



OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301

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ACQUISITION
(PO/PR)

MEMORANDUM FOR ADMIRAL SMALL
THROUGH: MR. CHRISTIE TPC 5 MAY 1987
SUBJECT: EPA Guidance

(U) In your note of May 11, you asked about PA&E's guidance to the Services on the Extended Planning Annex (EPA). This memorandum provides background on PA&E's proposal and an update on its current status with the Services.

Background

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Chief, Records & Declass Div, WHS
Date: NOV 02 2012

✓ Problem
arises in
that the
services use
Y&P as
baseline
in EPA

word for
the EPA
should be
explicitly
established
by top
management.

(U) You will recall from our briefing on the Implementation Review that the EPA is now being cast by PA&E as an "off-year" document in the new biennial budget process. I think that is a sensible approach for a couple of reasons. First, under the old process, the Services frequently submitted the EPAs late, with the result that OSD had little opportunity to make use of them in the program review. And even with late submission, the Services generally felt that they didn't have enough time to do the job right. Second, under the old process, OSD lacked a forum in which to conduct a meaningful review of the document. That is, even though some of the information in the EPAs might have been used in a particular issue paper (assuming the information was available in time), there was no opportunity to review the long range plans as a whole.

EPA
should
come
first +
drive +
Y&P
build.

(U) By making the EPA an off-year document, OSD may be able to establish a review process by which the long-range planning issues raised by the EPAs influence the development of the next five-year plan. In this process, long-range planning would become a potentially useful tool for developing the five-year program, rather than an after-the-fact exercise as it has been in the past. The Services would also have more time to prepare the documents under this process.

✓ Review
process
essential
to make
EPA Bill
worthwhile.

Initial Service Reactions (U)

(U) PA&E's draft EPA guidance, a copy of which is attached, was presented to the Services' EPA action officers at a meeting on May 1. I attended that meeting, along with Howard Ong and Ginny Sniegou. The Service representatives voiced two main concerns at that time. The first concern was the limited time available to prepare the submissions--approximately two months under PA&E's suggested due date of mid-July. This concern was compounded by the major increase in detail requested and by the prior expectation that no POM documents would be required this year. The second concern was the lack of realism in the assumed

✓ and
limited
service
staffer

problem
inherent
with summary
of Y&P
instead of using EPA to drive Y&P build

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fiscal constraint. In particular the Service representatives were not eager to develop lots of detailed information for an exercise that was meaningless from the start because of an unrealistic affordability constraint.

(U) The Services were asked to provide official comments on the PA&E draft guidance at the programmers meeting on May 5. At that meeting, the Services were apparently united and vociferous in their opposition to the PA&E proposal. They considered the timeframe impossible and the amount of detail excessive. In response, David Chu asked the Services to submit alternative proposals by May 13.

The Fiscal Guidance Issue (U)

↳ Expanded reporting requirement essential to improved long range planning

Even if you fixed the baseline problem you would still have larger surplus discrepancies because services show higher level of constant dollars for

Throughout all these discussions, the issue of fiscal guidance has been debated but never resolved. Traditionally, the EPA has been developed under a fiscal constraint of 1% real growth from the last year of the FYDP. This year, that approach presents a major problem, because the only FYDP we have is substantially above the official, three-percent-growth topline for the last three years of the five-year plan (FY90-92). In FY92, the FYDP number is \$415B, almost \$30B higher than the official topline figure of \$387B. An EPA projected at 1% growth on top of the FYDP number would result in a ten-year cumulative funding surplus of more than \$300B in FY88 dollars relative to an EPA projected from the official topline. This is the source of the Services concern that an EPA analysis that starts from the FYDP base would be a meaningless exercise from an affordability stand-point. This is especially so when one considers the likelihood that even the official topline will prove to be unrealistically high in light of Congressional action on the FY88/89 budget request.

(U) On the other hand, there are problems in preparing EPAs on the basis of the official topline for FY92. Prime among these is the fact that the Services would have to redo the FYDP in order to stay within the official topline. Doing so would effectively create a "cut list" by identifying the differences between the FYDP and the "scaled-back" FYDP. Not doing so would mean that the EPAs would start with incorrect data about what had been purchased prior to the EPA period.

(U) The fiscal guidance dilemma has always been the big problem with the EPAs. To do good affordability analysis we should really assume tighter fiscal constraints than the FYDP, but doing so would admit that the FYDP is unrealistic and generate a list of "marginal" programs. This year the problem is worse than usual because we didn't pay as much attention to the last three years of the FYDP when we prepared the two-year budget.

✓✓
Can't fix acquisition problems (ie cost growth) until fiscal guidance dilemma is fixed

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