



DEPARTMENT OF WAR

FINANCIAL MANAGEMENT REGULATION

**VOLUME 2: “BUDGET FORMULATION AND
PRESENTATION”**

UNDER SECRETARY OF WAR

(COMPTROLLER)

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VOLUME 2

BUDGET FORMULATION AND PRESENTATION

1.0 GENERAL

1.1 Overview

1.1.1. Volume 2 provides general guidance on the formulation and submission of the budget requests to the Office of the Secretary of War (OSW) for the program and budget review submission, presentation, and justification of the budget requests to the Congress. It is intended as a comprehensive reference book on budget matters of the Department of War (DoW). Budget policy memoranda issued throughout the year, special instructions, and nonrecurring requirements unique to that year's budget cycle will provide any necessary changes or revisions to this standing document. The provisions of Volume 2 apply to all DoW military and specified civil functions. Data requirements established by this volume are exempt from the requirement for assignment of a Report Control Symbol.

1.1.2. Required budget exhibits and formats, corresponding instructions, procedures, and automated submission requirements can be found in the DoW FMR Volume 2 Supplemental, hereby referred to as Volume 2 procedures. For budget terminologies and definitions, refer to the Volume 2 glossary.

1.2 Purpose

Volume 2 provides budget and funding policies, exceptions to policies, general guidance on justification material, budget automation requirements, and specific guidance by appropriations, programs, and/or activities. This volume also contains business rules for Combatant Commands (CCMDs) on governing financial management arrangements. The scope and provisions in this volume apply to the OSW, the Military Departments (MILDEPs), the Defense Agencies, the CCMDs, and any other Defense Agencies and DoW Field Activities (hereafter referred to as "Components") that manage program and budget resources.

1.3 Authoritative Guidance

Refer to the authoritative guidance document posted on the FMR webpage.

2.0 GENERAL BUDGET SUBMISSION POLICIES

2.1 Funding Policies

2.1.1. Appropriations and Budget Activity Structure

Appropriation accounts form the structure of the President's Budget request and are the basis for congressional action. The appropriations are further organized into budget activities of appropriations with programs, projects, or activities for similar purposes. The criteria for determining expense and investment costs to support management of the DoW's programs, projects or activities, resource requirements are organized and categorized consistently within the

appropriation and budget activity structure. The following paragraphs provide guidance for categorizing resource requirements into the various appropriations.

2.1.2. Policy for Expense and Investment Costs

2.1.2.1. DoW policy requires cost definition criteria that can be used in determining the content of the programs and activities that comprise the defense budget. The primary reasons for these distinctions are to allow for more informed resource allocation decisions and to establish criteria for determining which costs are appropriate to the various defense appropriations.

2.1.2.2. The cost definition criteria contained in this policy are only applicable to the determination of the appropriation to be used for budgeting and execution. Cost definitions for accounting purposes are contained in the glossary of terms and definitions.

2.1.2.3. Costs budgeted in the Operation and Maintenance (O&M) and Military Personnel appropriations are considered expenses. Costs budgeted in the Procurement and Military Construction (MILCON) appropriations are considered investments. Costs budgeted in the Research, Development, Test, and Evaluation (RDT&E), Base Realignment and Closure, and Family Housing appropriations include both expenses and investments. Definitions for costs within the Defense Revolving Funds, (e.g., Defense Working Capital Funds (DWCF) and other WCF such as Defense Counterintelligence and Security Agency) are provided in the Volume 2 glossary. See Office of Management and Budget (OMB) Circular No. A-11 for more information regarding Revolving Funds.

2.1.2.4. Items procured from the DWCFs will be treated as expenses in all cases except when intended for use in production lines, weapon system outfitting, government furnished material (GFM) on new procurement contracts, for installation as part of a weapon system modification, major reactivation, or major service life extension, or otherwise provided by statute.

2.1.3. Full Funding of Procurement Programs

2.1.3.1. General Definition. A budgeting rule that requires the total estimated cost of a military useable end item, be funded in the fiscal year in which the item is procured. Under the full funding policy, the entire procurement cost of a weapon or piece of military equipment will be funded in the year in which the item is budgeted. An end item budgeted in a fiscal year cannot depend upon a future year's funding to complete the procurement. Regulations governing the full funding policy are also available in OMB Circular No. A-11.

2.1.3.1.1. The full funding policy is intended to prevent the use of incremental funding, wherein the cost of a weapon system is divided into two or more annual portions or increments. Thus, full funding provides disciplined approach for program managers to execute their programs within cost and available funding.

2.1.3.1.2. There are two general exceptions to the full funding policy. One permits the use of Advance Procurement (AP) funding for components or parts of an item that have long production lead times. The other permits advance procurement funding for Economic

Order Quantity (EOQ) procurement, which normally occurs in programs that have been approved for multiyear procurement (MYP). AP funding is used routinely and extensively in the procurement of components for major end items due to manufacturing and production lead times. The use of MYP must be approved by the Congress on a program-by-program basis. Congressional approval permits DoW to use a single contract to procure multiple copies of a given item that are scheduled to be procured across a series of years. MYP arrangements are governed by Title 10, United States Code, Section 3501 (10 U.S.C. § 3501). EOQ procurement involves procuring multiple copies of a key component of a weapon covered by an MYP at the start of the MYP period to achieve significantly reduced costs on that component.

2.1.3.2. Policy for Full Funding. The total estimated cost of a complete, military useable end item or construction project must be fully funded in the year it is procured. There are two basic policies concerning full funding.

2.1.3.2.1. The basic policy for full funding is to provide funds in the budget for the total estimated cost of a complete, military usable end item to document the dimensions and cost of a program.

2.1.3.2.2. Exceptions to the basic policy are advance procurement for long lead-time items, advance EOQ procurement, and MILCON projects with a total cost over \$250 million. EOQ may be used only in connection with multiyear procurements. Advance procurement and EOQ efforts must be identified in an Exhibit P-10, Advance Procurement, for the Budget Estimate Submission and the President's Budget request. Annually, the OUSW(C) requests exception to policy, via official memorandum, before the President's Budget submission.

2.1.4. Multiyear Procurement

10 U.S.C. § 3501 and the annual DoW Appropriations Act require certain guidelines for approval, initiation, and execution of a multiyear contract. Multiyear Procurement (MYP) is a generic term describing the process, planning, and contract under which the government may contract for the purchase of supplies or services for more than one, but not more than five unless specifically approved in statutory language, program years. Such a contract may provide that performance during the second and subsequent years of the contract is contingent upon the appropriation of funds and may provide for a cancellation payment to be made to the contractor if such appropriations are not made. MYPs are budgeted and funded annually. MYP approval is predicated on:

2.1.4.1. Substantial Savings. The use of a multiyear contract may result in substantial savings of the total anticipated costs of carrying out the program through annual contracts.

2.1.4.2. Stability of Requirement. The minimum need for the property to be purchased is expected to remain substantially unchanged during the contemplated contract period in terms of production rate, procurement rate, and total quantities.

2.1.4.3. Stability of Funding. There is a reasonable expectation that throughout the contemplated contract period, the head of the agency will request funding for the contract at the level required to avoid contract cancellation.

2.1.4.4. Stable Design. There is a stable design for the property to be acquired, and the technical risks associated with such property are not excessive.

2.1.4.5. Realistic Cost Estimates. The estimates of the cost of the contract and the anticipated cost avoidance through the use of a multiyear contract are realistic.

2.1.4.6. National Security. Use of a multiyear contract will promote the national security of the United States.

2.1.4.7. In addition to the approval criteria, Congress requires that:

2.1.4.7.1. MYP contracts cannot be initiated for any system or component thereof if the value of the MYP contract would exceed \$500 million unless specifically provided for in an Appropriations Act and an Act other than an Appropriations Act.

2.1.4.7.2. Proposed legislation and funding must accompany the MYP request in the President's Budget submission; or the MYP request must be formally submitted as a budget amendment.

2.1.4.7.3. Funds appropriated for the purchase of an end item under a multi-year contract may only be used for a complete and usable end item.

2.1.4.7.4. Funds appropriated for advanced procurement under a multi-year contract may only be used to fund the long lead items necessary for a complete and usable end item planned and budgeted for a subsequent fiscal year. Advanced procurement funds may also be used for EOQ procurements in connection with a multi-year contract when authorized by law.

2.1.4.7.5. Congressional defense committees must be notified at least 30 days in advance of a proposed contract award that: employs EOQ procurements in excess of \$20 million in any 1 year of the contract; employs advance procurement leading to a multi-year procurement contract that employs EOQ procurement in excess of \$20 million in any 1 year; or includes an unfunded contingent liability in excess of \$20 million.

2.1.4.7.6. A multi-year procurement contract cannot be initiated for which the EOQ advance procurement is not funded at least to the limits of the government's liability.

2.1.4.7.7. A multi-year procurement contract must provide for production at not less than the minimum economic rate given the existing tooling and facilities.

2.1.4.7.8. A present value analysis must be used to determine the present value, or real worth, of the multi-year savings. Comparing the multi-year contracting approach to a conventional annual-buy approach derives the savings requirements.

2.1.4.7.9. The Secretary of War (SecWar) must certify to the Congress that the support costs associated with the multiyear procurement with a value greater than \$500 million are fully funded within the Future Years Defense Program (FYDP). Components must submit the certification letter to the OUSW(C)) at least 30 days prior to the anticipated contract award for approval, signature, and transmittal to the congressional defense committees.

2.1.4.7.10. Multi-year procurement contracts may provide for cancellation provisions to the extent that such provisions are necessary and in the best interests of the United States. The cancellation provisions may include consideration of both recurring and nonrecurring costs of the contractor associated with the production of the items to be delivered under the contract but may not include recurring costs associated with unfunded units. The Agency Head and the Under Secretary of War (Comptroller) (USW(C)) must approve the inclusion of recurring costs in a cancellation ceiling.

2.1.4.7.11. Before any multiyear procurement contract that contains a clause setting forth a cancellation ceiling in excess of \$100 million may be awarded, the head of the agency concerned must give written notification of the proposed contract and of the proposed cancellation ceiling for that contract to the congressional defense committees. The contract may not be awarded until the end of a 30-day waiting period beginning on the date of such notification. MYP contracts cannot be terminated without a 10-day prior notification to the congressional defense committees.

2.1.5. DoW Requirements

2.1.5.1. The item should be technically mature, normally having completed RDT&E (including development testing, or equivalent) and Initial Operational Test & Evaluation (IOT&E), with relatively few changes in item design anticipated. Deliveries of production items will indicate that the underlying technology is stable. This does not mean that changes will not occur but that the estimated cost of such changes is not anticipated to drive total costs beyond the proposed funding profile.

2.1.5.2. Estimates should be based on prior cost history for the same or similar items or proven cost estimating techniques. Normally, production assets should have been delivered to obtain actual costs for the comparisons (exceptions include satellites and ships).

2.1.5.3. With the exception of funding for EOQ procurement and advance procurement for long lead-time items as defined in this document, multi-year procurement contracts will comply with full funding. The full funding policy applies to each individual year of the multiyear contract. Multi-year contracts cannot be used as a vehicle for incrementally funding the items across the fiscal years covered by the contract. The production lots on the contract must be the same as those described in the budget and advance procurement cannot be used to achieve a higher production rate for the end item. Funds cannot be “borrowed” from the amounts budgeted for items in the early fiscal years of a multi-year contract to begin work on items not budgeted until later fiscal years of the contract.

2.1.5.4. The inclusion of recurring costs in cancellation ceilings is an exception to normal contract financing arrangements and requires approval by the Agency Head (Refer to FAR 17.106-3(e)) and the USW(C).

2.1.5.5. An exception, to be approved by the USW(C), is needed to structure a contract with an unfunded cancellation ceiling. Justification explaining why an unfunded cancellation ceiling is the chosen acquisition strategy should be provided. This justification should specify what costs comprise the unfunded cancellation ceiling and why these costs are not funded under the full funding policy.

2.1.5.6. In keeping with the DoW policy of not relying upon industry to finance the cost of Defense programs, even on a temporary basis, the use of unfunded cancellation ceilings on multi-year contracts must be rare and not be unreasonably large relative to the total budget for any individual fiscal year.

2.1.5.7. Funds obligated for multiyear contracts must be sufficient to cover any potential termination costs. The costs of cancellation or termination may be paid from:

2.1.5.7.1. Appropriations originally available for the performance of the contract concerned;

2.1.5.7.2. Appropriations currently available for procurement of the type of property concerned, and not otherwise obligated; or

2.1.5.7.3. Funds appropriated for those payments.

2.1.6. Buy-to-Budget for Acquisition of End Items

Pursuant to 10 U.S.C. § 3069, the head of an agency making the acquisition may acquire a higher quantity of the end item than the quantity specified in applicable Appropriations Acts if the following conditions are met:

2.1.6.1. The agency has an established requirement for the end item that is expected to remain substantially unchanged throughout the period of the acquisition.

2.1.6.2. It is possible to acquire the higher quantity of the end item without additional funding because of production efficiencies or other cost reductions.

2.1.6.3. The amount of funds used for the acquisition of the higher quantity of the end item will not exceed the amount provided under that law for the acquisition of the end item.

2.1.6.4. The amount provided is sufficient to ensure that each unit of the end item acquired within the higher quantity is fully funded as a complete end item.

2.1.7. Noncompetitive Acquisitions

The acquisition of additional quantities is limited to not more than 10 percent of the quantity approved in the justification and approval prepared pursuant to 10 U.S.C. § 3069.

2.1.8. Competitive Acquisitions

Congressional notification is not required for congressional acquisitions unless the end item being acquired in a higher quantity is an end item under a tactical missile program or a munitions program. For non-competitive acquisitions, the agency head must notify the congressional defense committees of the decision not later than 30 days after the date of the decision.

2.1.9. Transportation

2.1.9.1. First Destination Transportation (FDT) is the transportation required to deliver new, an upgraded model, or recapitalized production items from the manufacturer's plant or source of procurement to the first point of delivery where the Component takes possession and/or ownership of that item. The procurement source, as used herein, is any supplier outside the DoW supply system or any DoW industrial activity that fabricates new materiel. The procurement source or the first point of delivery may be in the Continental United States (CONUS) or overseas. FDT is not applicable to components or items reworked by an industrial activity. In the case where the Government accepts the production item at the manufacturer's plant or source of production and legally owns the item, FDT extends to the first point of delivery for either use or storage by the Component. For shipments destined to overseas locations that will enter the Defense Transportation System, FDT terminates at the port of embarkation (CONUS or overseas).

2.1.9.2. Second Destination Transportation (SDT) is any transportation other than FDT.

2.1.9.3. Budgeting Responsibilities for Transportation

2.1.9.3.1. Transportation of Supply Management Materiel of the DWCFs. Transportation among the 50 states is financed by the supply management business area responsible for the shipment. Transportation of supply management standard items overseas is financed by the appropriation or fund ordering the materiel if within the definition of FDT, otherwise it is financed as SDT. Transportation of DWCF nonstandard items overseas is financed in the same manner as transportation of standard items overseas except for items that are shipped on a free-on-board (FOB) destination basis. In this case, the overseas shipment transportation cost is included in the cost of the nonstandard item and no additional transportation charges should be incurred for the overseas shipment.

2.1.9.3.2. Transportation of Items Procured by Other Than Procurement and O&M Appropriations, or DWCFs. In general, FDT is financed by the appropriation, which financed acquisition of the item; i.e., RDT&E appropriations for RDT&E materiel and MILCON appropriations for items that are shipped to support such military construction projects. All over-ocean shipment of subsistence items financed by the Military Personnel appropriations is considered as an exception and is financed as SDT.

2.1.9.3.3. Transportation of Items Procured by Procurement Appropriations. FDT is normally financed by the Procurement appropriation that financed

acquisition of the item. SDT is normally financed by the O&M appropriations. The following additional guidance applies:

2.1.9.3.3.1. Transportation costs integral to production contract price such as FOB destination charges are considered part of the end item unit price and are financed by the procurement appropriation that financed acquisition of the item.

2.1.9.3.3.2. All transportation of government furnished equipment and GFM prior to installation into an end item is considered FDT and is financed by the procurement appropriation that financed acquisition of the item.

2.1.9.3.3.3. The transportation of items that are not owned by DoW - such as nuclear materials and warheads that the Department of Energy (DOE) provides to the DoW, but the DOE retains ownership - is considered FDT and is financed by the procurement appropriation that financed the acquisition of the end item into which the item will be incorporated.

2.1.9.3.4. Transportation of Items Procured by O&M Appropriations. Transportation is financed by the O&M appropriation according to the FDT and SDT definitions.

2.1.10. Engineering Change Orders

Engineering change orders should be funded commensurate with the level of risk in the program.

2.1.11. Factory Training

Factory training course costs for initial cadre training are considered investment costs and should be budgeted and funded in the investment appropriation and the specific program used to procure the development, acquisition, or modification of the related end item. Temporary Duty travel costs of military or civilian personnel attending factory training courses are funded in the O&M appropriations. Factory training courses acquired for end items no longer in production are to be funded in the O&M appropriations.

2.1.12. Interim Contractor Support (ICS)

ICS is the maintenance and support of a new weapon system provided by a commercial vendor pending transition to organic support, contractor logistics support, or a combination of both. Because ICS is a major component of the initial logistics support of a newly fielded system and integral to program acquisition, ICS funding requirements should be budgeted in the Procurement appropriations. However, ICS is intended to provide support for the brief period between initial item deployment and the permanent organic support. All acquisition strategies should attempt to minimize ICS requirements and duration. ICS will only be funded in Procurement appropriations until the organic support date specified in the acquisition program baseline is achieved. Continued funding of ICS after the baseline support transition date will be approved on an exception basis.

2.1.13. Commercial Off-the-Shelf (COTS) and Non-Developmental Item (NDI) Procurement

Items purchased directly from a commercial source that can be utilized without alteration or modification are classified as COTS or NDI. All COTS and NDIs, including the first article and associated first article acceptance testing should be funded in the Procurement or O&M appropriations, as determined by the Expense and Investment criteria. If an end item requires design and development to accept the COTS or NDI, or if OT&E is required to determine military suitability and effectiveness; or if Live Fire Test and Evaluation is required to determine whether the COTS/NDI possesses survivability and lethality characteristics needed by operational forces, then the entire effort is not COTS or NDI, and funding for that effort should be budgeted in RDT&E. If a COTS or NDI is required for RDT&E test purposes, the cost is funded in RDT&E.

2.1.14. Spares and Repair Parts

This section provides instructions applicable to funding requests for spares and repair parts procured with direct appropriations in the Procurement Title.

2.1.14.1. Initial Spares and Repair Parts. Initial spares and repair parts will include those repairable components, assemblies, and subassemblies required as initial stockage at all levels including the pipeline to permit fielding of new end items. Whole spare engines will be classified as initial spares through the life of system.

