

## II. BUDGETING PHASE

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**Introduction.** The Budgeting Phase of the capital programming process occurs when decisions are made across the Government on how much to spend and how to allocate the spending among different priorities.

Budgeting overlaps the Planning Phase and begins when the agency starts to incorporate budget concerns into its strategic and annual performance planning, including consultation with OMB staff and perhaps Congressional staff. Budgeting realities become a greater concern when the agency

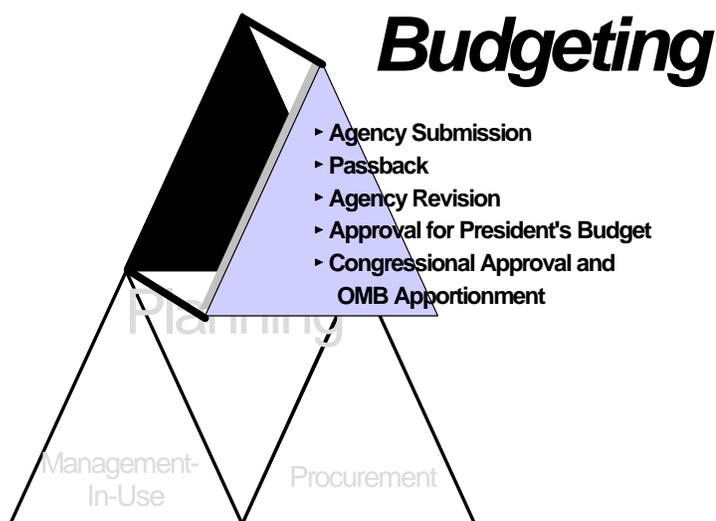
formally requests budget authority for the asset in its submission to OMB for the coming year. Although budgeting begins in the Planning Phase, the agency request to OMB for asset acquisition is used here as the formal beginning of the Budgeting Phase. This Phase ends when Congress appropriates funds for the acquisition and OMB apportions the funds to the agency. If OMB or Congress chooses not to fund the acquisition, it could return to the Planning Phase for submission again in a later year or further review for a new solution if the requirement continues to exist in order to meet strategic goals and objectives.

Planning, budgeting, and other Phases should be well integrated, with information from one phase causing periodic reviews of the other. For example, information in the Budgeting Phase that the full agency request will not be approved should cause agencies to change the project's cost, schedule, or performance goals.

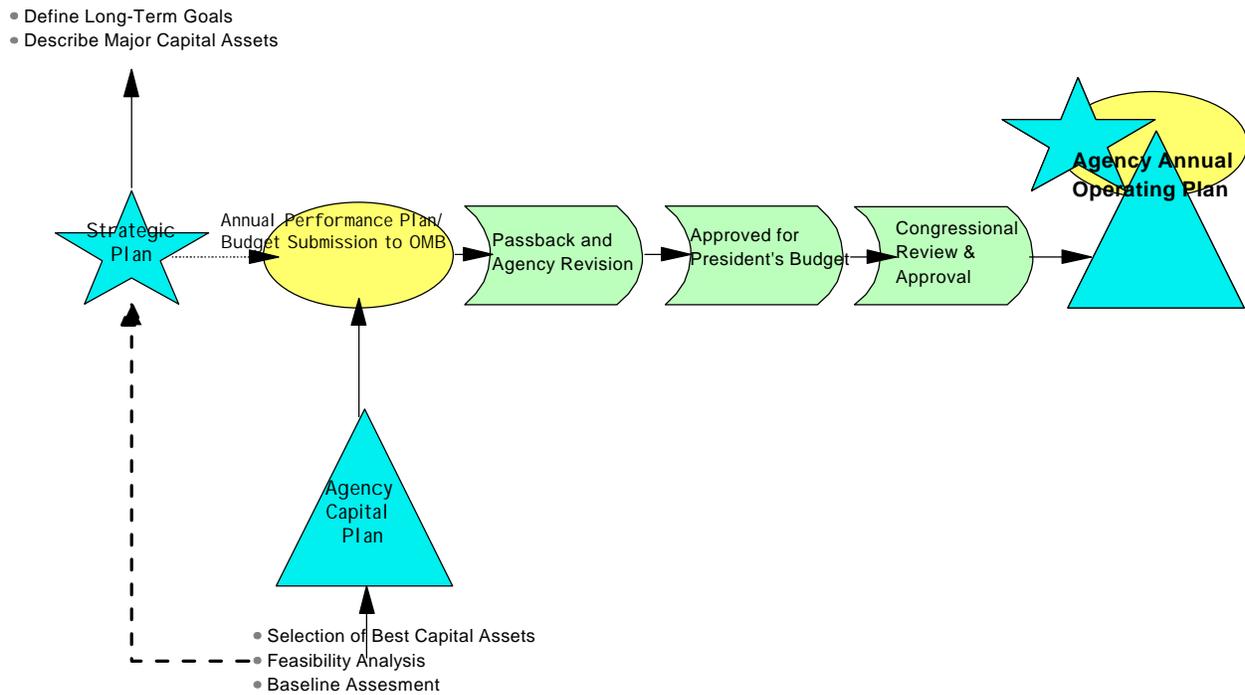
This Phase differs from the other phases in part because the major decisions in the Budgeting Phase are not made by the agency. They are made in part by OMB (whether to include the request in the Administration's budget proposal to Congress), and by the Congress (whether to enact budget authority for the acquisition).

