Acquisition Program
Funding Stability—a Myth

COL Robert D. Morig, USA (Ret.)

Program stability and funding stability are continuously promoted as key to successful acquisition reform. Funding stability, according to prevailing wisdom, leads to program stability. Unfortunately, the dynamic, evolving, and methodical requirements generation, technology enhancement, and resourcing processes prevalent throughout the Department of Defense (DoD) are not conducive to funding stability. This article discusses results from a survey of financial management practitioners that provide insight into factors that both enable and detract from achieving funding stability. The author presents program stability as a myth in the real world environment where the “norm” is characterized by changing program requirements, technologies, and funding. He further hypothesizes that stability cannot occur without major change in the Planning, Programming, Budgeting and Execution, and Congressional Enactment processes.
Program funding has always been the Achilles heel of acquisition programs during their development and production. There never seems to be enough precious funds available. On May 8, 2010, at the Eisenhower Library in Abilene, Kansas, then Secretary of Defense Robert M. Gates gave a speech centered on lowering program costs (Gates, 2010a). He said that he would be directing the military services, the joint staff, and others to examine how the DoD could reduce overhead costs and transfer those savings into force structure and weapon systems modernization gains.

Acquisition Leadership—Making the Hard Choices

Shortly thereafter, then Under Secretary of Defense for Acquisition, Technology and Logistics Ashton B. Carter generated a memorandum entitled “Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending” (Carter, 2010a). He provided more specific direction to acquisition professionals and emphasized the need to restore affordability to our programs and activities. On August 16, 2010, Gates sent a memorandum to the key department leaders entitled “Department of Defense (DoD) Efficiency Initiatives,” directing a series of 20 initiatives to reduce duplication, overhead and excess, and instill a culture of savings and restraint across the DoD (Gates, 2010b).
On August 20, Gates followed up with another memorandum to key DoD leaders entitled, “Guidance on DoD Efficiency Initiatives with Immediate Application,” directing five immediate actions to identify efficiencies and resultant savings (Gates, 2010c). Shortly thereafter, Carter released another memorandum for acquisition professionals (Carter, 2010b). On September 14, 2010, he outlined 23 specific actions organized into five broad-major areas and noted there would be continued budget turbulence, if the acquisition community chose not to pursue greater efficiencies. One of those actions was to “make production rates economical and hold them stable” (p. 4), implying some sort of funding stability to enable this initiative. Other funding stability-related actions in the memorandum were to “mandate affordability as a requirement” (p. 2), “set shorter program timelines and manage to them” (p. 4), “address schedule directly as an independent variable” (p. 5), and “Increase the use of Fixed-Price Incentive Firm Target (FPIF) contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure” (p. 6). To meet these objectives requires stable programs and stable funding.

To emphasize his support, Air Force Secretary Michael Donley, in a speech at the Air Force Association Conference on September 13, 2010, provided guidance to Air Force Leaders and reminded them “not to get ‘over-extended’” with more programs and resource commitments than we can afford (Kreisher, 2010, para. 7). He encouraged them to seek sufficient funding to ensure success without leaving programs broken, underfunded, disconnected in the next budget cycle, and a bill payer for other programs. Donley summed up the guidance with “make the hard choices now” (para. 8).

General Ray Odierno, in July 2011 Senate confirmation hearings to be the next Army Chief of Staff, stated “carefully refined contract requirements, a sound program strategy, and stable funding,” are necessary to get the procurement situation under control (Odierno, 2011).

And in Defense Acquisition University (DAU) President Katrina McFarland’s Senate confirmation hearing to be the Assistant Secretary of Defense (Acquisition) on March 12, 2012, she responded to advance questions on Funding and Requirements Stability by stating, “Implementation of Affordability Targets at Milestone A, Affordability Requirements at Milestone B, and working to build realistic schedules and hold programs to them are recommended steps. Combined with
the Configuration Steering Board process, these steps as described in the Better Buying Power (BBP) will increase the program funding and requirements stability” (McFarland, 2012, p. 20).