2.1.14.2. War Reserve Spares and Repair Parts. War reserve materiel (WRM) spares and repair parts for initial stockage will be budgeted in replenishment except for whole spare engines in accordance with the definitions. See subparagraph 2.1.22, DWCFs - War Reserve Materiel, for additional budgeting WRM policies.

2.1.14.3. The O&M accounts will finance the purchase of depot level repairables and consumable repair parts, primarily through the DWCF, for maintenance of all Class IX equipment (excluding medical peculiar repair parts).

2.1.14.4. Spares budgeting can be aggregated by weapon system except for Selected Acquisition Report systems.

2.1.15. Direct Budget Plan

This plan includes those items of materiel to be purchased for delivery to service inventory and those procurement programs that support the acquisition of materiel for United States Forces. Financing for the direct budget plan is derived from: new budget authority provided by the Congress and the transfer of resources from other appropriations. A portion of DoW materiel acquisition costs may also be funded by offsetting collections from materiel sold for replacement under the authority of 22 U.S.C. Chapter 39. Such collections represent proceeds providing direct resources and there is no specified time limit for the replacement under this authority. However, the replacement may require prior congressional approval. When dealing with reimbursements involving the sale of materiel, three situations can arise:

2.1.15.1. Sale for Replacement with Like Items. Replacement of materiel using proceeds from sales is authorized under 22 U.S.C. Chapter 39 without further congressional approval, so long as the item sold will be replaced with an item of the identical type, model, and series or a modified version of the same basic model. For an ammunition item, replacement with any round that provides the same warfighting mission capability is authorized, provided the round to be purchased has been previously approved by the Congress for procurement, and the inventory objective presented to the Congress is not exceeded. Obligations to replace the assets will be recognized as direct obligations.

2.1.15.2. Sale for Replacement with Dissimilar or Modified Items Requiring Congressional Approval. In this situation, an item of materiel is sold and will require replacement to compensate DoW inventories for the resultant loss of capability or readiness. Because of one or more circumstances, the replacement item will not be identical to the item sold. It must, however, be a later series or modified version of the same basic model or an acceptable substitute item used in the requirements computations.

2.1.15.3. Proceeds from Materiel Sales with No Intention to Replace. All other proceeds for items not replaced will be deposited into Miscellaneous Receipts of the United States Treasury.

2.1.15.3.1. Items sold from inventory with a unit cost less than \$5,000 will be treated as a replacement with like item if an improved model of the same end item is being procured, it provides the same warfighting capability, and the inventory objective presented to Congress is not exceeded.

2.1.15.3.2. If an item is eligible for replacement and is not replaced, the reimbursement should be treated as a "free asset." In this situation, an item of materiel is sold and will not require replacement. All free assets from FMS transactions are required to be deposited into the United States Treasury Miscellaneous Receipts or the Special Defense Acquisition Fund as defined in Volumes 3 and 15.

2.1.16. Reimbursable Budget Plan

This plan includes those items of materiel to be purchased for delivery to and use by customers. Financing for the reimbursable budget plan is derived from:

2.1.16.1. Customer orders received for items (not stocked by or purchased for procuring service use) to be purchased for direct delivery to a customer. (Direct citation of customer funds for procurement against this type of order is encouraged where common components and/or common assembly with service production of similar items are not involved.)

2.1.16.2. Customer orders received or to be received, for items common to the procuring service and customer for direct delivery to the customer.

2.1.16.3. Where the materiel item will be made available from on-order quantities under an existing contract of a MILDEP, the sales transactions will be reflected as reimbursable

transactions. The quantities and costs of the replacement procurement will be included in the reimbursable program.

2.1.16.4. Where the materiel item will be made available directly from a contract awarded after the date of the sales agreement and the contract includes a particular quantity of the item to fulfill the sales agreement, the transaction will be reflected as a direct cite transaction.

2.1.17. Budgeting for Information Technology (IT) and Automated Information Systems

2.1.17.1. IT and Automated Information Systems that are not embedded in weapons systems and/or major end item procurements are budgeted according to the investment and expense criteria (see paragraph 2.1) and the appropriation or fund's purpose.

2.1.17.2. The correct appropriation for budgeting an IT effort is dependent on the activity and the underlying tasks that make up the IT effort. RDT&E activities and Revolving Fund activities follow unique procedures as noted in the following paragraphs. All other activities budget for IT efforts based solely on the underlying purpose for the IT effort.

2.1.17.3. An IT effort may require funding for more than one appropriation. The underlying purpose for each discrete task within an IT effort determines the correct appropriation for budgeting of that task. An effort that is so broadly defined that it contains separate tasks appropriate to budgeting in different appropriations should be separated into discrete tasks, each of which is budgeted in the correct appropriation.

2.1.18. Appropriation Determination

2.1.18.1. RDT&E Appropriations. Development, test, and evaluation requirements, including designing prototypes and processes, should be budgeted in the RDT&E appropriations. The RDT&E funds should be used to develop major upgrades increasing the performance envelope of existing systems, purchase test articles, and conduct developmental testing and/or initial operational test and evaluation prior to system acceptance. In general, all developmental activities involved in bringing a program to its objective system are to be budgeted in RDT&E.

2.1.18.1.1. Reaching the objective system, as defined in the requirements documents, is a critical determinate. Some software programs, particularly those following a spiral or incremental development pattern, may be approved for initial fielding even though the early capability is below the objective system requirements. The follow-on development and test activities required to reach the objective system performance will be budgeted in RDT&E.

2.1.18.1.2. COTS systems that require engineering design, integration, test, and evaluation to achieve the objective performance will be budgeted in RDT&E.

2.1.18.1.3. The acquisition, operation and maintenance of IT systems that are used exclusively to support RDT&E activities will be budgeted and funded within an RDT&E appropriation.

2.1.18.2. Procurement Appropriations. Acquiring and deploying a complete system with a cost of \$350,000 or more is an investment and should be budgeted in a Procurement appropriation. Complete system cost is the aggregate cost of all components (e.g., equipment, integration, engineering support, and software) that are part of, and function together, as a system to meet an approved documented requirement. For modification efforts, only the cost of the upgrade (e.g., new software, hardware, and technical assistance) is counted towards the investment threshold. The total cumulative cost of the system is not considered when deciding what appropriation to use to fund modernization.

2.1.18.2.1. Procurement of fully developed and tested modification kits and associated installation, including technical assistance is financed from Procurement appropriations. Equipment purchased after successful system testing and a favorable fielding decision is funded with procurement dollars.

2.1.18.2.2. Proprietary software carries a copyright from the vendor that prohibits duplication or modification. Essentially, the purchaser is buying a license from the vendor to use the software on a particular system. Proprietary software is an investment, subject to the expense-investment criteria, unless it is financed on an "annual fee" basis. In the latter case, it is an expense item properly financed in RDT&E or O&M.

2.1.18.3. O&M Appropriations. Expenses incurred in continuing operations and current services are budgeted in the O&M appropriations. Modernization costs under \$350,000 are considered expenses, as are one-time projects such as developing planning documents and studies.

2.1.18.3.1. Software releases categorized as iterations on the basic release and not involving significant performance improvements or extensive testing are considered a maintenance effort. Minor improvements in software functionality which are accomplished during routine maintenance may also be O&M funded.

2.1.18.3.2. Items purchased from a commercial source that can be used without modification (e.g., COTS and nondevelopmental items) will be funded in either the Procurement or O&M appropriations, as determined by the expense and investment criterion.

2.1.18.4. Pursuant to 10 U.S.C. § 2208 (k) (2), the IT systems developed and acquired through Defense Revolving Funds will be reflected in the Capital Budget if the system is \$250,000 or more, unless otherwise specified in law. Systems costing less than \$250,000 are funded through the Operating Budget.

2.1.18.5. Capitalization of Software Cost. For accounting purposes, the total cost of software should be capitalized when the total cost of the system exceeds the Department's capitalization threshold amount. Capitalization of software is not dependent on the appropriation used to fund its purchase or development. Further information on capitalization may be found in Volume 4, section 7.

2.1.19. RDT&E Appropriations

2.1.19.1. RDT&E will finance research, development, test, and evaluation efforts performed by contractors and government employees, including procurement of end items, weapons, equipment, components, materials and services required for development of equipment, material, or computer application software. Additional information on Development Test and Evaluation (DT&E) and OT&E are provided in subparagraph 2.1.21.5. (Test Articles and Test Support).

2.1.19.2. RDT&E will finance the operation of research and development (R&D) installations and activities engaged in the conduct of R&D programs, including direct and indirect efforts, expense, and investment costs.

2.1.19.3. RDT&E will finance the acquisition or construction of industrial facilities costing less than \$4 million at Government-owned, Government-operated (GOGO) facilities under the criteria of DoD Directive (DoDD) 4275.5 as provided for under 10 U.S.C. § 2805 (unspecified minor construction). Use of RDT&E funds for acquisition and construction at contractor owned or contractor operated government facilities is authorized under 10 U.S.C. § 2353.

2.1.19.4. Pursuant to 10 U.S.C. § 2810, military construction projects for innovation, research, development, test, and evaluation may be financed with RDT&E appropriations.

2.1.20. RDT&E - Related Appropriations

2.1.20.1. Equipment and material approved for production and intended for operational use or inventory upon delivery will be funded in the procurement appropriations. Product improvement within the current performance envelope on systems in production will be funded in the procurement appropriations as long as no development or operational tests by an independent operational test agency are required.

2.1.20.2. Family housing construction and operation and maintenance at R&D installations and activities will be funded in the Family Housing appropriations.

2.1.20.3. Expenses of headquarters R&D management, organizational management analyses, test and evaluation for system sustainment personnel and command support, and product improvement within the current performance envelope for systems out of production will be funded in the O&M appropriations.

2.1.21. RDT&E - Specific Determinations

Additional details on the determination of proper funding for specific items or efforts are provided in the following paragraphs.

2.1.21.1. Organizational Funding Criteria

2.1.21.1.1. The RDT&E appropriation will finance expenses and investments for the operation and maintenance of R&D organizations, equipment (including R&D aircraft, ships, and ship-type vehicles), installations and activities (including those operated by contract).

2.1.21.1.2. Expenses for the support of tenant activities will be funded in accordance with the following:

2.1.21.1.2.1. Expenses for the support of tenant activities at R&D installations and activities will be RDT&E funded by the host activity, pending the establishment of reimbursable arrangements. Subsequent to the establishment of reimbursable arrangements, expenses for the support of the tenant will be funded by the tenant or as mutually agreed with the host.

2.1.21.1.2.2. Where reimbursable arrangements exist, expenses for the support of R&D activities or organizations that are tenant activities at installations having a primary function other than research, development, test, and evaluation will be funded by RDT&E.

2.1.21.1.2.3. Expenses for the support of R&D activities or organizations which are tenant activities at installations having a primary function other than R&D will be funded by the host, pending the establishment of reimbursable arrangements.

2.1.21.1.3. Expenses of R&D management and administrative organizations at major systems commands, headquarters organizations, and administrative organizations at DoW component departmental headquarters levels (except for the Direct Report Program Manager – Golden Dome, the Defense Advanced Research Projects Agency and the Missile Defense Agency) will be financed in the O&M appropriations.

2.1.21.1.4. Expenses and investments for the operation and maintenance of major range and test facilities, as defined under DoDD 3200.11, that conduct developmental and operational testing as a primary mission as determined by workload, will be financed by the RDT&E appropriation. Major range and test facilities that primarily support testing after system acceptance for operational use or training exercises will be financed in the O&M appropriations.

2.1.21.1.5. Costs of evaluating organizational structure and distribution of function, administrative operating policies, procedures, methods and systems (management studies) and applications of the management sciences to improve effectiveness in carrying out assigned functions are financed in the O&M appropriations.

2.1.21.1.6. Expenses of operational military forces having a primary mission other than R&D and not specifically assigned to R&D that may, from time to time, be engaged in or support R&D activities, will be funded in the O&M appropriations.

2.1.21.2. Facilities Construction and Modification. When it is determined that DoW financing of real property projects is required, the projects will be programmed, budgeted, and financed as follows:

2.1.21.2.1. GOGO Facility on Military Installations. When GOGO property will be constructed on a military installation, such construction will normally be financed as a MILCON project. Construction of facilities using RDT&E appropriations is limited to \$150 million per fiscal year, pursuant to 10 U.S.C. § 2805 (unspecified minor construction). All minor construction must result in a complete and usable facility. In no event are two or more construction projects or minor and major construction projects to be contrived to be a usable facility. Construction projects at R&D installations and activities whose costs are greater than \$4 million will be financed by the MILCON appropriation in accordance with section 7.

2.1.21.2.2. Government-Owned, Contractor-Operated (GOCO) Facility

2.1.21.2.2.1. When the GOCO facility is on a military installation (post, camp, station, or base), the primary funding is the MILCON appropriation. However, if the facilities are contractor-operated, and the contractor is solely responsible for the complete and total operation and maintenance of the facility complex, construction may be financed in Procurement or RDT&E in accordance with DoDD 4275.5 and 10 U.S.C. § 2353 criteria. New construction or improvements having general utility are not authorized under 10 U.S.C. § 2353.

2.1.21.2.2.2. When GOCO facilities are constructed on government property other than a military installation, the Procurement or RDT&E appropriation will finance the construction in accordance with DoDD 4275.5 criteria.

2.1.21.2.3. Contractor-Owned, Contractor-Operated Facility. Pursuant to 10 U.S.C. § 2353, a research or development contract may provide for the acquisition, construction, or furnishing of facilities and equipment that are necessary for the performance of the contract to the contractor. Improvements having general utility or new construction are not authorized under 10 U.S.C. § 2353. Facilities that would not be readily removable or separable without unreasonable expense may not be installed or constructed on property not owned by the government, unless the contract contains:

2.1.21.2.3.1. A provision to reimburse the government for the fair value of the facilities;

2.1.21.2.3.2. An option for the government to acquire the underlying land; or

2.1.21.2.3.3. An alternative provision that protects the interests of the United States in the facilities.

2.1.21.2.4. All proposed RDT&E real property facilities will be identified to Congress in accordance with Volume 2, section 6.

2.1.21.2.5. The Family Housing appropriations will provide for Family Housing construction and Family Housing O&M at R&D installations and activities.

2.1.21.3. Equipment. RDT&E appropriations will finance the development, design, purchase, installation, and acceptance testing of equipment or instrumentation required to support RDT&E activities. Costs of specialized equipment and instrumentation required for the support of RDT&E contractor effort at GOCO activities will be financed in RDT&E. DoDD 4275.5 applies. Installation costs include directly related foundations, shielding, environmental control, weather protection, structural adjustments, utilities, and assets. Installation costs are excluded from RDT&E financing if the effort is accomplished concurrently with a MILCON project, and in these instances, the MILCON appropriation finances the installation cost. To the extent that equipment installation occurs at a government activity and the cost exceeds \$4 million, no new facility or physical outer dimension expansion to an existing facility can result from an RDT&E funded equipment installation project.

2.1.21.4. Establishment of Pilot Line and Tooling Requirements

2.1.21.4.1. The costs associated with establishing an initial pilot line, which are necessary to acquire a limited number of representative items for test purposes, including the test items, will be financed by RDT&E. All items and costs associated with maintaining the initial pilot line beyond the quantity sufficient to test for operational acceptability will be financed from other appropriations.

2.1.21.4.2. When an end item under development has also been approved for procurement, operational use, or included in the force structure, then hard tooling requirements common to both the development and procurement phases will be financed by Procurement appropriations. When an end item under development has not been approved for procurement, operational use, or included in the force structure, then tooling and other preliminary production facilities required to produce realistic development items for test and evaluation will be financed by RDT&E, even though such tooling and facilities might later be used for production.

2.1.21.5. Test Articles and Test Support

2.1.21.5.1. As a general rule, the procurement of test articles and test support, including "Special Support" costs and "Command Support" costs (see Glossary of Terms – RDT&E), for all RDT&E tests preceding and leading to acceptance for operational use will be RDT&E funded. Test articles and components or materials to be assembled into test articles must be budgeted in accordance with the need for them in the development and test program. Purchases of fully configured or near fully configured test articles (e.g., off-the-shelf drones) should be budgeted in accordance with the need for full units to test.

2.1.21.5.1.1. Development and preproduction prototypes (RDT&E financed) will be used for DT&E, including scientific, technical and weapons effects tests. DT&E programs must provide complete and reliable data that can be used to estimate the military utility of new items as a basis for considering decisions to continue engineering development. To this end, it is essential to plan, program, budget, and fund for an adequate number

of R&D articles for development, test and evaluation that will be fabricated, manufactured, or produced in a realistic preliminary production manner and thus provide such data.

2.1.21.5.1.2. Development and preproduction prototypes (RDT&E financed) will be used for OT&E. When used, they must be sufficiently representative of the expected production items to provide from OT&E a valid estimate of production items operational effectiveness and suitability (including compatibility, interoperability, reliability, maintainability, and logistic and training requirements).

2.1.21.5.1.3. Low Rate Initial Production (LRIP) assets. LRIP, as part of the Major Capability Acquisition procedures in DoD Instruction (DoDI) 5000.85, provides production-configured or representative articles for operational test (RDT&E funded; establishes an initial production base for the system (procurement funded); and permits an orderly increase in production rate for the system (procurement funded). If the asset will be used for developmental or operational testing by an independent operational test agency, then it should be procured with RDT&E funds. The LRIP quantity will be determined as part of the Production and Deployment approval (Milestone C). RDT&E funds will be budgeted to procure items required for operational tests to facilitate testing of LRIP assets. LRIP test articles must be specifically identified in the budget documentation. Should LRIP items beyond the test quantity be required, they would need to be included in the Milestone C decision and a determination made at that time. Special guidance relating to the transition of ships and space systems from RDT&E to Procurement is provided in subparagraphs 2.1.21.8.

2.1.21.5.2. Testing that is not associated with RDT&E, or testing conducted after fielding or acceptance for operational use, such as the examples noted in subparagraphs 3.13.3.5.2.1 through 3.13.3.5.2.4, will be financed in the procurement or O&M appropriations, as appropriate.

2.1.21.5.2.1. Acceptance, quality control, and surveillance testing of articles obtained for other than RDT&E purposes.

2.1.21.5.2.2. Routine testing in connection with logistic support.

2.1.21.5.2.3. Testing related to the operation and maintenance of equipment and material acquired for use under appropriations other than RDT&E.

2.1.21.5.2.4. Testing required to prove the capability of facilities to produce items which have been approved for production will be funded by procurement as part of the initial acquisition cost.

