column one. Fiscal year columns show the expected cost incurred by each task, totals are shown at the bottom of each FY column. Column 1 is numbered "1" to correspond with Step 1 in the text. A "2" appears above the remaining columns to correspond with Step 2 in the text.

Knowledge Review

Page 7 of 9

The Knowledge Reviews on the following pages are multiple choice questions. Only one answer is correct; select the best answer and feedback will immediately appear.

Your program has a research and development project associated with a new weapon system scheduled to start in January 2013, which is expected to take 40 months to complete. The project is expected to cost a total of \$550 million.

What is the correct appropriation type to use for this effort?

- a. Research, Development, Test & Evaluation**
- b. Operations & Maintenance**
- c. Military Construction**
- d. Military Personnel**

Correct!

RDT&E should be used to finance this effort, since this is for a research and development effort for a new system.

Knowledge Review

Page 8 of 9

Your program has a research and development project associated with a new weapon system scheduled to start in January 2013, which is expected to take 40 months to complete. The project is expected to cost a total of \$550 million. What is the funding policy that applies?

- a. Annual Funding
- b. Incremental Funding
- c. Full Funding
- d. Bi-annual Funding

Correct! Incremental Funding Policy applies since RDT&E funds are involved.

Knowledge Review

Page 9 of 9

The following Knowledge Review allows you to type the best answers into the appropriate spaces. Type carefully and watch your spelling. Then, select the Check Answers button for feedback.

Your program has a R&D project associated with a new weapon system scheduled to start in January 2013; it is expected to take 40 months to complete, and is expected to cost a total of \$550M, with cost expected to be incurred as shown here. What is the correct amount to include in your budget requests for FY 13 through FY 16 for this project? (Use numbers only)

TASK	FY 13	FY 14	FY 15	FY 16	TOTAL
Task A	\$ 30M	\$ 45M	\$ 55M	\$ 20M	\$150M
Task B	\$100M	\$ 120M	\$ 80M		\$300M
Task C		\$ 20M	\$ 45M	\$ 35M	\$100M

FY 13 \$ **FY 14 \$** **FY 15 \$** **FY 16 \$**

Correct!

The correct amounts to include in the budget request for this program are: \$130 million for FY 13; \$185 million for FY 14; \$180 million for FY 15; and \$55 million for FY 16. Each of these amounts represents the total cost estimated to be incurred for all program tasks in that particular fiscal year.

Long Description

Task A requires \$30M in FY 13, \$45M in FY 14, \$55M in FY 15 and \$20M in FY 16, for a total cost of \$150M. Task B requires \$100M in FY 13, \$120M in FY 14, and \$80M in FY 15 for a total cost of \$300M. Task C requires \$20M in FY 14, \$45M in FY 15 and \$35M in FY 16, for a total cost of \$100M.

Summary

Summary

Knowledge Review

Page 1 of 5

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Submit button and feedback will appear.

Select all of the following appropriations to which the annual funding policy applies:

- a. RDT&E
- b. Procurement
- c. Operations & Maintenance
- d. Military Personnel
- e. Military Construction

Correct!

The annual funding policy applies to two appropriations types, Operations & Maintenance and Military Personnel.

Knowledge Review

Page 2 of 5

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Check Answers button and feedback will appear.

Select all that apply to the Incremental Funding Policy:

- a. **Exceptions include financing contracts for efforts of up to 24 months in duration for which no responsible contractor will accept a contract for less than the full term of performance.**
- b. **Applicable to procurement and Military Construction appropriations.**
- c. **Applicable to Research, Development, Test & Evaluation appropriations.**
- d. **Efforts are generally budgeted in annual increments based on what costs are expected to be incurred.**
- e. **Exceptions include DoD financing of services contracts whose period of performance crosses fiscal years and result in a single outcome**

Correct! The incremental funding policy applies only to Research, Development, Test & Evaluation (RDT&E) appropriations. Under this policy, efforts lasting more than a year are

generally budgeted in annual increments based on when costs are expected to be incurred. Exceptions to the incremental funding policy allows DoD to finance in a single year the entire amount of contracts up to 18 months in duration for which no responsible contractor will accept a contract for less than the full term of performance.

Lesson Summary (1 of 3)

Page 3 of 5

Congratulations! You have completed the Funding Policies Lesson, Part 1. The following topics were discussed in this lesson:

- DoD Funding Policies. These are the ground rules, derived from Congress, concerning the amount and timing of budget requests for various appropriations. The three funding policies are:
 - Annual Funding
 - Incremental Funding
 - Full Funding
- Funding policy applicability to appropriations. The annual funding policy applies to O&M and MILPERS appropriations; the incremental funding policy applies to RDT&E appropriations; the full funding policy applies to procurement and MILCON appropriations.

Lesson Summary (2 of 3)

Page 4 of 5

The following topic was also presented in this lesson:

- Annual Funding Policy:
 - The annual funding policy requires budgeting only for the estimated cost of goods and services needed in a fiscal year.
 - As an exception, certain O&M services contracts (12 months or less in duration or nonseverable) whose period of performance crosses fiscal years may be entirely funded in the fiscal year that they are initiated.
 - The annual funding policy also applies to the funding of multiyear services contracts. This type of contract is funded in annual increments based on the value of the services to be delivered during each year of the multiyear contract.

Lesson Summary (3 of 3)

Page 5 of 5

Finally, the following topics were also discussed in this lesson:

- Incremental Funding Policy:
 - The incremental funding policy requires that an RDT&E budget request be based on the costs expected to be incurred during a fiscal year.
 - Exceptions to this policy include the funding of contracts over 12 months, but less than 18 months in which there is no logical way to divide the work, it is clearly infeasible to limit the contract to a shorter period, or the planned technical effort is such that no responsible contractor can be found who will accept a contract for less than the full period of performance.
 - Forward financing is a violation of the incremental funding policy. Comptroller review and approval of carryovers of RDT&E funds from one fiscal year to the next is designed to prevent forward financing.
 - To determine RDT&E budget requirements, list all tasks expected to incur costs during the budget year, then determine when costs will be incurred across the life of each task. Budget costs accordingly by fiscal year, unless an exception to incremental funding applies.

This page completes the lesson. Select a lesson from the Table of Contents to continue.