This Phase could also be called the "justification" or "approval" phase. The agency justifies its proposal to OMB and the Administration, and if approved, the agency and the Administration justify the proposal to Congress.

Agencies are encouraged to justify their proposals by following the criteria in Step I. 6. 3. 4., which is the justification section of the Agency Capital Plan.



**Figure 10. The Budgeting Phase**



## STEP II.1. AGENCY SUBMISSION FOR FUNDING IN THE BUDGET YEAR

The annual budget submission to OMB includes those decisions of the Executive Review Committee on the portfolio of capital assets that are approved by the agency head. The agency submission should be consistent with the *Principles of Budgeting for Capital Asset Acquisitions*, which was published with the *FY 1998 Budget* and can also be found in Appendix Seven to this Guide. Once submitted, the agency may be called upon to defend the proposal formally in OMB's agency hearings, or informally in many other ways. The proposal will undergo further scrutiny within OMB, and OMB may request more information from the agency, before the OMB Director makes the budget recommendation to the President.

In most cases, the formal submission to OMB will not be the first time OMB or Congress learn of the proposal, because OMB, and perhaps Congress, may have been involved in developing the Agency Capital Plan and in approving funding for the Planning Phase. It is also not the first time that the agency has been involved in budgeting and justification. Within the agency, budgeting and justification take place among the various programs and bureaus. Projects that cover more than one appropriation account within the agency or are multi-agency projects should have undergone careful planning to determine how the total cost should be allocated among the various accounts. By the time it is proposed to OMB for funding, the project has survived the competition for resources within the agency and is ready, in the view of the agency head, to compete in a larger and more demanding arena for budgetary resources.

## **II.1.1. Criteria for Justification of Spending for Proposed New Capital Assets**

Although the details will vary depending on the acquisition, there are certain key criteria that OMB will look for in the justification. OMB Circular A-11, Part 3, defines the budget submission requirements for both new and in-process acquisitions. These criteria can be drawn from the Agency Capital Plan Step I. 6. 3. 4. *Justification of Spending for Proposed New Capital Assets*, as well as other sections of the Guide. The criteria are explained more fully in that Step and expanded upon in Appendix Seven, *Principles of Budgeting for Capital Asset Acquisitions*. The principles incorporate the requirements of the Clinger/Cohen Act of 1996 for justifying budgets for capital assets. The three parts of the justification discussed here are:

1. Basis for selection of the capital asset;
2. Principles of financing; and
3. Strategies for strengthening accountability for achieving goals

### **II.1.1.1. Basis for Selection of the Capital Asset**

The basis for selection of the capital asset is taken from Step I. 6. 3. 4. and should cover each of that step's parts. Illustrations of questions OMB program analysts may ask when reviewing agency submissions are shown below.

**Illustrative Agency Statement of Program Objectives and Related Information:** The program is expected to process 50,000 documents next year and will have to process a projected 60,000 documents by the year 2002. Legislation making the documents more complicated is likely to be enacted. Current projections indicate that the number of Federal employees (FTE) must decline by 15 percent between now and 2002.

**Illustrative Questions from OMB and Others Regarding Program Objectives:** Are the documents important to the agency mission? What is the basis for the projected increase in the number of documents? What are the assumptions regarding the complexity of the documents and the amount of time needed to process each document? What is the basis for assuming that the number of Federal employees will decline?

### **II.1.1.2. Principles of Financing**

The following principles of financing should be followed for the acquisition of capital assets. These are from *Principles of Budgeting for Capital Asset Acquisitions* (see Appendix Seven).