2.1.21.5.3. The acquisition of commercial or non-developmental items for testing and operational evaluation that do not require RDT&E engineering, design or integration effort will be financed by O&M or procurement appropriations (as determined by the Expense and Investment criteria). O&M appropriations will finance personnel and command support costs for test and evaluation of commercial and non-developmental items by field units for doctrine, operational, or organizational purposes. If the commercially available item is modified and

requires testing prior to approval for service use or inventory, it will be funded in RDT&E as are all developmental items.

2.1.21.5.4. Articles (including end items, weapons, equipment, major test vehicles such as ballistic missile boosters or upper stages, components and materials) of types regularly procured to meet established general requirements such as operational training, operational use, or inventory which are assigned or allocated on a priority basis for use in support of approved R&D programs and which are not consumed in testing, may be financed by Procurement or O&M appropriations using the expense and investment criteria. In addition, excess items that can be made available on a priority basis from existing inventory will be reassigned for use in R&D test and evaluation programs without reimbursement. However, all items expected to be consumed in R&D test and evaluation will be financed by RDT&E appropriations.

2.1.21.5.5. Consumable rounds of ammunition or rounds of similar tactical missiles otherwise procured in quantity for inventory under existing procedures, may be issued on a priority basis for use in R&D testing without reimbursement.

2.1.21.5.6. The acquisition of test articles will be financed by O&M or Procurement appropriations (as determined by the Expense and Investment criteria), and personnel and command support costs will be financed by O&M appropriations for all test and evaluation (T&E) subsequent to acceptance for operational use and T&E to demonstrate the operational employment or develop operational tactics (i.e., subsequent to RDT&E efforts).

2.1.21.6. Modification and Refurbishment of Test Articles

2.1.21.6.1. Costs associated with modifying or reconfiguring an existing item for R&D test purposes will be funded in RDT&E. When an item that has been diverted from another use is not consumed in R&D testing, any costs necessary to return the item to serviceable condition or to its pre-existent configuration will be financed in RDT&E.

2.1.21.6.2. If an article initially acquired with RDT&E funds as part of an RDT&E test effort is still available at the completion of the test program, it may be reassigned for operational use or inventory. The cost to modify such an article for operational use would be borne by the Procurement and O&M appropriations, as appropriate.

2.1.21.7. Product Improvement

2.1.21.7.1. Product improvement of major end items and major components of major end items currently in production or in the operational inventory, is subject to the following:

2.1.21.7.1.1. Redesign of an item to increase the current performance envelope, including related development, test and evaluation effort, will be financed in RDT&E.

2.1.21.7.1.2. Engineering services or related manufacturing efforts applied to an item currently in production to extend its useful military life within the current performance envelope should be funded by procurement appropriations as long as no DT or OT&E by an independent operational test agency is required. If DT or OT&E by an independent operational test agency is required, RDT&E finances the improvement. The phrase "an item currently in production" implies that the item has end item procurement funding in the year the product improvement effort will take place. The determination that the improvement is "within the current performance envelope" and that "no DT or OT&E by an independent operational test and evaluation agency is required" should be determined after formal coordination with the Director, OT&E.

2.1.21.7.1.3. Engineering services or related manufacturing efforts applied to an out-of-production, but still operational item to extend its useful military life within the current performance envelope should be financed by O&M appropriations as long as no DT or OT&E by an independent operational test agency is required. If DT or OT&E is required by an independent operational test agency, RDT&E finances the improvement. The determination that the improvement is "within the current performance envelope" and that "no DT or OT&E by an independent operational test and evaluation agency is required" should be determined after formal coordination with the Director, OT&E.

2.1.21.7.2. While existing off-the-shelf equipment may be procured with procurement funds, items that require engineering design, integration, test, or evaluation effort must be procured with RDT&E funds in sufficient numbers to support such effort.

2.1.21.7.3. Costs of fully developed and tested modification kits and associated installation costs should be financed from procurement appropriations. If DT or OT&E by an independent operational test agency is required, RDT&E finances the RDT&E effort and the kits required for RDT&E testing. Procurement funds would then be used to procure the follow-on kits.

2.1.21.7.4. Aircraft engine component improvement costs are budgeted in RDT&E appropriations to provide for continuing improvements in the aircraft engines in the areas including but not limited to reliability, maintainability, durability, correction of Service-revealed deficiencies, safety of flight, and time-between-overhaul. Component Improvement is established at the point in time when:

2.1.21.7.4.1. There has been a Government acceptance of the first procurement funded engine, and

2.1.21.7.4.2. The engine has successfully completed stringent qualification or verification testing to demonstrate initial production suitability subject to:

2.1.21.7.4.2.1. Compliance with contractual specifications, performance guarantees, and military specifications, as applicable to individual Component requirements;

2.1.21.7.4.2.2. Completion of endurance testing representative of the anticipated Service use to include completion of specified post test inspections, certification, and penalty runs;

2.1.21.7.4.2.3. Demonstration of prescribed performance capability; and

2.1.21.7.4.2.4. Accomplishment of prescribed durability, reliability, and environmental testing.

2.1.21.8. Ships and Ship-type Vehicles

2.1.21.8.1. An experimental test bed type of ship or an experimental ship will be financed by RDT&E appropriations. This will include all such experimental ships required to support an approved R&D program or for the purpose of experimenting with new or radical ship concepts or to demonstrate the military usefulness of new ship designs, configurations or fabrication techniques, when the ship-type test vehicle itself can be predicted to be consumed or expended in testing, or to have little or no operational usefulness in the force structure. Prototype ships, when designated by the SecWar, are included.

2.1.21.8.2. A ship of demonstrated, conventional concept and design having a high probability of military usefulness and inclusion in the force structure, even though first of a class, will be constructed using procurement funds. A ship of demonstrated conventional concept and design temporarily or permanently assigned from inventory to support R&D effort will be furnished without reimbursement, but the cost of providing all R&D types of equipment or instrumentation, the cost of "nonstandard" modifications of the ship required to make the ship suitable for R&D support, and the cost of any related restoration to conventional or operational ship conditions upon release from assignment to R&D, will be financed by RDT&E appropriations.

2.1.21.8.3. Preliminary or contract design for new ship construction will be financed by RDT&E appropriations, including contractor and field activity effort costs. Detail design for ships appropriate for procurement funding will be funded by procurement accounts.

2.1.21.8.4. Land-based or sea-based combat system test installations will be financed by RDT&E appropriations.

2.1.21.9. Space Systems. The following guidance describes the circumstances in which RDT&E funds may be used for the acquisition of operational space systems.

2.1.21.9.1. Satellites. Because satellites are normally placed into operational use rather than expended in testing, the early satellites or first launch of a new design may be financed with either RDT&E or Procurement appropriations as provided below.

2.1.21.9.1.1. Funding Determination. For programs in which satellites are launched individually, the first two satellites may be financed with either RDT&E or Procurement appropriations. The third and subsequent satellites will in all cases be financed with

Procurement appropriations. For programs in which multiple satellites are launched with a single rocket (including proliferated constellations), the satellites comprising the first launch may be financed with either RDT&E or Procurement appropriations depending upon which budgetary approach is most consistent with the contract structure. Satellites for the second and subsequent launches will in all cases be financed with Procurement appropriations.

2.1.21.9.1.2. Full Funding and Advance Procurement. The full funding policy will apply to all satellites budgeted in Procurement appropriations. Advance procurement funding can only be used to purchase specialized long-lead components that take an exceptionally long time to build and the total advance procurement funding for a satellite should not exceed 20 percent of the unit cost of the satellite.

2.1.21.9.1.3. Exceptions. Exceptions to this policy must be submitted in writing to OUSW(C) for approval and must be signed by the Service Financial Management Executive and Service Acquisition Executive. Exception packages must identify the specific satellites for which the exception is requested and must demonstrate, with supporting evidence from the program's approved acquisition strategy, a developmental basis for RDT&E financing. Acceptable bases are limited to: (a) the satellites incorporate a new or materially modified design that has not been finalized and that requires further engineering design, integration, or developmental testing to reach the objective system; or (b) the satellites are the minimum quantity required to constitute a testable increment for the system or constellation that cannot be completed on the ground. A request to avoid the budgetary effects of the full funding policy, including funding profile or affordability considerations, does not constitute an acceptable basis. Exception packages must also state the quantity of satellites covered and the planned point of transition of the balance of the program, including replenishment units, to Procurement appropriations. For approved exceptions to policy, RDT&E budget exhibits must clearly reflect the quantity of satellites funded based on annualized quantities, blocks of satellites, or launch events.

2.1.21.9.2. Ground Control and Ground Processing Systems. The design and implementation of ground control and ground processing systems is an integral part of the development of new satellite systems. The entire cost of the primary ground system (including but not limited to off-the-shelf workstations, and power supplies, but not including MILCON) will normally be financed with RDT&E appropriations. The cost of backup ground systems must be financed with procurement appropriations, and the full funding policy applies.

2.1.21.9.3. User Terminals. User terminals for space systems transition from RDT&E to procurement in the same manner as non-space-related communications and electronics equipment.

2.1.21.10. Joint Test and Evaluation (JT&E)

2.1.21.10.1. The JT&E program provides quantitative information used for analyses of joint military capabilities and to develop potential options for increasing military effectiveness. The program is complimentary to, rather than part of the acquisition process. A JT&E project brings two or more Military Services or other Components together to: assess Service system interoperability in joint operations; evaluate joint technical and operational

concepts, and recommend improvements; increase joint mission capability, using quantitative data for analysis; validate testing methodologies that have joint applications; improve modeling and simulation validity with field exercise data; provide feedback to the acquisition and joint operations communities; and improve joint tactics, techniques, and procedures. JT&E projects focus on improving the warfighter's capability to conduct joint military operations with existing equipment. DOT&E manages the JT&E program and coordinates with Combatant Commanders, the Joint Staff, and the Services to ensure warfighter involvement.

2.1.21.10.2. DOT&E funds the costs incurred for the direction, supervision, and performance of activities that are unique to the needs of the JT&E projects. When directed as Executive Agent for a particular JT&E project, the Component, Service, or CCMD is responsible for ensuring that all resources necessary for the successful accomplishment of the JT&E project are available to the Joint Test Director (JTD). This includes administrative, management and facilities support for the JTD. The Executive Agent support costs (O&M, Procurement, and RDT&E) are to be programmed and budgeted in accordance with established procedures.

2.1.21.11. Manufacturing Technology. The DoW Manufacturing Technology program, which demonstrates factory application of new or improved technology in producing defense items, will be financed in the RDT&E appropriations.

2.1.21.12. Development Efforts Related to Future Leased Services. When the provider of a leased service that will ultimately be financed in O&M requires initial funding to design or develop major changes or improvements to meet the government's requirement for that service, then the costs of such development efforts will be financed in RDT&E.

2.1.21.13. Subsystem Integration into Weapon Systems. R&D necessary for the integration of subsystems into weapon systems should be financed from the weapon system program. For example, the R&D cost of integrating an electronic warfare black box into an aircraft should be borne by the aircraft R&D program.

2.1.21.14. Engineering change orders should be funded commensurate with the level of risk in the program.

2.1.22. RDT&E - Incremental Programming and Budgeting Basis

The incremental budgeting policy provides that only those funds required for work in a given fiscal year will be included in the RDT&E budget request for that fiscal year for most classes of effort. The annual budget estimates for RDT&E projects and programs, including Director, Operational Test and Evaluation (DOT&E) programs, are to be prepared on an incrementally programmed basis (as opposed to the fully funded program basis used in preparing procurement budget estimates.) DoW Components will develop and present budget requests for DoW projects and programs in accordance with the principles and guidance in Volume 2 procedures.

2.1.22.1. There are requirements in which there is no logical way to divide the work. At times, 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 types of efforts that take longer than 12 months but less than 18 months, the DoW Component Comptroller may approve financing the total requirement in 1 fiscal year.

2.1.22.2. Budgeting for Termination Liability on Incrementally Funded RDT&E Contracts. The legal requirements of the Antideficiency Act and the long-standing policy of not committing a successor Congress to a course of action both make it necessary that the unliquidated obligation for an incrementally funded, multiple-year contract be sufficient at all times to cover the cost of terminating that contract for the convenience of the Government. Budgeting to cover termination liability will not increase the total amount budgeted for the program. It will require that the distribution of funds by fiscal year be shifted more towards the earlier years of the contract than if funds had been budgeted only to cover the actual bill to be paid in each year. The distribution of funds by fiscal year will be such that, if a contract is terminated at any point during the fiscal year, all termination costs can be financed from the unliquidated obligation on the contract without recourse to reprogramming of funds, supplemental appropriations, or awaiting the appropriation of funds for the succeeding fiscal year's funding increment. All programs must adhere to this policy with the following two exceptions, both of which are to be used rarely.

2.1.22.3. Special Termination Cost Clause (STCC). DoD FAR Parts 249.501-70 and 252.249-7000 permit the use of STCC in fixed-price incentive contracts and incrementally funded cost reimbursement contracts. If contracts containing STCC are terminated before completion, the special termination charges are covered by the unobligated balance of the applicable appropriation, subject to any congressional approval required for reprogramming. The extent to which the STCC can be used is limited to the ability of the DoW Component to cover expected termination costs from unobligated balances. A recordable obligation under the STCC arises when the contract is actually terminated. If a proposed STCC would require an above threshold reprogramming action when a program is terminated, the approval to use the STCC must be obtained from the OUSW(C) before the contract or contract modification is awarded. All STCCs, regardless of dollar amount, require prior notification of the House and Senate Appropriations Committees.

2.1.22.4. Statutory Waivers. The Department is not required to budget for, or obligate funds sufficient to cover, termination liability in connection with an incrementally-funded RDT&E contract if Congress has exempted the program or contract from that requirement. When this situation arises, the budget exhibits for the program must clearly indicate the value of the unfunded termination liability by year for the current year, budget year, and the outyears covered by the FYDP.

2.1.23. Revolving Funds - Operating Budget

The operating budget represents the annual operating costs of an activity or component, including depreciation and amortization expenses. See section 10 for additional information regarding operating budget for Revolving Funds (e.g., DWCFs).

2.1.24. Revolving Funds/DWCF – Mobilization/Surge Costs

2.1.24.1. Separate funding is provided for those costs related to mobilization and wartime surge capacity that would not otherwise be incurred to meet peacetime requirements. The prices of services and products provided to peacetime customers exclude these costs to more appropriately reflect consistent pricing between competing activities. Similarly, better visibility of surge or readiness requirements is provided to decision makers at every level. These “mobilization” costs, although funded and justified as direct appropriations to component budgets, are elements of business area costs and must be fully justified on the SM-3 and/or Fund-30 exhibits.

2.1.24.2. Unutilized and underutilized plant capacity (UPC) that is associated with the ability to satisfy a projected surge capability is considered a mobilization requirement to be funded by appropriated funds provided by the DoW Component having management responsibility for the Fund activity. Costs applicable to unutilized plant and equipment, such as depreciation, or maintenance, are not to be charged to the customers of the Fund activity.

2.1.24.3. The justification for costs related to mobilization and wartime surge capacity must identify the scenario assumptions or other basis for the requirement under which these costs were calculated. Additionally, a description of how these costs will be collected and accounted for in execution must be provided. The UPC Fund-30 exhibit will support the request for UPC Funding.

2.1.24.4. Refer to section 10 for additional information regarding Mobilization/ Surge Costs.

2.1.25. Revolving Funds/DWCF – War Reserve Materiel

War reserves are procured and maintained to meet wartime requirements as determined by the Strategic Planning Guidance (SPG). A direct appropriation to the Working Capital Fund in the Components’ budget may provide funding instead of through customer rates. However, since the war reserve materiel will be under the management of supply management businesses, war reserve requirements will also be described and justified on the SM-3a exhibit. In addition, the Components will prepare exhibit SM-6 War Reserve Material to justify WRM Requirements. Section 10 provides detailed requirements and guidance.

2.1.26. Revolving Funds/DWCF – Military Personnel Costs

2.1.26.1. Military personnel assigned to DWCF activities will be included in the total cost of operations of DWCF activities at civilian equivalent rates and reflected in the stabilized rates charged to customers. This policy is based on the concept of total costing, which is designed to ensure that the total cost of producing products and services is being identified to both DWCF activities and customers.

2.1.26.2. The amount expensed for military personnel by DWCF activities and the amount reimbursed to the appropriate military personnel will be the same as the amount budgeted. The budget amount will equal the average end strength multiplied by the civilian equivalency rate

for each grade. The average end strength for the budget year(s) will be calculated using the average fill rate for the three prior years. The fill rate is calculated by dividing actual average strength by the authorized end strength for each grade. No adjustments will be made to the DWCF cost of operations to reflect the actual cost of military personnel employed by DWCF activities.

2.1.26.3. Refer to Volume 2 procedures for additional information regarding budget, formulation, execution, and reimbursement procedures.

2.1.27. Revolving Funds - Full Recovery of Costs/Setting Prices

2.1.27.1. All WCF business areas are required to set their prices based upon full cost recovery, including all general and administrative support provided by others. Prices are established through the budget process. Except for Public-Private Partnerships at Depot Maintenance Activities and other special circumstances specified in Volumes 2 and 11, prices remain fixed during the year of execution; actual costs are evaluated against revenue generated by workload at established prices; and the financial condition of the business assessed accordingly. Section 10 specifies pricing guidance for sales by DoW depot maintenance activities to private sector entities as part of depot maintenance public-private partnership agreements. Profits or losses will be determined at the end of the year and will be employed as a basis for evaluating operating efficiency.

2.1.27.2. Prices for every DoW Component business activity are established for each fiscal year. Once established, these prices are held constant (stabilized) through program execution unless fund balances require an out-of-cycle rate change. This stabilized rate policy serves to protect customers from unforeseen inflationary increases and other cost uncertainties and better assures customers that they will not have to reduce programs to pay for potentially higher than anticipated prices. In turn, this policy allows activities to execute the budgeted program level and permits a more effective utilization of fund resources.

2.1.27.3. Prices for the budget year(s) will be set to recover costs over the long run. This means that prices will be set to achieve an Accumulated Operating Result (AOR) of zero. During budget execution, business areas will likely have either a positive or negative Net Operating Result. Accordingly, prices in the budget year will be set to either increase to recover actual/projected losses or decrease to return or give back actual/projected gains in the budget year(s).

2.1.27.4. An activity group may request that AOR balances be adjusted via Non-Recoverable AOR or recovered or returned in out years beyond the budget year as a Deferred AOR. Any such request must be included in the budget submission and must demonstrate that the request will not adversely affect the cash balance of the activity group. A phased recovery schedule must be provided with any Deferred AOR request. The Revolving Funds and Integration Director will provide final approval regarding Non-Recoverable or Deferred AOR requests.

2.1.27.5. In the supply management businesses, the price setting process will be consistent with the rate changes approved during the budget review.