Interestingly enough, long before these most recent initiatives, congressional, administration, and industry leaders already declared program stability and funding stability a prerequisite for acquisition reform. In testimony before the House Armed Services Subcommittee on Defense Acquisition Reform in September 2009, Richard Sylvester, vice president, Acquisition Policy, Aerospace Industries Association, recommended that the government move to stabilize program requirements, budgets, and system configuration (The Department of Defense, 2009).

On September 1, 2009, OSD Director, Acquisition Resources and Analysis Nancy Spruill addressed questions on cost growth stating, “We have found that funding and requirements stability and greater technology maturity drive successful programs” (Spruill, 2009, p. 6). Later in that same article, when discussing strategic acquisition reform, she again stated the need to establish a fixed, stable investment budget. Findings from hundreds of acquisition reform initiatives over the years reflect the same conclusions.

So why is this so hard? For years, the acquisition community has been saying program and funding stability are essential to acquisition reform. To that end, the Department of Defense leadership has consistently directed and encouraged acquisition practitioners to ensure program and funding stability. And yet, after all the repeated emphasis, the acquisition community has not been able to meet this goal.

Survey Results—Detractors & Enablers

A survey of Financial Management professionals, which represents the basis of this article, offers some insight into why practitioners in the field believe funding stability is so problematic. The DAU survey was conducted by requesting the graduates of DAU resident courses BCF-205, BCF-211, and BCF-301 identify three detractors and three enablers to funding stability. The survey was sent to the graduates of 20 classes (approximately 400 Financial Management workforce personnel from all Services, from installations across the continental United States and outside the continental United States; all grades from GS-9 to GS-15, including program management offices and nonprogram management
offices). Forty students provided responses that were accumulated into the survey results. The author views this population as representative of the Financial Management community.

Table 1 shows the results from a DAU survey identifying detractors to stable funding. The top three and nine of 16 detractors identified by the survey results are actually caused by external agencies at a level above the program office’s control.

### Table 1. Funding Stability Detractors

<table>
<thead>
<tr>
<th>Detractor</th>
<th>Number of Respondents</th>
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<tbody>
<tr>
<td>Continuing Resolution</td>
<td>16</td>
</tr>
<tr>
<td>Headquarters Changes</td>
<td>14</td>
</tr>
<tr>
<td>Poor Planning and Execution</td>
<td>12</td>
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<tr>
<td>Taxes</td>
<td>10</td>
</tr>
<tr>
<td>Poor Communication</td>
<td>8</td>
</tr>
<tr>
<td>Poor Justification</td>
<td>6</td>
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<tr>
<td>Congressional Changes</td>
<td>4</td>
</tr>
<tr>
<td>Unstable Technical Baselines/Design</td>
<td>2</td>
</tr>
<tr>
<td>People Experience and Knowledge</td>
<td>0</td>
</tr>
<tr>
<td>Political/Personal Influence</td>
<td></td>
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<tr>
<td>Cost Growth</td>
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<td>Process/System Delays</td>
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<tr>
<td>Unstable Technical Baselines/Design</td>
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<td>Contractor Restrictions</td>
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<td>Supplemental Decrements</td>
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**Top Detractor—Continuing Resolution**

The top detractor, Continuing Resolution, occurs when Congress is unable to complete passage of Defense Appropriations bills by the end of the fiscal year. Congress routinely passes a continuing resolution to fund the government at some partial level based upon expenditure rates of the previous year or most recent congressional marks. In Fiscal Year (FY) 2011, the Federal Government was forced to operate under seven continuing resolutions (the first from October 1 to December 3, and the last expiring April 15, 2011). Continuing resolutions permit the government to continue to operate, but obviously at some constrained level of funding. New start programs are not permitted under a continuing resolution. On numerous occasions, Congress had to pass more than one continuing resolution before reaching an agreement on an appropriations bill or an all-encompassing omnibus funding bill. The resulting incremental funding of programs has caused significant funding instability for the acquisition community. In 18 of the last 20 years and 30 of the last 33 years, Congress had not passed a Defense Appropriations bill by October 1 and had to resort to a CRA, or Continuing Resolution Authority.
The latest is the 6-month FY13 CRA funding programs at FY12 levels. As a financial necessity, operating under a CRA requires adjusting to this incremental flow of funding to projects. Obviously, this external agency (Congress) has the capacity to significantly impact a program office’s ability to maintain any semblance of funding stability. Based on past history, continuing resolutions will almost certainly continue into future years, resulting in further program funding instability.