- ***Principle 1. Full Funding.*** Agencies should request budget authority sufficient to complete a useful segment of a project (or the entire project, if it is not divisible into useful segments). Full funding must be appropriated before any obligations for the useful segment (or project) may be incurred.
- ***Principle 2. Regular and Advance Appropriations.*** Regular appropriations for the full funding of a project or a useful segment in the budget year are preferred. However, if this

results in spikes that, in the judgment of OMB, cannot be accommodated by the agency or Congress, OMB will recommend that a combination of regular and advance appropriations that together provide full funding for a project or a useful segment should be proposed in the budget.

- ***Principle 3. Separate Funding of Planning Segments.*** As a general rule, planning segments (e.g., initial planning, competitive prototypes) should be financed separately from the procurement of a useful asset.
- ***Principle 4. Accommodation of Lumpiness or “Spikes” and Separate Capital Acquisition Accounts.*** To accommodate lumpiness or “spikes” in funding justified acquisitions, agencies, working with OMB, are encouraged to aggregate financing for capital asset acquisitions in one or several separate capital acquisition budget accounts within the agency, to the extent possible within the agency’s total budget request.

**Illustrative Questions from OMB and Others Regarding the Full Funding Guidance:** Can the acquisition be separated into several economically and programmatically separable stages or modules? If so, how did the agency do this? Is each stage or module prepared for the budget year fully funded up-front? If not, is the entire acquisition fully funded up-front? Explain why you chose the type of account that you did rather than an alternative type.

### II.1.1.3. Strategies for Strengthening Accountability for Achieving Goals

Failure to achieve the project cost, schedule and performance goals can have serious consequences on the ability of the agency to meet its strategic goals and objectives and can seriously effect the agency budget for many years. In addition to providing the cost, schedule and performance goals, agencies should describe: how much development work is involved; the procurement strategy that will be used (including use of competition and financial incentives); how the acquisition will be managed (use of IPT and the performance-based management system that will be used to provide visibility into program status); the risks associated with the acquisition; the probability of achieving the goals and the thresholds for termination of the project. This material can be taken from the ACP, Step 1.6.3.4.2.

**Illustrative Requests from OMB and Others Regarding the Cost, Schedule, and Performance Goals:** Provide baseline cost and schedule goals for the acquisition. Explain the agency system for developing the baseline goals and evaluating whether the goals will be met. Explain the performance goals for the asset. Explain the risk that the cost, schedule, and performance goals will not be met and how that risk will be monitored and controlled.

## STEP II. 2. PASSBACK

In this Step, the agency is formally advised of the OMB Director’s recommendation regarding the acquisition. If the agency justification for the asset does not adhere to the “*Principles of Budgeting*

*for Capital Asset Acquisitions,”* or OMB recommends other uses for the funds requested, the acquisition may require considerable changes from the initial agency request, including different funding levels, different modules for full funding, changes in the performance goals, and alternatives for financing the proposal. Agencies can normally appeal the Director’s recommendation to the President or his advisors, if they wish.

### **STEP II.3. AGENCY REVISION**

The agency may have to redesign certain aspects of the proposal or the cost, schedule, or performance measures if funding has been reduced or other changes have taken place as a result of passback.

### **STEP II.4. APPROVED FOR THE PRESIDENT’S BUDGET**

If the proposal has survived OMB’s review process, it is ready for inclusion in the President’s budget proposal to Congress.

### **STEP II.5. CONGRESSIONAL APPROVAL AND OMB APPORTIONMENT**

Congress reviews the proposal and, if Congress approves it, enacts budget authority to finance the proposal. If budget authority is enacted for the project, OMB apportions the budget authority to the agency, subject to the Anti-Deficiency Act and the Impoundment Control Act.

#### **II.5.1. Congressional Approval**

Any proposal is likely to face critical questioning by Congress. The agency and others in the Executive Branch may be called upon to justify the request, much of which may be based on material in the Agency Capital Plan. The justification may take place in formal or informal hearings or presentations before authorizing or appropriations committees or staff. Additional revisions to the proposal may be required if Congress changes the proposal or the funding levels or decides to take other actions.

#### **II. 5. 2. OMB Apportionment**

The final part of the Budgeting Phase is apportionment. After budget authority is enacted, the agency is not permitted to obligate the funds until OMB apportions them to the agency, subject to the conditions of the Anti-Deficiency Act and the Impoundment Control Act. Under certain conditions, apportionment (and reapportionment) may be used to help ensure sound management of the spending.

The Budgeting Phase formally ends when the funds are apportioned to the agency. From this point, plans for the asset procurement and management-in-use are adopted into annual operating plans of the agency. Congress, OMB, and others will continue to monitor the progress of the procurement and take corrective actions if necessary.