2.1.27.6. Refer to section 10 for additional information regarding full recovery of costs and the setting of prices.

2.1.28. Unplanned Gains/Losses

Under Special Circumstances, the Revolving Funds rules for pricing and operating loss recovery or gain distribution may be waived if one or more of the following conditions exist.

2.1.28.1. Fund Liquidity. Fund managers are expected to maintain a monthly total cash balance within their planned control limits. In general, activities will recover losses and return gains via rates set in the budget process for the budget year. However, if cash balances are projected to significantly breach the control limits, the Revolving Funds and Integration Director, or Service Fund Managers with the written permission of the Revolving Funds and Integration Director, may direct out of cycle rate adjustments or surcharges at any time to restore cash within the cash operating range. See section 10 for additional information regarding cash management policy.

2.1.28.2. Depot Maintenance Additional Requirements. Unplanned depot losses recouped in subsequent years may be financed with prior year funds from the customer provided all other criteria associated with prior year upward obligations are met.

2.1.28.3. Contingency or Emergency Operations. Fund managers may waive pricing and financing requirements to facilitate Department operations during times of war or other national emergencies. Notification of Fund Managers actions must be provided in writing to the Revolving Funds and Integration Director within 30 days of the event.

2.1.29. Public-Private Partnerships at DWCF Depot Maintenance Activities

2.1.29.1. Pricing guidance and requirements for sales of goods and services by DoW depot maintenance activities to private entities engaged in public-private partnerships are set forth in section 10. In general, such prices are subject to the requirements with the exception that the prices may be based upon the most recent actual and projected costs applicable to the workload, rather than upon approved stabilized billing rates. Rates and prices to private entity partners may also be tailored to include only those direct and indirect production overhead costs that contribute to the finished product or service. However, full General and Administrative (G&A) costs will continue to be allocated on the same basis as for DoW customers.

2.1.29.2. Fixed pricing of sales to private party entity partners, including multiyear fixed price agreements, is authorized when production costs can be reasonably predicted and the risk of future operating losses is not significant. Such fixed prices may include provisions for adjustments to accommodate the effect of scope-of-work changes, annual inflation, and specified contingencies. When future production costs or risks cannot be reasonably predicted, cost reimbursable pricing is more appropriate.

2.1.30. Revolving Funds – Capital Budgeting

2.1.30.1. Budgetary resources for capital investments will be separately identified in an approved capital budget. Capital investments, such as unspecified minor construction, automatic data processing equipment or software, and other equipment, will be justified within the capital budget. Refer to section 10 for additional information regarding capital budgeting. Once the Revolving Funds activity capitalized an asset, the asset will continue to be reported as a capital asset and depreciated until the book value of the asset reaches zero or its salvage value, as appropriate. See Volume 4 for additional information regarding accounting policy for capitalization thresholds.

2.1.30.2. Depreciation. All capital assets owned by activities in the Fund will be depreciated or amortized by the individual Component business area. Depreciation will be on a straight-line basis and based on the acquisition cost, less residual value when residual value is expected to be 10 percent or more of the acquisition cost, including installation and related costs. Refer to Volume 4, for additional information regarding accounting policy for depreciation.

2.1.31. Revolving Funds - Base Support

2.1.31.1. Interservice and intragovernmental support agreements, as identified in DoDI 4000.19, is reimbursable by the Revolving Fund activity to the extent that the specified support for the activity increases the host activity's direct costs (i.e., incremental direct cost). Costs associated with common use infrastructure are non-reimbursable, except for support provided solely for the benefit of one or more tenants. Support costs that are charged to a tenant Revolving Fund activity (i.e., reimbursable cost) must be measurable and directly attributable to the Revolving Fund activity. Indirect costs will not be included in reimbursement charges, except those included in stabilized rates charged for Revolving Funds mission products and services. Host activities (suppliers of base support) are permitted to waive reimbursement from tenants who use or benefit from available support without appreciably increasing the host activities' costs (i.e., revenues would be less than the anticipated expense of billing and disbursing funds).

2.1.31.2. Revolving Fund activities that use any of the common base support functions identified in DoDI 4000.19 (Interservice and Intragovernmental Support) are to reimburse host activities for this support. Reimbursement for Revolving Funds mission products and services (e.g., depot supply, depot maintenance, public works center services, information processing, communications, and software development) must be based on the approved stabilized rate. Other support incidental to the Revolving Fund activity's primary mission or purpose will be budgeted and reimbursed based on direct costs measurable and directly attributable to the Revolving Fund activity. Only the incremental change in cost attributable to the Revolving Fund activity (incremental direct cost) must be chargeable to the Revolving Fund activity. Indirect costs are not to be included as a cost to the Revolving Fund activity.

2.1.31.3. Refer to section 10 for additional information regarding base support budget exhibits.

2.1.32. Revolving Funds - Dual Funded Organizations

2.1.32.1. A dual funded organization is an organization that is funded (including reimbursable funding) by both Revolving Fund and other appropriations or accounts. In those instances where a function is funded with a combination of both Revolving Fund and appropriated funds, the function initially will be funded in its entirety either by the Revolving Fund or by appropriated funds. The determination of whether the particular function initially will be funded by the Revolving Fund or appropriated funds will be based on the predominance of definable units of measure for the function. Examples of definable units of measure include workload, productive hours, outputs, or ultimate use. The appropriation or account initially funding the function must be reimbursed by the other account(s) at the same unit of measure as was used to determine the initial funding source. The amount of reimbursement must be determined based on the relative portion of that unit of measure attributable to each part of the organization (or funding source) involved.

2.1.32.2. This policy does not change the policy for reimbursement for base support services provided by the Revolving Fund to tenant activities. The DoDI 4000.19 and section 2.1.31 provide guidance for funding base support services.

2.1.33. Prohibition on Parking of Funds

10 U.S.C. § 2773b specifically prohibits a DoW officer or employee from directing the designation of funds for a particular purpose in the President's Budget submission, or in the budget justification materials submitted in support of the budget, with the knowledge or intent that such funds will not be used for the designated purpose. Further, violation of this prohibition will be treated as a violation of the Antideficiency Act.

2.1.34. Use of O&M Funds under Contingency Construction Authority (CCA)

Pursuant to 10 U.S.C. § 2804, the criteria and procedures for the use of O&M funds under CCA (also known as Section 2808 Authority) are listed in Volume 3, section 15.

2.2 Program and Budget Review Submission

2.2.1. The internal annual Planning, Programming, Budgeting, and Execution (PPBE) process will guide the Department's strategy development, identification of needs for military capabilities, program planning, resource estimation and allocation, acquisition, and other decision processes. The PPBE process will continue to be the single link throughout the DoW that integrates and influences all internal decision processes. The annual budget will include the Strategic Planning Guidance (SPG), a Joint Programming Guidance (JPG), a Program Review, and a Budget Review. Program Decision Memoranda (PDMs) will implement Program Review decisions. Program Budget Decisions (PBDs) will implement Budget Review decisions.

2.2.2. The OUSW(C) and the Director of Cost Assessment and Program Evaluation (DCAPE) guidance memorandum transmitted in the Spring of each year will provide specialized instructions such as program basis for the estimates, key assumptions to be used, and special supporting material requirements. In addition, "supplementary instructions" memoranda issued

on an “as needed” basis (usually in July/August) will be limited to specific instructions which amplify guidance included in the OUSW(C) memorandum and in this volume. The use of other memoranda to transmit program and budget guidance will be restricted to new or nonrecurring requirements.

2.2.3. The Director of National Intelligence (DNI) will issue the guidance for development of the National Intelligence Program (NIP) and the NIP program and budget review submission. Additional details are found in section 16.

2.2.4. The instructions for submitting certain summary schedules are provided in the Volume 2 procedures. The instructions for back-up material tailored to each appropriation or fund category are provided in subsequent sections. Materials required by OMB Circular No. A-11, which are not otherwise required by Volume 2, will be submitted in accordance with that Circular, unless specific exception is granted by the OMB.

2.2.5. The OUSW(C) will provide a budget work schedule on a memorandum at the beginning of each budget formulation cycle. This schedule will show the dates and processes to be used for planning the various phases involved in the formulation process.

2.2.6. Program and budget review exhibits will be identified in the program and budget review guidance for each submission cycle. In most cases, submissions will include data input through the OUSW(C) budget formulation systems. The process is addressed in Volume 2 procedures.

2.2.7. Pursuant to 31 U.S.C. § 1105, the DoW prepares in advance of the required President’s Budget (PB) submission to Congress. The OUSW(C) and DCAPE provide technical guidance for the program and budget data submission requirements. These offices maintain and administer web-based applications for a timely and consistent submission process.

2.2.8. All program and budget estimates, submission formats and required exhibits are found in Volume 2 procedures.

2.3 CCMD Business Rules (Joint Task Assignment Process (JTAP))

2.3.1. Financial Management Arrangements

As a business rule governing financial management arrangements between CCMD Support Agents (CCSAs) and CCMDs, the OSW will establish initial funding for new CCMD missions. The OSW will establish and provide funding for new missions assigned by the Secretary or Deputy Secretary as part of the JTAP process and in conjunction with the PPBE processes. CCSAs must maintain funding for the directed CCMD missions and adjust CCMD accounts across the FYDP consistent with the OSW/OMB approved inflation indices. CCMDs will be subjected to a proportionate share (on a percentage basis) of total CCSA reductions from undistributed congressional and/or OSW general reductions.

2.3.2. Adjustments of Funds

All Service business and efficiency reductions require prior CCMD or OSW approval to ensure they do not impede the conduct of directed missions. CCSAs will pre-coordinate any Service-initiated reductions to CCMD resources with the CCMDs during each phase of the PPBE process for all years in the FYDP, and Service-initiated reductions will not be applied to any CCMD funds without the prior approval of the CCMD or the OSW staff. OUSW(C), OSW CAPE, Joint Staff, CCMDs and CCSAs will meet annually to validate, and adjudicate as necessary, all adjustments to CCMD resources. The OUSW(C) will review and coordinate CCSA budget exhibits that specifically pertain to CCMD resources with CCMDs prior to approval and publication to ensure that CCSAs have fully complied with PBD or PDM direction.

2.3.3. Visibility of CCMD Directed Missions and Other Costs

CCSAs must ensure adequate visibility of CCMD directed missions and other costs for each O&M funded CCMD. A minimum of two Sub Activity Groups (SAG)s within each MILDEP's active components' O&M appropriation will be established as Mission Funding (one or more SAGs) and Headquarters and Headquarters Support Funding (single SAG). Budget and execution structure for USTRANSCOM will continue to follow the normal Working Capital Fund business area structure. The United States Special Operations Command and the United States Cyber Command budget structures are not governed by the guidance in section 2.2.

3.0 MILITARY PERSONNEL APPROPRIATIONS

Military Personnel and Medicare-Eligible Retiree Health Care Fund Contribution appropriations finance statutory military pay, allowances, and entitlements; Retired Pay Accrual (RPA); Thrift Savings Plan (TSP) Service member and matching contributions; Continuation Pay (CP); special and incentive pays; permanent change of station (PCS) entitlements; and the required MERHCF contribution for Active and Reserve Component Service members. Program and budget estimates must reflect the most current military personnel strength plans provided by the Military Departments, including projected average strength for each fiscal year. Estimates must also reflect statutory pay rates, statutory formulas, and compensation policies issued by the Office of the Under Secretary of War for Personnel and Readiness. Detailed exhibit requirements are provided in the Volume 2 procedures.

4.0 OPERATION AND MAINTENANCE APPROPRIATIONS

Operation and Maintenance appropriations support baseline and overseas operations. Refer to the Volume 2 procedures for detailed guidance.

5.0 PROCUREMENT APPROPRIATIONS

5.1 Preparations

5.1.1. General Guidance. This section provides guidance for the preparation of procurement appropriation backup material required to support the Budget Estimates Submission (BES) and the President's budget request. The procurement accounts should also submit

applicable exhibits required by other sections of this volume. The Components will also submit any exhibits required by the OMB Circular No. A-11.

5.1.2. Specific Guidance. The budget justification material should be unclassified. All classified material must be submitted separately. Components must include a P-40 Budget Justification exhibit for special access programs (SAPs) that are not labeled as secret. The P-40 exhibits for SAPs must only include funding streams and cite the following justification: “This program is reported in accordance with 10 U.S.C. § 119(a)(1) in the Special Access Program Annual Report to Congress.” All other (non-intel and non-SAP) classified funding requests must be identified (submit a one page P-40 exhibit) within unclassified justification budget materials. Refer to Volume 2 procedures for exhibit formats, templates, and additional instructions.

5.2 Transmittal Clearance

MILDEPs and Defense Agencies are responsible for clearing the justification material with the Washington Headquarters Services, Defense Office of Prepublication and Security Review, prior to transmittal to OMB and the congressional committees.

6.0 RESEARCH, DEVELOPMENT, TEST AND EVALUATION APPROPRIATIONS

6.1 General Guidance

Unless otherwise specified, this guidance applies to all RDT&E appropriations and to all budgets. The budget justification material should be unclassified. All classified material must be submitted separately. Components must include a R-2 RDT&E Budget Justification exhibit for special access programs (SAPs) that are not labeled as secret. The R-2 exhibits for SAPs must only include funding streams and cite the following justification: “This program is reported in accordance with 10 U.S.C. § 119(a)(1) in the Special Access Program Annual Report to Congress.” All other (non-intel and non-SAP) classified funding requests must be identified (i.e., submit a one page R-2 exhibit) within unclassified justification budget materials.

6.2 RDT&E Budget Activities

The RDT&E budget activities are broad categories reflecting different types of RDT&E efforts. The categories are provided in subparagraphs 6.2.1 through 6.2.8 below. The acquisition milestones identified in the definitions are established by DoWI 5000.02, “Operation of the Adaptive Acquisition Framework.” Acquisition program developmental criteria and administrative requirements for each milestone are set forth in this instruction.

6.2.1. Budget Activity 1, Basic Research. Basic research is systematic study directed toward greater knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind. It includes all scientific study and experimentation directed toward increasing fundamental knowledge and understanding in those fields of the physical, engineering, environmental, and life sciences related to long-term national security needs. It is farsighted high payoff research that provides the basis for technological progress. Basic research may lead to: (a) subsequent applied research and advanced technology developments in Defense-related technologies, and (b) new and improved

military functional capabilities in areas such as communications, detection, tracking, surveillance, propulsion, mobility, guidance and control, navigation, energy conversion, materials and structures, and personnel support. Program elements in this category involve pre-Milestone A efforts.

6.2.2. Budget Activity 2, Applied Research. Applied research is systematic study to understand the means to meet a recognized and specific need. It is a systematic expansion and application of knowledge to develop useful materials, devices, and systems or methods. It may be oriented, ultimately, toward the design, development, and improvement of prototypes and new processes to meet general mission area requirements. Applied research may translate promising basic research into solutions for broadly defined military needs, short of system development. This type of effort may vary from systematic mission-directed research beyond that in Budget Activity 1 to sophisticated breadboard hardware, study, programming and planning efforts that establish the initial feasibility and practicality of proposed solutions to technological challenges. It includes studies, investigations, and non-system specific technology efforts. The dominant characteristic is that applied research is directed toward general military needs with a view toward developing and evaluating the feasibility and practicality of proposed solutions and determining their parameters. Applied Research precedes system specific technology investigations or development. Program control of the Applied Research program element is normally exercised by general level of effort. Program elements in this category involve pre-Milestone B efforts, also known as Concept and Technology Development phase tasks, such as concept exploration efforts and paper studies of alternative concepts for meeting a mission need.

6.2.3. Budget Activity 3, Advanced Technology Development (ATD). This budget activity includes development of subsystems and components and efforts to integrate subsystems and components into system prototypes for field experiments and/or tests in a simulated environment. Budget Activity 3 includes concept and technology demonstrations of components and subsystems or system models. The models may be form, fit, and function prototypes or scaled models that serve the same demonstration purpose. The results of this type of effort are proof of technological feasibility and assessment of subsystem and component operability and producibility rather than the development of hardware for service use. Projects in this category have a direct relevance to identified military needs. Advanced Technology Development demonstrates the general military utility or cost reduction potential of technology when applied to different types of military equipment or techniques. Program elements in this category involve pre-Milestone B efforts, such as system concept demonstration, joint and Service-specific experiments or Technology Demonstrations and generally have Technology Readiness Levels of 4, 5, or 6. (For further discussion on Technology Readiness Levels, see the Assistant Secretary of War for Research and Engineering's Technology Readiness Assessment (TRA) Guidance.) Projects in this category do not necessarily lead to subsequent development or procurement phases but should have the goal of moving out of Science and Technology (S&T) and into the acquisition process within the FYDP. Upon successful completion of projects that have military utility, the technology should be available for transition.

6.2.4. Budget Activity 4, Advanced Component Development and Prototypes (ACD&P). Efforts necessary to evaluate integrated technologies, representative modes, or prototype systems in a high fidelity and realistic operating environment are funded in this budget activity. The

ACD&P phase includes system specific efforts that help expedite technology transition from the laboratory to operational use. Emphasis is on proving component and subsystem maturity prior to integration in major and complex systems and may involve risk reduction initiatives. Program elements in this category involve efforts prior to Milestone B and are referred to as advanced component development activities and include technology demonstrations. Completion of Technology Readiness Levels 6 and 7 should be achieved for major programs. Program control is exercised at the program and project level. A logical progression of program phases and development and/or production funding must be evident in the FYDP.

6.2.5. Budget Activity 5, System Development and Demonstration (SDD). System Development and Demonstration (SDD) programs have passed Milestone B approval and are conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate production. This budget activity is characterized by major line item projects, and program control is exercised by review of individual programs and projects. Prototype performance is near or at planned operational system levels. Characteristics of this budget activity involve mature system development, integration, demonstration to support Milestone C decisions, conducting live fire test and evaluation, and initial operational test and evaluation of production representative articles. A logical progression of program phases and development and production funding must be evident in the FYDP consistent with the Department's full funding policy.

6.2.6. Budget Activity 6, RDT&E Management Support. This budget activity includes management support for research, development, test, and evaluation efforts and funds to sustain and/or modernize the installations or operations required for general research, development, test, and evaluation. Test ranges, military construction, maintenance support of laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the RDT&E program are funded in this budget activity. Costs of laboratory personnel, either in-house or contractor operated, would be assigned to appropriate projects or as a line item in the Basic Research, Applied Research, or ATD program areas, as appropriate. Military construction costs directly related to major development programs are included in this budget activity.

6.2.7. Budget Activity 7, Operational System Development. This budget activity includes development efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year. All items are major line item projects that appear as RDT&E Costs of Weapon System Elements in other programs. Program control is exercised by review of individual projects. Programs in this category involve systems that have received approval for Low Rate Initial Production (LRIP). A logical progression of program phases and development and production funding must be evident in the FYDP, consistent with the Department's full funding policy.