**Second Top Detractor—Headquarters Changes**

The second detractor, Headquarters Changes, is related to changes from higher headquarters, which are identified in the survey as having the most impact on program stability. These changes also make funding stability extremely problematic. Technology advancements constitute a significant portion of these changes. Technology is forever emerging to provide the warfighter with enhanced capability. Would we really want to ignore a technology that provides a significant increase in warfighting capability? In today’s Information Technology (IT) systems, software enhancements in speed, storage capacity, or throughput volume undoubtedly provide greater capabilities to existing programs. Do we really want to minimize these changes and field obsolete technologies to obtain program and funding stability?

Improved optics, greater efficiencies in fuel consumption, lighter and stronger materials, and power generation technologies are all examples of technology advancements that could have dramatic impact on warfighting capability, and could be solutions to previously identified capability gaps. Perhaps, technology advancements in logistics could help reduce mortality rates of our soldiers and Marines moving Petroleum, Oil, and Lubricant convoys in Afghanistan. The Army recently completed a study showing .42 casualties per fuel convoy and .34 casualties per water convoy in Afghanistan (Army Environmental Policy Institute, 2009). Understandably, senior leaders at a higher headquarters would encourage and support requirements changes driven by technology improvements that save lives and improve capabilities. Inevitably, requirements and technology enhancements will continue to inhibit the likelihood of program stability and any concomitant funding stability.
Third Top Detractor—Changes in Requirements

The third most important detractor, Changes in Requirements, can be more easily managed. However, eliminating or reducing requirements changes, or the impact of such changes, has always been a challenge for the acquisition community, charged with finding a material solution to an existing system that no longer meets the warfighter’s requirements. An extensive infrastructure exists to analyze existing warfighting capabilities against specific capability gaps identified by combatant commanders. These gaps sometimes take on a life all their own. As an illustration, if the capability exists to observe emplacement of Improvised Explosive Devices (IED) out to a maximum range of 6 kilometers, then the warfighter would ideally like to see beyond 6 kilometers. If an unmanned aerial drone can loiter for 10 hours, then the warfighter would ideally like the drone to loiter for more than 10 hours. The warfighter would surely want a troop carrier that provides greater protection at less weight, or a radio battery that lasts twice as long. And the list goes on. Seldom will Service leadership suppress a requirement that would give the warfighter this enhanced capability. Invariably, requirements changes will continue unabated. Consequently, funding instability related to these requirements changes will continue as long as this country has soldiers, sailors, Marines, airmen, and Coast Guard personnel operating in hostile environments.

The current Planning, Programming, Budgeting and Execution (PPBE) process seems to compound funding instability even more. Under current guidelines for Program Objective Memorandum (POM) development, Total Obligation Authority (TOA) controls are provided by the Office of the Secretary of Defense (OSD) to the military departments. As a POM is developed by the military departments, programs are prioritized and funded such that available TOA at that control number is allocated to programs. As that is done for each year in the Future Years Defense Plan (FYDP), the completed POM contains programs that consume all available TOA for all FYDP years. That POM is then forwarded to OSD for the joint Cost Assessment and Program Evaluation /Comptroller program and budget reviews. These reviews result in OSD-generated Resource Management Decisions (RMD) that promulgate senior OSD-level decisions to adjust the FYDP input accordingly in a zero sum construct. In other words, if additional program funding is added to one program in an RMD, then an associated offset is applied to other programs. At the end of the OSD/OMB reviews, decisions and
associated funding levels in the FYDP are rolled into the President’s Budget (PB). Hence, the PB FYDP reflects programs that consume the total available TOA for each FYDP year.