6.2.8. Budget Activity 8, Software and Digital Technology Pilot Programs

6.2.8.1. Software and Digital Technology Pilot Program requirements for funding in BA 8 include software, electronic tools, systems, applications, resources, acquisition of services, business process re-engineering activities, functional requirements development, technical evaluations, and other activities in direct support of acquiring, developing, deploying, sustaining, enhancing, and modernizing Software Digital Technology Pilot Programs.

6.2.8.2. Pilot programs may purchase Commercial off the Shelf (COTS) software, tools, and services necessary to meet the program's requirements.

6.2.8.3. Software and Digital Technology Pilot Programs may be nominated to Under Secretary of War for Acquisition and Sustainment. Approved pilot program nominations will be submitted with the President's Budget request.

6.2.8.4. A system project participating in the Pilot Program may be removed from BA 8 if the project has not been successful in meeting criteria established for the Pilot Program.

6.3 Establishing RDT&E Program Elements

6.3.1. The program element is the primary data element in the FYDP and is the major aggregation, at which RDT&E efforts are organized, budgeted, and reviewed. All funding associated with a major system new start must be identified in a unique program element. Requests to establish program elements should be forwarded to OSW CAPE for coordination and approval.

6.3.2. In general, the coding symbology identifies the RDT&E budget activity for the program element. Program elements in RDT&E budget activities 1 through 6 will have "06" in the first two positions; "06" indicates it is part of Major Force Program 6, Research and Development. The third and fourth position will identify the specific budget activity (e.g., 0602 is an RDT&E budget activity 2 program element). Program elements in RDT&E budget activity 7 reflect the Major Program of the fielded system in the first two positions (e.g., "01" indicates a strategic system).

7.0 MILITARY CONSTRUCTION/FAMILY HOUSING APPROPRIATIONS

7.1 Applicable Accounts

This section provides guidance for budget formulation and congressional justification of Military Construction (MILCON), Family Housing, Homeowners' Assistance Program (HAP), North Atlantic Treaty Organization (NATO) Security Investment Program, Family Housing Improvement Fund (FHIF), Military Unaccompanied Housing Improvement Fund (MUHIF), and Military Housing Privatization Initiative (MHPI) Investments and Credit Financing appropriations. This section also covers specific back-up material requirements for these accounts and provides additional specific guidance for the back-up material required for MILCON, Family Housing, Homeowners' Assistance Program and NATO Security Investment Program appropriations.

7.2 Family Housing Program Policies and Guidelines

7.2.1. Policy

7.2.1.1. It is DoW Policy: 1) to provide Military Family Housing for military families and for eligible civilian families only when suitable housing in the community does not exist; 2) to provide for the housing and support services, as authorized by law, that are necessary to meet the requirements of the DoW; 3) that the program must be financed and managed in the

most cost effective and efficient manner possible in order to support these requirements and to maximize the use of available program resources; 4) that the program must include the provision of assistance to all military personnel and certain eligible civilians in locating and utilizing privately owned housing including leasing; 5) that the program must include, within available resources, the provision of Government-owned or leased family housing and furnishings (referred to as Defense Family Housing Property); and 6) that the program must include the efficient and effective financial and program management of Defense Family Housing Property, including acquisition, privatization, operation, improvement, maintenance, debt financing, leasing, and family housing support programs.

7.2.1.2. The Family Housing Program encompasses Military Family Housing as defined and authorized by the provisions of 10 U.S.C. Chapter 169 and includes all DoW Component family housing in the Defense Family Housing Property Account, leases of real property utilized by DoW Components for family housing, and associated family housing support services programs.

7.2.2. Responsibilities

7.2.2.1. The USW(A&S) is responsible for program management as set forth in the DoDI 4165.63, and DoD Manual (DoDM) 4165.63, which also addresses Unaccompanied Housing. 10 U.S.C. § 2851a established the Assistant Secretary of War for Energy, Installations, and Environment (ASW(EI&E)) as the DoW Chief Housing Officer (CHO). The CHO oversees family and unaccompanied housing under the jurisdiction of the DoW or acquired or constructed under the MHPI. The Office of the Deputy Assistant Secretary of War for Housing (ODASW(H)) carries out the day-to-day responsibilities of the CHO with respect to the creation and administration of policies and processes regarding privatized, DoW-owned, and DoW-controlled family and unaccompanied housing. The ODASD(H) also has responsibility for overseeing the HAP. The USW(C) is responsible for financial management, program budget policies, program accounting policies, and financial reporting. As prescribed by the USW(C), the Director, Defense Finance and Accounting Service, is responsible for central accounting and financial reporting for the program. As prescribed by DoDI 4165.63, the Secretaries of the MILDEPs and the Directors of the Defense Agencies are responsible for execution of the program for personnel under their respective jurisdictions, including program and financial management, accounting and reporting.

7.2.2.2. In the financial management and execution of the program, DoW Components must conduct program budget formulation, presentation, and execution in accordance with the guidance and provisions contained in this section and adhere to the program accounting and financial reporting guidance and provisions contained in Volume 4.

7.2.3. Family Housing Objectives, Procedures, and the Administration / Management of Program Funds.

Refer to Volume 2 procedures for the appropriate instructions.

7.3 Uniform Budget and Fiscal Accounting Classification

7.3.1. MILCON Appropriations. Accomplish programming, budgeting, financing, and accounting for the MILCON Program under an account structure uniformly used for these purposes by all DoW Components. The uniform account structure and scope of each account prescribed for the administration of the MILCON Program are as follows:

7.3.1.1. Major Functional Category: Construction. The Immediate Subordinate Accounts include: Major Construction, Minor Construction, Design,

7.3.1.2. Major Functional Category: NATO Security Investment Program includes contributions for the United States share of the cost of multilateral programs for the acquisition and construction of military facilities and installations (including international military headquarters) and for the related expenses for the collective defense of the North Atlantic Treaty Area. 10 U.S.C. § 2806 pertains to contributions for NATO Security Investment Program.

7.3.1.3. Immediate Subordinate Account: Minor Construction. Includes any construction project not otherwise authorized by law having a cost equal to or less than \$9,000,000. Minor construction projects costing more than \$750,000 may not be carried out unless 10 U.S.C. § 2805 requirements are met. This includes advance approval by the Secretary concerned, and notification to the Congress if the project amount is more than \$4,000,000. An unspecified MILCON project costing not more than \$4,000,000 may be funded from appropriations available for O&M.

7.3.1.4. Immediate Subordinate Account: Design. Includes architectural and engineering services, construction design, working drawings, specifications and estimates for construction projects. 10 U.S.C. § 2807 pertains to architectural and engineering services and construction design.

7.3.2. Family Housing. DoW Components will use the uniform account structure established for programming, budgeting, financing and accounting for the family housing program. Administer the account structure to provide program and financial control of the family housing program consistent with applicable statutes. The uniform account structure and scope of each account for the family housing program are as follows:

7.3.2.1. Major Functional Category: Construction. The Immediate Subordinate Accounts include: New Construction (by Installation and Project), Construction Improvements (formerly Post Acquisition Construction), and Design.

7.3.2.2. Major Functional Category: O&M. The Immediate Subordinate Accounts include: Operation (Subaccounts: Management, Services, Furnishings, and Miscellaneous) Housing Privatization Support, Maintenance of Real Property Facilities, Leasing, Utilities, and Mortgage Insurance Premiums (or also known as Servicemen's Mortgage Insurance Premiums).

7.3.2.3. Major Functional Category: FHIF. Includes activities required for family housing in connection with the MHPI program planning, execution, accounting and financial

reporting, and administration of contracts entered under the authorities of 10 U.S.C. Chapter 169, Subchapter IV.

7.3.2.4. Major Functional Category: MUHIF. Includes activities required for unaccompanied housing in connection with the MHPI program planning, execution, accounting and financial reporting, and administration of contracts entered under the authorities of 10 U.S.C. Chapter 169, Subchapter IV.

7.3.3. Homeowners' Assistance Fund, Defense Responsibilities

7.3.3.1. The Department of the Army, which has been assigned the overall responsibility for the administration and management of the DoW HAP by DoDD 4165.50E, will submit budget estimates.

7.3.3.2. Each Component is responsible for including sufficient resources in its budget to fund HAP costs related to the Component's actions associated with base closures, realignments, and force reductions. Develop the level of resources required to fund HAP costs in consultation with the Army, HAP executive agent. Separately identify and submit budget estimates for HAP costs in the Component's Base Realignment and Closure (BRAC) submissions for HAP costs associated with realignments and closures and in the O&M submission for non-BRAC related HAP costs.

7.3.4. NATO Security Investment Program Responsibilities

The OUSW(A&S) has been assigned overall responsibility for the oversight and management of the NATO Security Investment Program by DoDD 2010.05, thereby responsible for submitting the corresponding budget estimates.

7.3.5. NATO Security Investment Program Expansion Costs

Refer to Volume 2 procedures for the appropriate submission and instructions.

7.3.6. FHIF/MUHIF Program

Refer to Volume 2 procedures for the appropriate submission and instructions.

7.3.7. MHPI Investments and Credit Financing

7.3.7.1. The Federal Credit Reform Act of 1990 and OMB Circular No. A-11 require credit financing and investment information for privatization projects to be reflected in the President's budget. OMB Circular No. A-11, Part 5, Section 85 (Federal Credit) explains the credit financing information required for the President's budget. On an annual basis, OMB sends out Budget Data Requests (BDR) for Credit Re-estimates, MAX Schedule updates, and Credit Supplemental Reporting information for the President's Budget (for PY, CY, and BY).

7.3.7.2. Annually, the OUSW(C), Program Budget, MPC and the ODASD(H) jointly issue a "Consolidated MHPI Data Call for the Fiscal Year 20BY President's Budget" that supports the upcoming OMB BDRs for both Federal credit and non-credit financing aspects of

MHPI, including the development of the Fiscal Year (FY) 20CY Credit Subsidy Re-estimates, Credit Supplement Report Exercise information, and OMB MAX A-11 database inputs for the FY20 BY President's Budget (PB). OUSW(C) P/B MPC will retain responsibility for providing OMB with required MHPI Federal credit and non-Federal credit data for the FY 20BY PB. ODASD(H) will perform OSD-level reviews of MHPI programmatic data and related files, providing technical instructions with corresponding templates and feedback to the Services regarding their submissions to OUSW(C) P/B MPC.

7.3.8. For procedures covering applicable appropriations/program funds in subparagraphs 7.3.1 to 7.3.7 and budget formulation, refer to the appropriate section of the Volume 2 procedures.

8.0 BASE REALIGNMENT AND CLOSURE APPROPRIATIONS

8.1 Authority

Defense Authorization Amendments and Base Closure and Realignment Act, Public Law (PL) 100-526, established the Defense Base Closure Account (Part I) as a mechanism to provide the required funding to implement the approved recommendations of the Base Closure and Realignment Commissions. PL 101-510, Title XXIX, Defense Base Closure and Realignment Act of 1990, established Base Closure Account 1990 (Part II), the FY 2002 National Defense Authorization Act (NDAA) established the DoD Base Closure Account 2005 (BRAC 2005), and Section 2711 of the FY 2013 NDAA established the DoD Base Closure Account, which directed the transfer of remaining balances from all three previous BRAC accounts. Funding approved by Congress in these Accounts is appropriated and authorized in a lump sum amount and may be spent for construction, planning and design, civilian severance pay, civilian permanent change in station, transportation of things, and other costs related to the realignment or closure of the subject bases. The management structure of the program is described below.

8.2 Guidance

8.2.1. The Assistant Secretary of War (Sustainment) is responsible for issuing policy for management of the BRAC program and overseeing the DoW Components' execution of the program.

8.2.2. To properly account for and manage appropriated fund resources, the DoD Base Closure Accounts were established on the books of the Treasury to aid the DoW Components in the closure and realignment of certain military installations. Treasury has assigned account symbol 097-0103 to identify the DoD Base Closure Account - Part I, 097X0510 to identify DoD Base Closure Account 1990 - Part II, Part III, and Part IV, 097X0512 to identify DoD Base Closure Account 2005, and 097X0516 to identify DoD Base Closure Account (consolidated).

8.2.3. The USW(C) makes funds available to DoW Components based on their official financial plans. Financial plans are prepared by DoW Components in cooperation with and at the direction of the program manager, the ASW(Sustainment). The DoW Components' financial plans and the subsequent allocation of funds are supported by detailed, line-item military and family housing construction justification. Separate narrative explanations for other planned expenditures are also submitted to the USW(C) in sufficient detail to support the DoW Component's financial

plan. Each DoW Component is allocated funds based upon its official budget justification and financial plan.

8.2.4. All closures and realignments must be completed no later than the end of the six-year implementation period beginning on the date on which the President transmitted to Congress the report containing the recommendations of such closures or realignments.

8.2.5. Section 2711 of FY 2013 NDAA established a new appropriation (097X0516) as DoD Base Closure Account. Funds in this account shall be available only to incur new obligations for environmental restoration, property management and disposal, and other caretaker costs at closed or realigned installations and for the purpose of recording, adjusting and liquidating obligations properly chargeable to the account under 31 U.S.C. § 1553. With the enactment of the FY 2014 NDAA (PL 113-66, dated December 26, 2013), the previous DoD BRAC accounts (097X0510 and 097X0512) remain as no-year accounts, and must be accounted for similarly to an expired appropriation. Unobligated balances from 0510 and 0512 accounts were transferred to the new BRAC account (0516) in January 2014.

8.3 Fiscal Accounting Classification

The account classification structure for the Base Closure Account, Defense is prescribed in Volume 12, section 13.

9.0 FACILITIES SUSTAINMENT AND RESTORATION/MODERNIZATION

9.1 Authority

9.1.1. Facility Sustainment Restoration and Modernization is covered under the following accounts: Operation and Maintenance Appropriations, Research, Development, Test, and Evaluation Appropriations, Defense Working Capital Funds, Military Construction appropriations, Transfer or Disposal of DoD Real Property, Lease of DoD Real Property, and DoD Overseas Military Facility Investment Recovery Account.

9.1.2. For appropriation specific policy refer to appropriation section of this document. Section 4 provides guidance related to Operation and Maintenance costs and O&M exhibits. Section 6 provides guidance related to Research, Development, Test, and Evaluation appropriations, Section 7 provides guidance related to Military Construction, and Section 10 provides guidance related to the Defense Working Capital Fund.

9.1.3. Additional details are provided in Volume 2 procedures.

10.0 DEFENSE WORKING CAPITAL BUDGET JUSTIFICATION ANALYSIS

10.1 Intragovernmental Revolving Funds

The DoW operates five Defense Intragovernmental Revolving Funds, which comprises many accounts, sub-accounts, and activity groups.

10.1.1. The Intragovernmental Revolving Fund accounts consist of the:

10.1.1.1. Defense Working Capital Fund (DWCF), which includes:

Department of the Army Working Capital Fund (WCF);

Department of the Navy WCF;

Department of the Air Force WCF;

Defense Commissary Agency (DeCA) WCF;

Defense-Wide Working Capital Fund (DWWCF)

Defense Logistics Agency (DLA) WCF

Defense Information Services Agency (DISA) WCF

Defense Finance and Accounting Service (DFAS) WCF

10.1.1.2. Building Maintenance Fund (BMF);

10.1.1.3. Pentagon Reservation Maintenance Revolving Fund (PRMRF);

10.1.1.4. Defense Counterintelligence and Security Agency (DCSA) WCF; and

10.1.1.5. National Defense Stockpile Transaction Fund (NDSTF).

10.1.2. This section also applies to the s Surcharge Collections, Sales of Commissary Stores, Defense account (DeCA Surcharge Fund). This trust fund, managed by DeCA, is subject to apportionment by the OMB. The Revolving Funds Directorate administers the Annual Operating Budget (AOB) for the DeCA Surcharge Fund upon apportionment. Refer to section 11 for additional information regarding the DeCA Surcharge Fund.

10.1.3. Authoritative Guidance. The National Security Act of 1947, as amended 10 U.S.C. § 2208, and other provisions of 10 U.S.C. § 131 provide the Department's revolving fund authority. The BMF, and DCSA WCF were established under 10 U.S.C. § 2208 as separate and distinct revolving funds and therefore are not part of the DWCF. The PRMRF was established by the 1991 NDAA and codified in 10 U.S.C. § 2674. The NDSTF was codified in 50 U.S.C. § 98h while the DeCA Surcharge Fund was codified in 10 U.S.C. § 2484(d)(h).

10.2 Defense Revolving Funds

10.2.1. Cash Management Policy

10.2.1.1. Cash Balance. DoW Components must maintain a positive cash balance sufficient to meet operating, capital investment, and other justified requirements throughout the year and to support continuing requirements into the subsequent year. Each DoW Component and subordinate activity, command, or business line must establish a cash requirement based on business events, trends, activities, and risks relevant to its operations and manage that cash balance in compliance with all applicable laws and guidelines at the lowest level where transactions occur. This process is formalized through the DoW Component's required submission of budget exhibits (Fund-13, and Fund-13b) that outline plans to maintain cash balances within a required operating range and above a specified lower control limit at the end of each budget year. Cash managers at all levels should use available mitigation strategies to control cash flow, such as negotiating the timing of customer order receipts, controlling the timing of supplier disbursements; and requesting policy waivers, like an out of cycle rate adjustment, from the OUSW(C) Revolving Funds Director to maintain/or reduce the cash balance.

10.2.1.2. Cash Thresholds. All DoW Components will construct required cash plans using specific methods as outlined in the associated DoW Revolving Fund, Fund-13 Exhibit procedure guidance.

10.2.1.3. Cash Transfers. Transfers of cash between RF activities, whether directed internally by the Components, departmental guidance, or congressional direction, will be included in all the affected activities' budget (Fund-13). Cash transfers between Military Department's WCFs (e.g., Army to Air Force) or between the DWCF and appropriation-funded activities require Congressional approval.

10.2.2. Advance Billings

10.2.2.1. The total amount of advance billings executed by the Department for a fiscal year may not exceed the amount specified in 10 U.S.C. § 2208 (I) or as amended by public law. 10 U.S.C. § 2208, paragraph (I)(4) provides that advance billing for background investigations and related services performed by the Defense Counterintelligence and Security Agency is not subject to Section 2208's congressional notification requirements and dollar limitations. 10 U.S.C. § 2208, paragraph (I)(3)(B) provides that advance billing for relief efforts following a declaration of a major disaster or emergency under the Robert T. Stafford Disaster Relief and Emergency Assistance Act is not subject to Section 2208's dollar limitations.

10.2.2.2. Components may use advance billings of customers as a cash mitigation strategy. The OUSW(C) or the MILDEP, as applicable, must notify Congress in writing within 30 days after the end of the month in which the advance billing occurred. The notification must explain the reasons for the advance billing, as well as an analysis of the effects of the advanced billing on both military readiness and the customer. Military Departments must send this notification directly to Congress and provide a copy to the Revolving Fund Directorate, while Defense Agencies must submit their requests to the Revolving Fund Directorate to notify Congress on their behalf.

10.2.2.3. With the exception of the DCSA, advance billing requires authorization within the activity's AOB. Components must request this authority and, if approved, the Advanced Billing Authority will be added to their AOB as a note disclosure. The note disclosure must explicitly state the amount the cumulative total of the advance billing is related to a declaration of a major disaster or emergency under the Stafford Act.

10.2.2.4. Advance payments received from non-federal entities are not subject to 10 U.S.C. § 2208, advance billing limitations, and are required by Volume 11. The billing of customers by Supply Management Activities upon shipment rather than delivery is also not subject to the advance billing limitations.

10.2.3. Capital Investment Program (CIP) Policy

10.2.3.1. The legal requirements related to the CIP are found in 10 U.S.C. § 2208, paragraphs (k), (m), and (o). The legal requirements for unspecified minor military construction projects are found in 10 U.S.C. § 2805.

10.2.3.2. With the exception of major military construction and items listed in subparagraphs 10.2.3.3, 10.2.3.4., and 10.2.3.8, acquisition of all capital assets for use by activities within the revolving funds can be financed using contract authority. Components may not use the CIP to establish a new or expand an existing organic capability except as specifically justified in the President's Budget Request (Exhibit Fund-9b, "Capital Investment Justification").

10.2.3.3. Revolving Fund activities outside the DWCF that are not authorized contract authority (e.g. the PRMRF) must build the full cost of capital investments into their rate structure to ensure funds are available prior to obligation.

10.2.3.4. The CIP consists of the following four major categories of assets: (1) Automated Data Processing Equipment (ADPE); (2) Non-ADPE Equipment; (3) Software Development, whether internally or externally developed; and 4) Minor Construction.

10.2.3.5. The RF Capital Budget specifically excludes the following items, which must be financed by appropriated funds.

10.2.3.5.1. Major Range and Test Facility (MRTF) installations (equipment and minor construction) that meet the DoW Investment capitalization criteria in accordance with 10 U.S.C. § 2208, paragraph (k);

10.2.3.5.2. Military and tenant support functions;

10.2.3.5.3. Major weapons systems (such as aircraft, ships, tanks, barges, etc.), and general-purpose passenger type vehicles;

10.2.3.5.4. Equipment and minor construction projects for mobilization requirements, but not used during peacetime operations;

10.2.3.5.5. Equipment initially procured and usually furnished as part of a weapons system and/or support system including modifications (includes initial common support equipment for depot maintenance support of new weapons systems);

10.2.3.5.6. Materiel is normally funded by appropriated funds and provided to contractors as Government-Furnished Materiel (GFM). The customer must use appropriated funds to purchase the GFM and provide it at no cost to the WCF;

10.2.3.5.7. Minor construction projects for non-RF activity or military support functions;

10.2.3.5.8. Construction and facility investment projects that exceed the amount specified in 10 U.S.C. § 2805 for funding under O&M appropriations;

10.2.3.5.9. Environmental projects financed or submitted for funding by the applicable Environmental Restoration Transfer appropriation;

10.2.3.5.10. Capital Investments for morale, welfare, and recreation activities; and

10.2.3.5.11. Such other exclusions as may be approved by the USW(C).

10.2.3.6. RF activities are authorized to use the CIP to purchase capital assets meeting the criteria in 10 U.S.C. § 2208, paragraph (k). The AOB permits an RF activity to obligate contract authority to purchase capital assets prior to receiving funded customer orders and collecting cash from customers. Those obligations must be funded by offsetting collections since cash does not come with contract authority. Unobligated Contract Authority does not carry into the subsequent fiscal year.

10.2.3.7. As an administrative control of resources subject to the rules of the Antideficiency Act, which is codified in 31 U.S.C. §§ 1341, 1342, and 1517, the AOBs provide a specific amount of contract authority for the CIP. Therefore, obligations may not exceed the amount provided on the AOB.

10.2.3.8. The RF customers may procure capital assets through direct appropriations for use by a RF activity. However, these assets remain the property of the customer and will be recorded as General Property, Plant, and Equipment (GPP&E) on the customers financial statements; the capital asset will not be recorded as GPP&E assets on revolving fund financial statements unless the asset is transferred to RF ownership.

10.2.3.9. WCF activities must recover costs to purchase capital assets by including a Capital Investment Recovery (CIR) factor in rates billed to customers. The revenue collected from the CIR is used to liquidate the contract authority used to procure the CIP asset. If the WCF activity does not have enough revenue to fully liquidate the contract authority, it must, at a minimum, liquidate enough to cover any cash outlays related to CIP. In addition to the CIR, a capital surcharge might be applied to collect cash for the capital outlay if the existing minimum balances are not sufficient to provide adequate budgetary resources to offset budgetary claims.

10.2.3.10. The following budget exhibits are required to document an activity's capital budget request: (1) Exhibit Fund-9a, "Capital Investment Summary"; (2) Exhibit Fund-9b, "Capital Investment Justification," and (3) Exhibit Fund-9c, "Capital Budget Execution."

10.2.3.11. Each proposed CIP project must be reviewed to ensure that it satisfies the required criteria for justification and backup.

10.2.3.11.1. The acquisition of a capital asset meets the Department's long-range planning and programming objectives and satisfies a documented need for capability to perform valid operations, functions, or services that cannot be performed as effectively or economically using existing equipment and facilities or by contract.

10.2.3.11.2. The acquisition of a capital asset complies with policies and regulations governing the acquisition and management of facilities, special tooling, and special test equipment as established by DoDD 4275.5, "Acquisition and Management of Industrial Resources," as well as other applicable policies and regulations governing the lease and acquisition of equipment and facilities.

10.2.3.11.3. The workload projections used to justify capital purchases take into account the results of inter-service decisions, workload posture planning decisions, readily available commercial alternatives, and other reasonable options available for accomplishing applicable workload.

10.2.3.11.4. The acquisition of a capital asset accomplishes the objective for which it is justified. The criteria are: improved efficiency (savings) or effectiveness of operations; replacement of unsafe (locally determined by an authorized safety representative), beyond economical repair, or inoperative and unusable assets; and environmental, hazardous waste reduction, or regulatory agency (state, local, or Federal) mandated requirements.

10.2.3.12. A formal pre-investment economic analysis or cost comparison analysis must be completed and maintained by the originating office prior to capital budget submissions, reprogramming requests, or project substitutions across the four investment categories (ADPE, Non-ADPE, Software, and Minor Construction).

10.2.3.12.1. Formal economic analyses are required for projects of \$5,000,000 or more, while cost comparison analyses are required for projects under \$5,000,000.

10.2.3.12.2. Cost comparison analyses (under \$5,000,000) must be prepared in constant base-year dollars, presenting yearly differential costs for up to a 6-year evaluation period.

10.2.3.12.2.1. Documentation must define objectives, functional processes, workload projections, feasible alternatives, total/differential costs, expected monetary benefits, assumptions, estimating methods, and data sources.

10.2.3.12.2.2. The payback period, expressed in tenths of years, is the primary economic ranking indicator.

10.2.3.12.3. Formal economic analyses (\$5,000,000 or more) must be prepared on a net present value (NPV) basis over the project's expected economic life, displaying costs in constant, discounted, and current dollars. This analysis must comply with applicable DoW or Component guidance as well as functional program guidance.

10.2.3.12.3.1. Documentation requires the same core elements as a cost comparison analysis, plus sensitivity/uncertainty analysis of key parameters and the identification of both intangible and quantifiable benefits (outputs achieved per investment dollar).

10.2.3.12.2. The Benefit-to-Investment Ratio (BIR) is the primary ranking indicator—calculated using discounted constant dollars as an index value rounded to two decimal places, where a BIR greater than one indicates the project is cost-beneficial and larger ratios indicate greater advantage—and must compare alternatives in terms of all expected monetary benefits (including whole and partial manpower productivity savings and other cost avoidance) over the total project life under evaluation, with the payback period considered as a secondary ranking factor.

10.2.3.12.4. The Savings-to-Investment Ratio (SIR) must be calculated using discounted dollars for Automated Information Systems to compare actual budget savings against investment costs.

10.2.3.12.5. A post-investment analysis is required upon project completion to evaluate actual costs and benefits against initial projections.

10.2.3.12.6. Exemptions from these requirements apply to environmental, hazardous waste, or regulatory mandates, higher DoW or Component authority directives that preclude alternatives, or specific DoW waivers (e.g., equipment age/condition replacement criteria).

10.2.3.13. Internal Use Software as defined in DoDI 5000.76 must be budgeted and capitalized as part of the hardware it runs on. In contrast, systems application software must be budgeted for separately, either as a direct expense or as a capital investment if it meets the criteria for a capital asset, with all new acquisitions and improvements budgeted on a per-project basis. The costs associated with the software development phase are capitalized as part of the capital budget. The preliminary design (e.g., costs prior to Milestone 0, Concept Exploration and Definition, etc.) and post implementation costs (e.g., Data conversions, application maintenance, training, documentation, etc.) are expensed as part of the operating budget. Furthermore, in accordance with 10 U.S.C. § 2222 and DoDI 5000.75, those with projected spending over \$250 million or more over the FYDP for Priority Defense Business Systems or \$25 million or more for Fourth Estate Defense Business Systems over the FYDP, must be approved by the Defense Business Council (DBC) and obtain certification by the DoW CIO before any funds can be obligated.

10.2.3.13.1. To account for the potential unpredictability in costs and scheduling during the development phase, any software initially planned or developed outside a Revolving Fund activity may not transfer into the revolving fund until both the preliminary design and developmental phases are completed, and the software has entered full production in the post

implementation phase. This ensures that only software that is fully developed and operational is transferred into the RF. Once transferred, the fully recoverable costs will be expensed as part of the operating budget.

10.2.3.13.2. Only include those software development or acquisition efforts for the benefit of the activity in the RF capital budget submissions. Software developed or acquired for a specific customer order should be charged to and reimbursed by the requesting customer.

10.2.3.13.3. Software projects may be accomplished in modules. A module is an application that may be operated or used independent of other modules within a system. Where an entire system consists of more than one severable module, request funding for each severable module in the year that the module is started. Funding requests must be sufficient to complete the module. If several modules make up a complete ADP system, show the cost of all modules related to the system.

10.2.3.14. Unspecified minor military construction projects costing more than the threshold established in 10 U.S.C. § 2805 must be funded within the DoW Component's Military Construction appropriation.

10.2.3.14.1. However, under 10 U.S.C. § 2805(c), O&M funds can be used for unspecified minor construction projects costing not more than the threshold established therein is available for RF-funded unspecified minor construction. Projects that have estimated costs that exceed the thresholds established in 10 U.S.C. § 2208 and not been previously documented in the budget (Exhibit Fund-9b, "Activity Capital Investment Summary") must be approved through the Congressional notification process or in a subsequent budget and displayed as an adjustment on the Exhibit Fund-9c, "Capital Budget Execution." The approval will be reflected in the Component's Annual Operating Budget.

10.2.3.14.2. Laboratory Revitalization Program projects must be for the revitalization and recapitalization of Defense laboratories owned by the U.S. and under the jurisdiction of the SecWar or a MILDEP. In accordance with 10 U.S.C. § 2805, paragraph (d)(3) any projects using the Laboratory Revitalization Program requires the concerned Secretary to provide the appropriate Congressional committees a 14-day notification prior to obligation of funds. Fund activities designated to participate in the DoW Laboratory Revitalization Program must obtain prior approval from the Director or Deputy Director for Revolving Funds for all projects estimated to exceed the thresholds established in 10 U.S.C. § 2208 so that those projects can be specifically identified in the capital program within the AOB prior to project execution.

10.2.3.14.3. Capital investment costs financed in the minor construction portion of the capital budget include project planning and design costs associated with minor construction projects. Planning and design costs are not included as part of the statutory threshold for minor construction projects.

10.2.3.15. DoW Components may reprogram RF capital funds between their sub-activities, or CIP categories and their projects within the DoW component. There is no minimum or maximum limit on this type of reprogramming. Capital reprogramming between CIP

categories and projects within the same RF sub-activity does not require the written approval of the OUSW(C) Revolving Funds Director or Deputy Director in the form of a signed AOB. The following approval levels, and dollar threshold, apply to changes to projects approved in the capital budget including reprogramming, substitutions, cancellations, and additions:

10.2.3.15.1. Fund managers may approve transfers between the ADP Equipment and Software categories or among their individual projects once they obtain certification from the approval authority as directed in the guidance displayed in DoDI 5000.75.

10.2.3.15.2. Fund managers may approve transfers between the Non-ADP Equipment and Minor Construction categories or among their individual projects.

10.2.3.15.3. CIP transfers between DWCF activities within a DoW Component (e.g., supply to non-supply) must be approved by the Director or Deputy Director for Revolving Funds, in the form of a signed AOB, before the transfer is executed.

10.2.3.15.4. Components must charge capital obligation adjustments to the program year cited in the President's Budget for the original project. The prior year capital investment program limitation is equal to actual obligations on September 30 of that fiscal year plus adjustments approved by the OUSW(C) Revolving Funds Director or Deputy Director to the prior year program. Fund managers may request approval to carry over authority for any unobligated capital projects before the end of the fiscal year.

10.2.3.15.5. Capital obligation authority may be adjusted for prior year within scope increases provided that there is contract authority available to finance the increase. Before making such increases, the Component must have equal off reductions (deobligations) of current year capital authority to finance the prior year increase. Prior approval from the Director or Deputy Director for Revolving Funds is only required if cumulative adjustments exceed 20 percent of the total CIP budget of the current fiscal year. All adjustments should be documented in the activity's next AOB but will not require a new AOB solely for such documentation.

10.2.3.15.6. For current fiscal year capital projects that will not obligate by September 30, components must request in writing permission to carry over these projects via a memo to the Director or Deputy Director for Revolving Funds. If the Director or Deputy Director for Revolving Funds approves the request in a signed memorandum, the approved carry over amounts for projects not obligated by the end of the fiscal year will be carried forward to the next fiscal year's AOB.

10.2.4. Mobilization/Surge Costs and War Reserve Materiel

10.2.4.1. War Reserve Materiel. The DWCF activities must identify all costs related to maintaining a capacity to meet mobilization requirements. These costs are not considered normal operating costs and may be reimbursed by direct appropriations so that customer rates are not burdened by contingency requirements. Obligations for the procurement of war reserve materiel must be funded by a direct appropriation to the WCF with one exception; if Congress is notified, and a cost recovery rate is included in the rates, contract authority may be used. Such appropriated amounts for secondary items must be reflected as a separate goal within

the applicable Supply Management or Commissary Resale activity AOB. Use the SM-6 “War Reserve Materiel” exhibit to justify War Reserve Materiel Requirements.

10.2.4.2. Unutilized and Underutilized Plant Capacity. Unutilized/Underutilized Plant Capacity (UPC) represents costs associated with maintaining facilities to meet surge capacity needed for mobilization or war. The UPC is a mobilization requirement budgeted in and funded by Operation and Maintenance appropriated funds of the DoW Component responsible for the activity’s management. Do not include UPC costs in the WCF rate structure. As a general rule, UPC funding includes the pro-rata facilities support costs for any month in which 1) mobilization facilities are not used or 2) facilities are used 20 percent or less of available workdays.

10.2.4.2.1. Mobilization expenses related to UPC may include both maintenance and labor costs related to mobilization.

10.2.4.2.2. Each non-supply DWCF activity should prepare a UPC Budget Exhibit (Fund-30). This exhibit documents total capacity, Unutilized Capacity Index, justification, and cost used in developing the request for UPC. All non-supply DWCF activities should complete the three capacity-index metrics found in Part I of the exhibit. Any non-supply activity requesting UPC funding will also complete the funded UPC line in Part I and the UPC justification in Part II of the exhibit.

10.2.4.2.3. Industrial Mobilization Costs. The Army established a category of costs that includes both UPC and underutilized facilities cost called “Industrial Mobilization Cost.” The Army will use the Exhibit Fund-30, “Underutilized Plant Capacity” to justify their Industrial Mobilization Costs.

10.2.4.3. Airlift Readiness Account (ARA). The U.S. Transportation Command (USTRANSCOM) must maintain sufficient airlift capability to respond to transportation requirements for a wide variety of mobilization conditions. This requirement exists in both peacetime and contingency environments. To the extent customer revenue is insufficient to support the costs of maintaining this capability; the Air Force must provide appropriated funds from the ARA. USTRANSCOM will coordinate with military services and Combatant Commanders to understand airlift workload requirements and adjustments to workload projections on a routine basis. USTRANSCOM must provide the Air Force with the budgeted ARA amount that will be part of the Transportation Working Capital Fund Budget Estimate Submission (BES) and President’s Budget with enough lead time for the Air Force to incorporate in its budget submissions. The Air Force must submit a matching amount in its BES and President’s Budget submission within its Operation & Maintenance account. USTRANSCOM must submit the Fund-8, “Air Mobility Command Common User Services” exhibit to justify the ARA requirement. The USTRANSCOM will record as a funded order and revenue.

10.2.5. Military Personnel

10.2.5.1. Components must use the civilian-equivalent rates provided by the OUSW(C) Revolving Funds Director to price military labor at WCF activities. The difference

between the civilian-equivalent costs, included in the WCF budget, and the actual military personnel cost must be budgeted directly in the appropriate military personnel appropriation.

10.2.5.2. The amount expensed for military personnel by WCF activities and the amount reimbursed to the appropriate military personnel appropriation must equal the amount budgeted. No adjustments will be made to the WCF cost of operations to reflect the actual cost of military personnel employed by WCF activities. Military Departments having military personnel assigned to other Components, must provide to each Component the number of work years that should be included in the WCF budget submission. The WCF activities that augment their manpower requirements with National Guard or Reserve personnel, to include those participating in the Personnel Force Innovation program, must reimburse the appropriate military personnel appropriation at the WCF civilian-equivalency rates.

10.2.6. Full Recovery of Costs and the Setting of Prices

10.2.6.1. Managers of RF activities within each Component will set their prices based on full cost recovery, including all general and administrative support. Prices are established by the budget process and are represented at the aggregate level in the form of a composite rate. Prices and corresponding rates should remain fixed during the year of execution (exceptions are listed in Volume 11). Prior to execution, Components will conduct a review of prices changes for all National Item Identification Numbers to mitigate any unintended impact on customer buying power. Customers may request price challenges in accordance with DoDM 4140.01 Volume 9, section 6.2 and dispute bills between DoW Components in accordance with the process outlined in DoW FMR Volume 11. This stabilized price policy serves to protect customers from unforeseen inflationary increases and other cost uncertainties and better assures customers that they will not have to reduce programs to pay for potentially higher -than-anticipated prices. In turn, this policy allows activities to execute the budgeted program level and permits a more effective use of RF resources.