The PB then traverses the Congressional Enactment Process, resulting in program adjustments via congressional marks and funds being appropriated. The apportionment/allocation/allotment process distributes appropriated funding for execution against these original program requirements. So acquisition program managers would now have the budget authority needed to execute their programs.

But wait, was the appropriation amount the number needed to execute the program? Did we not mention program adjustments were potentially made at all levels between the program office and the appropriation (Program Executive Office [PEO], Service Headquarters, OSD/OMB, two authorization committees and one authorization conference committee, two appropriation committees and the Appropriation Conference Committee, and maybe a major subordinate command included for good measure)? The result of all these adjustments could be the addition or deletion of funds to programs. So the resultant funding available for obligation may be significantly different than what was requested months before at the start of the budget process. These funding levels may force a technical adjustment and/or a restructure. Each one of the individual increases or decreases to a program budget request resulted in the program office responding with reclamas or appeals and program “what if” drills. At the end of the day, decisions are made at all levels to provide the most “bang for the buck” and to balance the books; many, many programs are impacted, some positively and some negatively. So what happened to program stability?

The program then enters the execution phase with its allocated funding. Concurrent with execution, the program’s funding requirement is updated and the cycle starts again. Very few programs execute at the funding level provided in the appropriation. Real world events, unknown at the time of the program estimate or at the time of these incremental decisions, result in needed funding-level adjustments. Even if there were no changes at the program office level, all the intermediate levels may have adjustments to programs for which this program becomes a bill payer. Or most likely, a new requirement from the warfighter has been introduced, but there is no additional TOA provided by OSD for these new requirements. So the PEO, or the major subordinate command, or
the military department, or OSD/OMB, or the congressional committees will prioritize existing program needs along with new program(s) funding needs. If program requirements were not previously funded and now are of sufficient priority to require funding, other programs in a like amount of funding (remember we had TOA controls for each year in the previous FYDP that consumed the available funding) must move into the unfunded category. And that something might be a number of programs that are decremented to obtain the required funds for the new initiatives. Additionally, there could be a number of new warfighting requirements and/or technology enhancements introduced into this budget cycle, which would likewise be prioritized and potentially result in many more programs becoming full or partial bill payers.

So what happened to funding stability? In a process that allows and encourages technology changes, requirements changes, and funding changes, how can there ever be stable programs and stable funding? The author’s hypothesis is that funding stability is simply not probable given the above arguments.

So let’s again turn to the DAU survey results on what financial management practitioners believe would enable funding stability (Table 2).

### TABLE 2. FUNDING STABILITY ENABLERS

| Note. GO = General Officer |
Two Top Enablers—Good Planning & Program Execution, Clear Requirements

We might expect to see stable requirements, better management of new technology, and a more efficient way to fund new requirements without impacting legacy or existing programs as key enablers to funding stability. However, the data suggest at the practitioner level that good planning and program execution, and a clear definition of requirements would go a long way to stabilizing funding. Program office personnel might consider external agency adjustments to their programs a direct result of poor planning and program execution. The plan is used to defend budget requirements; accordingly, a poor plan results in program reductions. The same can be said for program execution, as higher headquarters at all levels of oversight are watching financial execution to ensure its synchronization with the plan. When programs cannot execute in accordance with the plan, analysts at all levels will see the opportunity to realign funds to higher priority programs.

Third Top Enabler—Good Communications

Good Communications is directly linked to the first two enablers. As one develops the program plan for execution, constant and effective communication with oversight agencies enables a better understanding of the plan by all concerned. This allows program office personnel to strengthen that plan by documenting identified deficiencies and defending them against program adjustments. Direct communications between program financial personnel and internal program staff personnel will result in better justification materials as well as better reclamas (for adjustments from Service and OSD headquarters) and appeals (Congressional adjustments) to proposed reductions. Good Communications between program office personnel and oversight personnel will facilitate more defensible justifications as well as a better understanding of program nuances by all the stakeholders.

Fourth Top Enabler—Honesty and Trust the Process

Honesty and Trust the Process as an enabler provides interesting insights into the perspective of many financial management professionals. The financial culture for many years has centered on protecting funding and an unwillingness to return funds to a higher headquarters for use against higher priority programs. In many cases, that culture results in funds being wasted or oversight personnel discovering disconnects between the plan and the execution, as well as reallocating those funds and exacerbating stability. Being honest with higher headquarters and
freeing up dollars do result in funding stability as this honesty will enable unneeded funds to be made available for higher priority needs of the Service. Releasing unneeded funds for higher priority programs enriches the enterprise by helping to fix other program problems, and creates an attitude of “you helped me with this program, I will help you when you need it.” Program managers need to take an enterprise perspective and offer up unnecessary funds for high-priority programs, and headquarters managers need to support that culture with payback as required.

Obviously, high-priority programs and those with high levels of visibility generally are funded in accordance with their priority. These programs tend to be more stable, and funding issues are resolved quickly by senior leaders. Army Digitization was the number one priority program for a number of years in the late 1990s and could count on receiving the funding it needed. The Mine Resistant Ambush Protected (MRAP) vehicle has enjoyed that priority over the last few years. This enabler could be linked with political/personal influence. High-priority programs tend to have the visibility and a strong proponent to promote the program. Sometimes these proponents are powers in the political arena and sometimes they are simply key personnel in the decision-making community that usher the program through the system. A strong backer at the right level can do wonders for program stability. Often, senior leaders become supporters of programs and ensure they are properly resourced due to their position. As an example, some years ago the Vice Chief of Staff of the Army was a strong soldier system proponent and would ensure subordinate levels would not decrement soldier programs without his concurrence. At a later time, the same could be said for a Vice Chief who was a strong aviation program proponent. Years before that was an Army Digitization supporter. So obviously, having a key stakeholder in the right place at the right time in the process can minimize funding turbulence.

Programs with good cost estimates and good program execution consistent with those estimates would be more stable as internal shortfalls do not drive instability. However, external detractors would continue to impact such programs. The current focus on funding to the OSD Independent Cost Estimate (ICE) should assist in minimizing cost turbulence. More often than not, the ICE will result in a higher cost estimate than the Program Office Estimate.
Working the system provides another interesting insight. Program managers that understand the PPBE process as well as the Congressional Enactment Process are more inclined to be engaged throughout and make these systems and processes work for them. As an example, program managers who know when key management decisions are being made in these two processes, and are proactively involved in being available on short notice to provide needed data or information, seem to fare better than those who sit back and await the outcome of the process. Program managers who walk the halls in the Pentagon identifying the latest pending action on their programs can be extremely helpful in providing information to decision makers and their staffs. Knowledge of the Congressional Enactment Process as to when committee and subcommittee marks are taking place and responding with appeal information contributes enormously to program stability by reducing program adjustments.

The same can be said for knowledgeable and experienced people on the program management staff who can fight off these adjustments based upon their knowledge, understanding, and relationships with key stakeholders. Their knowledge of key system characteristics, the contracting and resourcing processes, and their technical competence can be enormously influential in successfully protecting programs.

A program that is directly related to the war effort should enjoy funding priority and program stability. Many programs support the war effort, but again, some are more critical than others. The MRAP program has entertained high priority as it saves lives and minimizes injury. Any program related to IED threat reduction will enjoy a high priority for funding. Again, soldier systems would fit into this category and enjoy minimal funding adjustments.

This author was quite surprised that multiyear procurements did not have a higher number of votes on the survey. Clearly, programs with approved multiyear procurements will enjoy stable funding due to the high termination costs associated with those programs. Multiyear Procurement is associated with Economic Order Quantity purchases where contractors are encouraged to buy in quantity or affect production efficiencies in exchange for a contract covering a number of years—normally 3 to 5. Decision makers are reluctant to decrement these programs as a commitment was made to fund them. The downside to multiyear
procurements is they reduce the flexibility of the Service, OSD/OMB, and Congress due to the large termination costs. This author would have expected this to be the number one enabler to stable funding.