10.2.6.2. Except in unusual circumstances, prices for the budget year will be set to break even over the long run at the sub-activity level. Generally, this means that prices will be set to achieve an AOR of zero in the budget year, provided that cash and budgetary resources are available to support the adjustments. If unusual circumstances have put a severe strain on cash such that projected cash levels are below the lower limit of the operating range, the RF activity may consider planning for a positive AOR in the budget year. However, the AOR balance will either be off-set in the budget by deferring the AOR balance into the subsequent budget year or as a nonrecoverable AOR in the Fund-14. In budget execution, activities will incur either a positive or negative operating result. Accordingly, activities will adjust their budget year prices by increasing their rates to recover actual or projected losses of budgetary resources or decreasing their rates for the customers to account for excess cash resources or projected budgetary gains to customers. An activity may request recovery of AOR outside the budget year. This request must be included in the budget submission and must demonstrate that the alternative recovery period will not adversely affect the cash balance of the activity. A phased recovery schedule must be provided with the budget.

10.2.6.3. WCF rules for pricing and operating loss recovery or gain distribution may be waived or deferred if one or more of the following conditions exist.

10.2.6.3.1. Fund Liquidity: Component fund managers must maintain a positive cash balance throughout the year. The cash requirement developed on the exhibit, Fund 13b, Cash Requirements, provides a management guide for maintaining cash sufficiency.

10.2.6.3.2. Depot Maintenance Additional Requirements: If Component cash balances are projected to be sufficient by the end of the budget year, depot maintenance activities will recoup losses and return gains in the budget year. However, if cash balances will be outside the cash operating range, an out-of-cycle rate adjustment or surcharges may be directed, to restore cash to appropriate levels, at any time in accordance with subparagraph 10.2.6.3.1. Components may recoup unplanned depot losses in subsequent years with prior year resources. Prior to employing this financing method, components must notify the OUSW(C) Revolving Funds Director in writing of actions being taken and provide evidence all other criteria for prior year upward obligations are met.

10.2.6.3.3. A WCF activity operating overseas may experience significant operating losses or gains due to changes in foreign currency exchange rates. The WCF activities are not eligible to participate directly in the Foreign Currency Fluctuations, Defense (FCF,D) (97-X-0803) and the Foreign Currency Fluctuations – Construction, Defense (FCF-C,D) (97-X-0801) accounts.

10.2.6.3.4. In addition to spreading contract costs when developing rates for all customers, the RF activities may incur and recover costs for contracts awarded specifically to fill the requirements of one customer by charging that customer an amount equivalent to the RF activity's expense in funding, awarding, and administering the contract. During the year, price changes must be in accordance with Volume 11, section 25.

10.2.6.3.5. Unbillable costs and operational losses that cannot be billed to an identifiable customer or that were generated from unforeseen cost overruns are to be treated as costs in the fiscal year in which the costs were incurred. The resulting operating losses must be included in calculating net and accumulated operating results.

10.2.6.3.6. Unless approved in writing by the Director or Deputy Director for Revolving Funds as an out-of-cycle rate adjustment, the prices must be consistent with the rates set for all activity products, goods, or services approved during the budget review and documented in a memorandum signed by the USW(C), or designated representative.

10.2.6.3.7. Users must pay for the goods and services provided by all WCF activities, including deployment or other emergency response for military or humanitarian assistance. Consistent with this policy, third party collections for transportation provided in response to a Request-for-Assistance (RFA) from another government agency are prohibited. The Military Department that controls the equipment or personnel is responsible for reimbursing USTRANSCOM. It is then the responsibility of the Military Department that accepted the RFA to collect any required reimbursements due that Military Department by the requesting government agency.

10.2.6.3.7.1. The only exception to this policy is when the Joint Chiefs of Staff orders USTRANSCOM to transport non-U.S. equipment or personnel, such as for

non-reimbursed support to the United Nations. In these specific cases, the costs are covered by the respective military branches: the Army pays for Surface Deployment and Distribution Command, the Navy for Military Sealift Command, and the Air Force for Air Mobility Command. While billing can be centralized for convenience, invoices must be forwarded to the responsible Military Department within 30 days of the mission's start. These departments are required to pay all bills, including those for transportation, in a timely manner.

10.2.6.3.7.2. This guidance does not apply to contingency operations designated by the SecWar as a "National Contingency Operation" under 10 U.S.C. § 127. These operations are governed by separate rules, which are issued at the time of their designation

10.2.6.3.8. Base Realignment and Closure (BRAC)-Related Costs. Costs incurred in implementing the recommendations of the BRAC Commissions will be funded by the appropriate BRAC account and are not to be included in the rates and costs of businesses within the Fund. The WCF activities may incur BRAC expenses prior to receiving an allocation of BRAC funding; however, all costs properly charged against the BRAC account must be reimbursed with BRAC funds. The WCF activities may not expend funds prior to complying with the notification requirements imposed by law with respect to the obligation of BRAC funds. The BRAC account must reimburse all costs incurred by WCF activities to carry out BRAC prior to the end of the fiscal year in which costs were incurred. Prior year, current year, or budget year operating losses in WCF are not to be budgeted in the base closure accounts. Costs attributable to base closure actions at WCF activities to be budgeted in BRAC may include:

10.2.6.3.8.1. BRAC directed reductions-in-force, separation incentives, plant closures, layaway or custody costs, or other BRAC-related expenses, such as all costs not associated with a valid work order during the year of closure.

10.2.6.3.8.2. Environmental restoration and mitigation, to include reducing, removing, and recycling hazardous waste, and removing unsafe building debris.

10.2.6.3.8.3. Planning, to include conducting such advance planning and design as may be required to transfer from an activity being closed to another military installation.

10.2.6.3.8.4. Outplacement assistance in relocating, training, or providing other necessary assistance to civilian employees employed by the Department at installations being closed.

10.2.6.3.8.5. Community programs, to include economic adjustment assistance to a community in which the closed base is located, or community planning assistance to the community to which functions will be transferred as a result of closure of a military installation.

10.2.6.3.9. BRAC and WCF Rates. Overhead, not specific to BRAC and not in support of producing goods or services for customers, will be financed in the year the costs are incurred with the Components' Operation and Maintenance (O&M) appropriations. The WCF

losses occurring in years prior to closure will be recovered through the rate structure to the extent that there are new customer orders. When there are no new customer orders in the budget year, the Component responsible for the activity incurring the loss will finance, as a pass through from O&M appropriations to the WCF, all overhead not included in rates supported by ongoing work or prior year losses to be recovered in the budget year. All costs at a closing activity in the year of closure that are not associated with a valid work order or are not valid BRAC costs are O&M costs and must be budgeted in the fiscal year when they will be incurred.

10.2.6.3.10. BRAC-Related Permanent Change of Station (PCS) Moves for WCF Activities. Costs incurred to recruit and hire civilian personnel (including associated PCS costs) to fill vacant positions at an activity that is being transferred from a closing or realigning installation to another military installation in accordance with a BRAC recommendation may properly be considered BRAC costs under the Base Closure and Realignment Act of 1990. As a matter of Department policy, however, BRAC funds will not be used for such costs except in the case of WCF activities, which may temporarily charge such costs against the WCF, provided the WCF is reimbursed with BRAC or O&M funds by the end of the fiscal year in which the costs are incurred.

10.2.6.3.11. Eligible and Ineligible Costs. BRAC accounts are intended to cover specific expenses directly related to the closure or realignment, including: (a) reductions -in -force and separation incentives; (b) environmental restoration and hazard removal; (c) planning and design for transferring functions; (d) outplacement and training assistance for civilian employees; and (e) economic and planning assistance for affected communities. However, BRAC funds cannot be used to cover prior, current, or budget-year operating losses within the WCF.

10.2.6.4. Funding of Civilian Voluntary Separation Incentive Program will be financed and included in stabilized rates for civilian separation incentive requirements of assigned employees unless they must be offered because of a directed BRAC action, in which case the appropriate BRAC account will fund the civilian separation incentive.

10.2.6.5. WCF activities operating as tenants must reimburse the host installation for any base support services listed in Exhibit Fund-22, but only to the extent that their presence directly increases the host's costs. This reimbursement must follow the guidelines outlined in DoDI 4000.19 for support agreements. Costs for WCF mission products and services (e.g., depot supply, depot maintenance, facility engineering services, information processing, communications, and software development) should be based on the approved stabilized rate. However, for other incidental support, the WCF activity can only be charged for the measurable, incremental direct costs it creates. Overhead costs cannot be passed on to the WCF activity. All budgeted costs for these services, whether from the host or tenant perspective, must be documented on Exhibit Fund-22 in the fall budget submission.

10.2.6.6. The labor costs for first-line supervisors – those in official positions directly overseeing non-supervisory employees – are typically charged as an indirect production cost to the cost center they manage. However, there are two exceptions. First, if a supervisor's entire time is dedicated to a single project, their costs are handled differently. Second, if a supervisor is temporarily assigned to perform direct, hands-on work, their time must be classified

as direct labor and charged to the specific job order. This policy does not apply to subordinate leaders like “crew chiefs” or “team leaders.” For more detailed guidance on labor cost accounting, refer to Volume 11.

10.2.6.7. A management headquarters is a discrete organization or part of an organization that has authority over the management of the WCF activity. The OSD and Service Departmental activities normally do not have this direct responsibility. All the major systems/logistics organizations in the Services include headquarters elements directly supporting WCF activities that should be funded or reimbursed by the WCF activities.

10.2.6.8. Costs for discrete WCF management headquarters organizations and parts of organizations that perform direct WCF management headquarters functions can be financed directly in the WCF or reimbursed by the WCF activity (whichever is more practical). In addition, Components may allocate significant costs for common support functions, such as counsel or personnel services, at WCF management headquarters to other users based on workload percentages in those functions.

10.2.6.9. Dual-Funded Organizations are organizations that are funded (including reimbursable funding) by both the WCF and other appropriations or accounts. In instances where a non-management headquarters function is funded with a combination of WCF and General Fund (GF), the function initially will be funded in its entirety by either the WCF or GF, based on the preponderance of definable units of measure for the function (e.g., workload, productive hours, outputs, or ultimate use).

10.2.6.9.1. The entity that initially funds a shared function should be reimbursed by the other users for their proportional share of the cost. The reimbursement amount is based on the same metric (e.g., workload, hours) used to determine who paid the initial cost.

10.2.6.9.2. Initial Funding Rule. The part of the organization (or funding source provided) initially funding the function should be reimbursed for appropriate amounts by other parts of the organization (or financing sources or customers) involved, based on the unit of measure that was used to determine which organization or funding source would provide initial funding; and the amount of reimbursement should be based on the relative portion of that unit of measure attributable to each part of the organization or funding source involved. If the part of an organization that is within the WCF accounts for more than 50 percent (e.g., 60 percent) of the unit of measure for a function shared with the part of the organization funded through appropriated funds, then the WCF portion of the organization initially would fund all of the costs of performing that function. However, the applicable part of the organization funded through General Funds would reimburse the WCF for, and be allocated, the remainder of the costs (e.g., 40 percent).

10.2.6.9.3. This policy does not apply to base support services. The reimbursement amount for these services provided by the WCF to tenant activities must be determined according to the policies outlined in DoDI 4000.19.

10.2.6.10. When an RF activity purchases a capital asset that is also used by a GF entity, the RF activity must capitalize the asset and bill the GF user at a rate that recovers both capital investment and operating costs. Conversely, if a GF entity purchases an asset that is also

used by an RF activity, the GF entity will capitalize it and may bill the RF activity for operating costs, but it is strictly prohibited from billing for the asset's depreciation.

10.2.6.11. When a work order or project is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs, the RF activity should charge the customer for the direct and indirect production costs incurred, plus the applied overhead plus costs associated with the cancellation or reduction. Volume 11 provides specific guidance for the types of directly associated cancellation or reduction costs that can be charged to customers.

10.2.6.12. Write-offs of unusual or infrequently occurring losses are not chargeable against AOR and should not be recovered through increases in customer rates unless recovery of a cash loss or outlays is required and in accordance with accounting policies. Examples of unusual or infrequently occurring losses not recovered in rates include losses resulting from the disposal or divestiture of capital budget items that have not been fully depreciated at the time they are taken out of service due to BRAC action; or losses associated with systematic inventory reductions by disposal of assets associated with force drawdowns. Only unusual or infrequently occurring write-offs that require a cash resource will be separately identified in the Component's budget submission using the Fund-14, "Revenue and Expenses" exhibit.

10.2.6.13. Net Operating Results (NOR) Adjustments. There are instances where additional adjustments to the Fund-14 and NOR are required. For example: Cash Transfers in and out of the fund not directly related to operational performance (Direct Appropriations associated with natural disasters, humanitarian relief, pandemics, cash infusions, and reprogramming actions e.g., transfers in/out) may use below-the-line adjustments to the NOR to adjust for transfers that are not directly related to operational performance and subsequently does not support returning or collecting AOR.

10.2.6.14. All requests (to include justification) for NOR and/or AOR non-recoverable or deferred adjustments must be submitted in writing via a memorandum format to the FMOA Director for approval prior to or concurrent with the Budget Estimate Submission.

10.2.6.15. Methods for Rate Setting for RF Activities. All DWCF activities will establish rates using the following a multiple step process detailed in Volume 2 procedures.

10.2.6.15.1. Percentage Markup on Cost. A cost recovery percentage is applied to the purchase or repair cost of secondary supply items to recover overhead costs and other pricing adjustments. This method is typically used for supply management DWCF activities.

10.2.6.15.2. Direct Labor Hour (DLH). A specific dollar value, including all direct costs, overhead, and other pricing adjustments, is charged per DLH associated with the completion of a customer order. This method is typically used for industrial DWCF activities (i.e., depot maintenance, ordnance, and research and development).

10.2.6.15.3. Specific Unit of Output. RF activities that provide services via numerous outputs that do not have a common measure for calculation will establish separate rates for each output. When multiplied by projected customer workload for each output, the rates will produce revenue that approximates, to the extent possible, recovery of the full cost, including

approved adjustments, of providing the specific outputs (e.g., transportation, finance and accounting, information systems, and base support). This includes direct systems reimbursement.

10.2.6.16. Standard Fuel Price (SFP). During the budget development cycle, the Revolving Funds Directorate will establish the standard fuel price (SFP) for use by the Defense agencies and military departments to develop their fuel estimates for the budget. The Revolving Funds Directorate will use the OMB economic assumptions (EA) and the refined product costs experienced by the department to develop the SFP. The SFP consists of the refined fuel cost and the non-product cost, which includes cost for Sustainment, Restoration and Modernization (SRM), terminal operations, transportation, operations and product losses. During the year of execution, the SFP may be set at the budgeted rate or may be adjusted due to updated economic assumptions from OMB, the latest refined product cost experienced by the Department, changes in projected product costs, or the DLA Energy cash balance. The OUSW(C) must approve the SFP that will be used for the budget and changes thereafter.

10.2.7. Public-Private Partnerships at Depot Maintenance Activities

10.2.7.1. Guidance. Conditions for the sale of goods and services to non-DoW entities must be based on specific statutory authority. Pursuant to the authority granted to the SecWar by 10 U.S.C. § 2208(h) to prescribe regulations for DWCF activities and the use of inventories, this DoW guidance clarifies existing legal authority applicable in specific circumstances. The guidance set forth in this section:

10.2.7.1.1. May not be used to compete for non-defense related work;

10.2.7.1.2. Does not apply when otherwise precluded by public law;

10.2.7.1.3. Does not apply to products or services produced under work-share arrangements in which a DoW sponsor assigns work and separately funds the DoW depot maintenance activity and the private sector entity; and

10.2.7.1.4. May be used for sales to private sector entities only when the transaction is part of an arrangement that is officially recognized as a depot maintenance public-private partnership.

10.2.7.2. Sales Prices. To minimize potential DoW operating losses or gains, sales prices to private sector entities in depot maintenance public-private partnership relationships may be tailored to the most recent actual and projected costs, rather than the approved stabilized billing rates charged to DoW customers (10 U.S.C. § 2474). Tailored rates or prices charged for sales to private sector partners, if used, must ensure full cost recovery for the work involved in producing the specific products and services. Such tailored rates and prices must include: (a) all direct costs, (b) production or shop overhead costs that contribute to the final product and (c) a full allocation of General and Administrative (G&A) overhead costs, distributed on the same basis as for DoW customers. (Since G&A overhead costs cannot be attributed to specific products or services, there is no basis to include or exclude specific items of cost from prices charged to customers.). Exceptions to DWCF pricing policy for sales to private sector parties in depot maintenance

partnership arrangements, do not change the requirement that sales prices include unfunded costs, as prescribed in Volume 11.

10.2.7.3. Fixed Pricing. The DoW is authorized to sell goods and services to private sector partners using a fixed-price model, which can include multi-year agreements, provided that the work is well-defined and costs are predictable. This practice helps private partners forecast their expenses and allows for better use of DoW maintenance depot capacity. For projects where costs are uncertain, a cost-reimbursable model is more appropriate. Additionally, the DoW may accept incremental advance payments when the scope and risk associated with a contract make it a suitable option. Multiyear fixed price agreements are authorized when future production costs can be reasonably predicted and the potential for future losses and gains are minimal. Prices may be fixed at a predetermined level taking into account future year escalation factors like pay rate changes, general inflation, and the number of units produced. Multiyear fixed price agreements may also incorporate other pricing techniques such as establishment of a base price with provisions for economic price adjustments to accommodate inflation.

10.2.8. Military Clothing Items and Individual Equipment

The DLA Supply Management Activity procures military clothing and equipment (uniforms, combat equipment, tents, tool sets and kits, hand tools, and cleaning equipment and supplies) and bills users at standard prices. The Military Services are responsible for budgeting these items through the appropriate channels: the Military Personnel appropriation for new clothing bag items and the O&M appropriation for new organizational equipment. These budgets must be sufficient to cover the initial purchase and inventory, although funds can be reprogrammed if items are needed before the budget is formally approved. A replacement item is considered “new” if its cost increases by more than 10 percent compared to the item it replaces.