Programs necessary to maintain an industrial base capability would tend to be exempt from program adjustments for the primary purpose of ensuring the nation has that capacity in time of need. The reason the survey had so few responses for this factor is most likely attributable to few programs fitting this situation. A follow-on survey identifying this as a potential enabler should result in many more identifying this factor as a significant funding stability enabler.

**Program Stability and Information Technology**

A report to Congress entitled, “A New Approach for Delivering Information Technology Capabilities in the Department of Defense” offers dramatic approaches to funding IT that might provide funding stability (DoD, 2010). The executive summary states that anticipated legislative changes will be required to fully implement the new acquisition process. It goes on to suggest a single appropriation of IT projects where research and development, procurement, and operations and maintenance will all be performed using this single appropriation.

**Single Appropriation**

This approach would certainly contribute to funding stability while providing enormous flexibility in managing programs. Obviously, all programs would enjoy a greater degree of funding stability under such a proposal. It will be interesting to see if Congress will support such a proposal in the PB for IT projects. Unfortunately, this author does not see Congress applying such a proposal to all programs as it significantly reduces their oversight responsibility.

**Revolving Fund**

The second IT approach is to create a revolving fund similar to the National Defense Sealift Fund. Funding would be deposited in a nonexpiring account with obligation authority for the purposes under the act. Again, this approach would provide funding stability for IT programs and has applicability to other programs as well. It will be interesting to see how Congress reacts to this approach if the Department of Defense tries to implement it in a future PB.
Stable Funding Through IT Funding Elements

Stable Funding through IT Funding Elements is the third approach, which would use a single funding element such as a program element (PE) or procurement line item to fund a portfolio of similar projects. “Funding for the combination of smaller IT projects may be best addressed by a stable budget defined by a single funding element” (DoD, 2010, p. 7). This funding element would support an IT capability in lieu of individual programs. Again, this will require congressional approval as the proposal reduces congressional approval and oversight for defense programs. The Army Digitization Office in the mid to late 1990s had such a funding line where Congress appropriated $100 million of Research, Development, Test and Evaluation funds for competing digitization programs. That program was examined in detail by numerous oversight agencies and was abandoned due to dissatisfaction with the rigor, which was extremely detailed, and the lack of congressional oversight.

These three approaches to IT programs could prove very effective in giving the department the necessary flexibility to meet the unique requirement related to maturing technologies that require near real-time reaction to fully implement. Those same flexibilities are necessary to provide funding stability to all programs.
Discussion and Recommendations

It is this author’s opinion that funding stability in the real world environment where changing requirements, technologies, and program funding are the norm to meet warfighting needs is most likely a myth. It cannot occur without some major change in the PPBE and Congressional Enactment processes, both of which are unlikely. One could envision, albeit not easily, a military department reserving in the FYDP a portion of the TOA for future programs or for program adjustments. Doing that of course would expose that TOA for OSD/OMB use to be applied to other programs. The risk of losing those funds would most likely not be supported by the Service leadership. And of course, the military departments have many more requirements for funding than available TOA, so they would be required to defund programs to reserve this TOA. Highly unlikely!

Recent passage of the Budget Control Act of 2011 exacerbates this issue by requiring significant reductions to defense funding along with the potential for across the board reductions (sequestration) if Congress cannot reach agreement on further deficit reduction. Funding instability for many defense programs will most likely occur—whether there is an agreement or a lack of agreement.

So the acquisition community as well as oversight agencies will continue to study, suggest, recommend, and talk about the need to ensure program and funding stability. But real world implementation of these acquisition reform ideas will continue to elude the acquisition practitioner as the requirements generation and the resource allocation systems are simply not flexible enough to react to emerging changes while maintaining program stability.
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