10.3 Budget Justification Material

Each Revolving Fund will submit justification material to the OUSW(C), Revolving Funds Directorate, in preparation for submitting the President’s budget request to the Congress following a review and approval by the OUSW(C) and the OMB. The following chart provides the required exhibits by Revolving Fund activity:

Exhibit	Exhibit Requirements	Activity*	Primary (P)/ Secondary (S)	4930.01		4930.02			4930.03			4930.04		4930.05				4932	4950	4931	4555	4164			
				Supp.	IO	Supp.	Depot	R&D	MSC	Depot	CSAG-S	SMAG-R	TWCF	Re-sale	Ops.	DFA's	DISA	DLA		DCSA	WHS		NDSTF	DeCA Surcharge	
																		SCM	Energy		DoCS	PRMRF			BMF
SM-1	Supply Management Summary by Division	S	P	X		X				X	X		X				X	X							
SM-3b	Weapon System Requirements	S	P	X		X				X															
SM-4	Inventory Status	S	P	X	X					X	X		X					X	X						
SM-5a	Markup on Materiel Cost	S	S	X		X				X	X							X							
SM-5b	OP-32 Price Change	S	S	X		X				X	X							X							
SM-6	War Reserve Materiel	S	P	X						X	X							X	X						
SM-16	Unit Cost Summary	S	S	X		X				X	X							X	X						
Fund-1	Summary of Price, Program and Other Changes All	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
Fund-1a	Details of Price, Program and Other changes (OP- 32)	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
Fund-2	Changes in Cost of Operations	NS	P	X		X	X	X	X			X		X	X	X		X	X	X	X	X	X		
Fund-3	Labor and Manpower Breakdown	I/D	S			X				X															
Fund-4	Summary of General and Administrative Costs	O	S																					X	
Fund-5	Total Cost Per Output Summary	NS	S		X		X	X	X	X			X		X	X	X		X	X					
Fund-6	Depot Maintenance 8% Capital Investment Plan	I/D	P		X		X			X															
Fund-7	Customer Rate Computations	I/D	S		X		X	X		X															
Fund-8	Air Mobility Command (USTRANSCOM)	O	S									X													
Fund-9a	Capital Investment Summary	All	P	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X			
Fund-9b	Capital Investment Justification	All	P	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X			
Fund-9c	Capital Budget Execution	All	P	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X			
Fund-11	Source of New Orders & Revenue	All	P	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
Fund-11a	Carryover Calculation Reconciliation	I/D	P		X		X			X															
Fund 12	Customer Orders to Customer Funding Reconciliation	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Fund-13	Cash Management Plan	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Fund-13b	Cash Requirements	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Fund-14	Revenue and Costs	All	P	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Fund-15	Fuel Data	F	P		X		X	X	X			X						X							
Fund-16	Materiel Inventory Data	I/D	P		X		X			X															
Fund-19	Military Personnel by End Strength	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Fund-23	Statement of Financial Condition	O	P																					X	
Fund-24	Summary of Personnel Data	NS	S		X		X	X	X	X		X			X	X			X						
Fund-28	Execution Performance Analysis	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Fund-30	Unutilized/Underutilized Plant Capacity	I/D	S		X					X															
CT-1	Surcharge Collections, Salesof Commissary Stores Summary	O	S																					X	
PR-1	Cost of Services	O	P																		X	X			
SP-1	Stockpile Financial Status Report	O	P																					X	
OP-8	Civilian Personnel Costs	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
OP-9	Analysis of FTE Costs	O	S												X										
PB-15	Advisory and Assistance Services	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
PB-22	Headquarters Costs	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
PB-54	Civilian Personnel Hiring Plan	All	S	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		

*Activity Key: F = Fuel; I/D = Industrial Ops/ Depot Maint; NS = Non-Supply; O = Other; S = Supply

11.0 OFFSETTING RECEIPTS

11.1 Program and Budget Submission

Each MILDEP must include offsetting receipts in their annual program and budget submission. Refer to Volume 2 procedures for instructions consistent with the provisions of the OMB Circular No. A-11.

11.2 Accounting Policies

Refer to Volume 11 for guidance relating to the DoW accounting for offsetting receipts.

12.0 DEFENSE HEALTH PROGRAM

The Defense Health Program appropriation encompasses three sub-accounts: Operations and Maintenance (O&M); Procurement; and Research, Development, Test, and Evaluation (RDT&E). Program and budget estimates must reflect the most current actual execution and

rigorous projections across the three periods of availability for each fiscal year. Detailed exhibit requirements are provided in Volume 2 procedures.

13.0 DEFENSE ENVIRONMENTAL RESTORATION

13.1 Applicability

The MILDEPs and applicable Defense Agencies with Defense Environmental Restoration Program (DERP) requirements use transfer account appropriations to fund DERP eligible cleanup activities at active installations and Formerly Used Defense Sites (FUDS) properties. Base Realignment and Closure (BRAC) appropriations to fund cleanup activities are addressed in section 7.

13.2 Environmental Restoration Account

This section directs readers to applicable guidance covering program and budget formulation for the Department's combined Program and Budget Review and congressional justification for Environmental Restoration Account (ERA) appropriations. Readers are also directed to guidance for programming, budgeting, and performance data necessary to meet reporting requirements, respond to congressional concerns, and conform to OMB guidance to link the Department's budget to the DERP performance goals for active installations and FUDS properties.

13.3 Eligible Appropriations

The appropriations eligible to receive funds from the Defense Environmental Restoration Transfer Accounts and their corresponding source for specific policies are O&M, Procurement, and RDT&E.

13.4 Procedures

All program and budget estimates, submission formats and required exhibits are found in Volume 2 procedures.

14.0 DRUG INTERDICTION AND COUNTER-DRUG ACTIVITIES

14.1 DoW Counternarcotics Budget Activities

The DoW Counternarcotics program provides appropriation for four budget activities, as listed in sections 14.1.1 through 14.1.4. The funds are appropriated to the Department's Central Transfer Account (CTA) titled "Drug Interdiction and Counter-Drug Activities, Defense." Although appropriated as an O&M account, the CTA has the authority to transfer funds to other appropriations (e.g., RDT&E or Procurement) for execution. This centralized structure supports unified budgeting and oversight while enabling execution across the entire range of DoW MILDEPs, CCMDs, and Combat Support Agencies.

14.1.1. Counter-Narcotics Support. This budget activity includes detection and monitoring of aerial and maritime transit, and countering the production, trafficking, and use of illegal drugs into the United States.

14.1.2. Drug Demand Reduction Program. This budget activity includes prevention, education, and outreach to ensure the dangers of drug abuse and misuse within the DoW are understood, prevented, identified, and treated to keep the fighting force at the highest levels of readiness.

14.1.3. National Guard Counter-Drug Program. This budget activity support State National Guard assistance to Federal, State, tribal, and local law enforcement agencies, and community-based organizations in efforts to disrupt and degrade illicit drug production and trafficking within the United States.

14.1.4. National Guard Counter-Drug Schools. This budget activity funds the operation of five National Guard counter-drug schools, which provide counter-drug and related counter transnational organized crime courses of instruction to Federal, State, local and community-based organizations from the 50 states, three territories, and the District of Columbia.

14.2 Responsibilities

The Office of the Deputy Assistant Secretary of War (Counternarcotics and Global Threats) (ODASW(CNGT)) is responsible for all submission requirements for this program. DoW Components are responsible for providing all needed input to ODASW(CNGT), consistent with the submission requirements and due dates established by ODASW(CNGT).

14.3 Procedures

All program and budget estimates, submission formats and required exhibits are found in Volume 2 procedures.

15.0 OVERSEAS COST REPORT

Section 8125 of the Fiscal Year 1989 DoD Appropriations Act (PL 100-463), as codified in 10 U.S.C. § 113, requires that the DoW separately identify the amounts necessary for payment of all personnel, operations, maintenance, facilities, and support costs for all DoW overseas military units and the costs of supporting all dependents who accompany DoW personnel outside the United States. Refer to the Volume 2 procedures for guidance on OP-53 Exhibit (Overseas Funding) requirements.

16.0 INTELLIGENCE PROGRAMS/ACTIVITIES

16.1 National Intelligence Program (NIP)

16.1.1. NIP Scope. The NIP provides integrated intelligence that covers broad aspects of national policy and national security. The portion of the NIP contained in the DoW Budget contributes substantially to meeting Defense intelligence requirements and may also contain programs/activities in support of elements of the United States Government outside the DoW.

16.1.2. NIP Classification. The Office of the Director of National Intelligence (ODNI) determines classification of U.S. Intelligence funding and manpower information, pursuant to EO 12958, Section 1.5(c); EO 12333, Section 1.5(g), and the DNI's authorities under the National Security Act of 1947.

16.1.2.1. NIP resource information in all DoW databases must be classified as shown in subparagraphs 17.1.2.2 thru 17.1.2.5 unless other specific NIP program guidance in effect requires higher classification. NIP resource information for military construction and family housing for defense agencies are exempt and must be maintained and presented as unclassified.

16.1.2.2. Information which, standing alone or in aggregate, reveals any Program Element (PE) total or DoW Component total funding or manpower requirements of any program in the NIP will be classified SECRET.

16.1.2.3. Information that permits the disclosure of any PE total or the funding or manpower requirements of any program in the NIP, for example, through a subtractive process, will be classified SECRET.

16.1.2.4. Whenever NIP funding and manpower information is combined with other unclassified programs in such a way as to effectively mask the NIP resource PE total, such combined resource PE total may be treated as unclassified.

16.1.2.5. Forward requests for clarification of the foregoing classification guidance to the Office of the Under Secretary of War for Intelligence and Security (OUSW(I&S)). The OUSW(I&S) will coordinate questions of application with the ODNI and disseminate responses to all interested DoW Components.

16.1.3. NIP Budget Submissions. DoW Components with NIP Special Program Codes (SPCs) will prepare and provide NIP Congressional Budget Justification Books (CBBJ) in accordance with guidance provided by the ODNI. Coordinate Decision Documents affecting elements of the NIP with the ODNI, the OUSW(C) and the OUSW(I&S). The OUSW(C), Program/Budget (P/B), Investment Directorate will ensure that the DNI Chief Financial Officer (CFO) has an opportunity to review and provide comments.

16.1.3.1. The DoW Components will implement ODNI's Intelligence Community Directive 104 and Military Personnel Resources Programming and Budgeting Policies and Procedures when developing NIP military personnel cost estimates for the budget submission.

16.1.3.2. The CBBJ will incorporate an Intelligence Community (IC) project to PE crosswalk exhibit at the R-1, P 1, and OP-1 levels to help satisfy continuous congressional budget reconciliation and visibility requirements. DoW Components must continue to show steady, measurable progress toward achieving fully captured, whole, distinct, NIP data elements for all appropriations RDT&E; Procurement (PROC); O&M; MILCON; and Military Personnel (MILPERS)) identified by NIP SPC. NIP resources will not be shared or aligned to Non-NIP PEs.

16.1.3.3. The ODNI will deliver one hardcopy and compact disk (CD) of NIP program and budget materials prescribed by the ODNI to the OUSW(C), P/B, Investment Directorate, Pentagon, Room 3C749, at the same time they are delivered to the OMB.

16.1.4. NIP Classified Appeals

16.1.4.1. Classified appeals may supplement actions included in the overall Defense Appeal where security considerations have dictated a less than complete justification. Prepare classified appeals at the appropriate level of classification to fully explain and justify the action. The ODNI will determine the appeals format and content.

16.1.4.2. Classified appeals will be consistent with the SecWar policy direction as articulated by the OUSW(C) and, in the case of appeals to legislative provisions, also as articulated by the Office or the General Counsel and the Deputy SecWar. Coordinate all NIP appeals with the OUSW(I&S), the OUSW(C) and the OMB before release to the House Permanent Select Committee on Intelligence (HPSCI), the Senate Select Committee on Intelligence, the House Appropriations Committee (HAC), and the Senate Appropriations Committee (SAC).

16.2 Military Intelligence Program (MIP)

16.2.1. MIP Scope. The MIP consists of programs, projects, or activities that support the SecWar's intelligence, counterintelligence, and related responsibilities as outlined in DoDD 5205.12. This includes those intelligence and counterintelligence programs, projects, or activities that provide capabilities to meet warfighters' operational and tactical requirements more effectively. The term excludes capabilities associated with a weapons system whose primary mission is not intelligence, along with all, programs, projects, and activities under the NIP.

16.2.2. MIP Classification. MIP projects, individual PEs and line items may be classified or unclassified according to content, unless disclosure of such a total would allow derivation of classified totals. The total DoW funding for MIP is classified SECRET. Intelligence project resource data will be sorted, aggregated, and used in different ways. It is essential that DoW Components comply with DoW Financial Management Sensitive Activities Security Classification Guidance and the OUSW(I&S) and the OUSW(C) receive DoW Component current SCGs to avoid inadvertent, unauthorized disclosure of classified information. Additionally, DoW Components are responsible for reviewing and validating their project level classification and include SCG compliance statements in their Congressional Justification Book (CJB) validation memorandum submitted to OUSW(I&S).

16.2.3. MIP Budget Submissions

16.2.3.1. The OUSW(I&S) will provide complementary MIP CJB guidance. The CJB is a functional aggregation of the MIP portion of the DoW request, containing program justification and resource highlights that must be consistent with and directly auditable to all DoW justification materials (e.g., R-2, P-40, OP-5) and any other DoW justification books that address the same resources.

16.2.3.2. The OUSW(I&S) will task DoW Components annually to provide SCG for each project, along with a citation of the source of classification and any other security classification guidance unique to the organization that may be pertinent to the MIP.

16.2.3.3. Each DoW Component identified in DoDD 5205.12, with resources delineated by SPC 296, 355, 365, or 398 will prepare DoW justification materials for each appropriation. Classified justification materials will contain sufficient detail needed to fully justify the classified portion of the request, without the use of supplemental justification materials.

16.2.3.4. The CJB will incorporate a MIP project to PE crosswalk exhibit at the R-1, P 1, and O-1 levels to help satisfy continuous congressional budget reconciliation and visibility requirements. DoW Components must comply with achieving fully captured, whole, distinct, MIP data elements for all appropriations (RDT&E, PROC, O&M, MILCON, and MILPERS) identified by SPC 296, 355, 365, or 398. MIP resources will not be shared or aligned to non-MIP PEs.

16.2.3.5. DoW Components will submit one hardcopy and PDFs of their classified R-2, P-40 or OP-5 and the OUSW(I&S) will deliver one final MIP hardcopy and PDFs of all volumes directly to the OUSW(C), P/B Investment Directorate, Pentagon, Room 3C749, at the same time as the unclassified details. The OUSW(C) will review and combine all DoW Component classified exhibits (SECRET and TOP SECRET) as a classified Defense-wide volume exhibit before releasing to OMB.

16.2.4. MIP Classified Appeals

16.2.4.1. Classified appeals may supplement actions included in the overall Defense Appeal where security considerations have dictated a less than complete justification. Prepare classified appeals at the appropriate level of classification necessary to fully explain and justify the action. Unclassified MIP appeals will follow normal procedures per additional guidance.

16.2.4.2. Classified Appeals will be completely consistent with the SecWar policy direction as articulated by the OUSW(C) and, in the case of appeals to legislative provisions, also as articulated by the Office of the General Counsel and the Deputy SecWar. The OUSW(I&S) will prepare classified appeals for the MIP and must coordinate with the OUSW(C), the ODNI CFO and the OMB before release to the House Armed Services Committee, Senate Armed Services Committee, HAC, and SAC, and HPSCI.

17.0 INFORMATION TECHNOLOGY (INCLUDING CYBERSPACE ACTIVITIES)

17.1 Office of Primary Responsibility

Within the office of the Chief Information Officer (CIO) of the DoW, the Deputy CIO for Resources and Analysis (DCIO(RA)) is responsible for collecting, assembling, and reporting of the Department's Information Technology and Cyberspace Activities (IT/CA) budget for the purposes of submitting complete and accurate IT/CA justification materials to the OMB and the

Congress. DoW CIO DCIO(RA) will issue annual supplemental guidance that addresses detailed and amplifying submission requirements, relevant changes, and submission due dates.

17.2 Applicability

The IT/CA budget submission materials apply to the Office of the SecWar (OSW), the MILDEPs (including their National Guard and Reserve Components), the Joint Staff, the CCMDs, the DoW Inspector General, the Defense Agencies and Field Activities, the Joint Service Schools, the Defense Health Program, and the Court of Military Appeals.

18.0 OTHER SPECIAL ANALYSES

This section introduces DoW budget formulation and congressional back-up information requirements for various special interest areas not covered in the preceding sections. The exhibit requirements cover resources crossing DoW appropriations and are generally functional in nature. Exhibits are required for program review, budget review, and congressional justification/presentation submissions. Detailed information on submission requirements, exhibit or material preparation, and special instructions on the review processes are provided in Volume 2 procedures.

18.1 Combating Terrorism

The data collected for Combating Terrorism through reporting process will be used to comply with congressional and OMB reporting requirements. The Department will also use the data to evaluate the Components' combating terrorism efforts during program and execution reviews. Office responsibilities and definitions specific to Combating Terrorism are provided in Volume 2 procedures.

18.2 Major Range and Test Facility Base

The Major Range and Test Facility Base (MRTFB) exhibit formats submitted in support of the Program and Budget Review submission are the same as those submitted to the Director, DoW Test Resource Management Center (TRMC) in support of the President's Budget except that the President's Budget submission will not include updates to any of the Direct (User) funding or MILCON information on any exhibit to include Exhibit 2D, Source of Direct Funds, in whole. This guidance applies to the activities included in the MRTFB, as defined in DoDD 3200.11. Budget estimates will be in accordance with the applicable funding policy for the required appropriation or account.

18.3 Test and Evaluation Funding

The DOT&E is charged with oversight of the DoW T&E resources and funding of T&E by each major DoW program. Modifications to the instructions in Volume 2 procedures, requests for deviations from their provisions, or requests for their clarification or applicability should be directed to and coordinated with DOT&E and OUSW(C) Program and Budget.

18.4 Financial Management Activities

Information on funding levels for financial management activities is required for oversight and review of component resources devoted to these activities and to ensure that their use is in accordance with the government-wide 5-year financial management plan prepared by OMB as required by the Chief Financial Officers Act of 1990. It fulfills the requirements outlined in OMB Circular No. A-11, Sections 130 and 150, which govern apportionment reporting and administrative control of funds.

18.5 Federal Credit Programs

Credit programs in the DoW consist of direct loans and guaranteed loans. Submission requirements and definitions specific to the DoW credit programs are provided in Volume 2 procedures. Agencies can also refer to OMB Circular No. A-11 for a more detailed explanation of terminology and budget instructions.

18.6 Other Interest Areas

The Congress or OMB has prioritized areas of special interest that require submission of additional budget justification material, with requirements extending beyond a single appropriation. The list and corresponding instructions for these exhibits are provided either in Volume 2 procedures or OUSW(C) guidance for the budget review and/or the President's Budget submission.