



Defense Security Cooperation Agency

Programmatic and Budget Guidance for Foreign Military Sales Administrative Budget (FY02-03)

February 14, 2001

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Overview

Director's Address

The issuance of this programmatic and budget guidance document comes at a time of great change in the area of Security Cooperation. As we move into the future, it is imperative that we keep in mind that Security Cooperation is foremost a program of engagement. It is a key component of our National Security Strategy through the engagement of our allies in coalition and cooperative efforts through IMET, EDA, Foreign Military Sales, and other cooperation programs.

Security Cooperation must adopt a culture that is based on performance and results, such as those outlined in the Government Performance and Results Act. As we begin this budget cycle, DSCA and the Security Cooperation community will implement a new way of planning, programming, and budgeting. This new approach, Performance Based Budgeting, will allow us to link our budgets to corporate strategy, planning, and performance measures.

Additionally, DSCA has commissioned a study to assess the need and approach for an FMS-wide costing capability. Performance Based Costing will explore the feasibility of developing a consistent costing backbone that further ensures that as a community we are maximizing the use of our limited resources to accomplish the most we can for the US National Security Strategy.

As we move into the 21st century, Security Cooperation must focus aggressively to seek opportunities for adopting automation in support of its business processes. We should particularly emphasize initiatives that increase customer interface and decrease response times. To this end, we should strive to utilize modern technology and internet-based tools which have created a watershed of efficiency and savings in Corporate America.

It is inconceivable to run FMS solely like a business though, and DSCA realizes that this is a unique community with a distinct mission. But, we can optimize where possible, and sustain flexibility and creativity in the system. This realization leads to what I call a *new paradigm* for a new era of Security Cooperation. It will become increasingly important to develop ways to further the involvement of government through creative industry cooperation to better serve our foreign customers. We must embrace Direct Commercial Sales and other alternative vehicles as opportunities to engage foreign customers and further US interests. As such, Direct Commercial Sales is a program of engagement and DoD and DSCA should and will be involved because US national security interests are involved.

Finally, I want to stress the need for centralized policy direction and budget allocation formulation, but decentralized program execution. This is the only way these programs can achieve their optimal success, and this will require teamwork across the MILDEPs and consensus on strategy and operational objectives.

The challenges are many and difficult, but as a team we can and will meet them head-on and attain our strategic vision of becoming the premier agency recognized and respected as the acknowledged leader in Security Cooperation around the globe.

Introduction

During the past several months, the Defense Security Cooperation Agency (DSCA), with the assistance and input of key personnel in the implementing agencies (IAs), has undergone considerable change in an endeavor to improve the way we develop and execute the Foreign Military Sales (FMS) Administrative budget. The result of that effort is the new Performance Based Budgeting (PBB) Cycle. The PBB Cycle will improve DSCA communication, collaboration, and partnering with agencies that conduct Security Cooperation activities.

The primary objective of PBB is the development of a budget process that links budgets to corporate strategy, planning, and performance measures for justification purposes. The key difference in this new PBB process is the use of the FMS Core Function approach. The new PBB Cycle is built around six FMS Core Functions developed collaboratively with the Military Departments (MILDEPs) and other key stakeholders:

- Pre-Letter of Request
- Case Development
- Case Execution
- Case Closure
- Other Security Cooperation
- Business Sustaining

As the new budget process matures and as the Security Cooperation community learns from this transitional year, DSCA anticipates a refinement and possible redefining of the Core Functions over time. Figure 1 provides an overview of the Core Functions.

Figure 1: Core Functions

Core Function	Definition
Pre-Letter of Request (LOR)	Efforts expended prior to receipt of a LOR, includes responding to inquiries, pre-requirements determination, developing a Total Package Approach (TPA), if required or specifying the mix of FMS and Direct Commercial Sales (DCS) under a hybrid approach.
Case Development	Efforts required to process customer request, gather, develop and integrate price and availability data for preparation of a Letter of Offer and Acceptance (LOA). These efforts continue from receipt of a customer's LOR through case preparation, staffing, and customer acceptance.
Case Execution	Overall coordination to initiate case implementation efforts required to conduct and execute case management, security assistance, team management, technical, logistical, and financial support, and the contractual efforts under acquisition and contracting.
Case Closure	All actions required to perform logistical reconciliation, financial reconciliation, certify line, and case closure.
Other Security Cooperation	All efforts involved in the administration and management of special programs and projects associated with Security Cooperation requirements, particularly, the non-FMS Security Cooperation programs authorized under the Foreign Assistance Act, such as International Military Education and Training (IMET), the Foreign Military Financing (FMF) program, the grant Excess Defense Articles (EDA) program, and Direct Commercial Sales.
Business Sustaining	Efforts required in providing employee supervision, leadership, and guidance including personnel management, workload management, and secretarial support that cannot be traced directly to one of the other five core functions or specific cost objectives.



The first year of initiating the PBB Cycle will be one of transition and learning. As a transitional year, the PBB Cycle focuses on budgeting for the FMS Administrative fund allocation. Other funding and programs will be added to the PBB Cycle as the process matures and when feasible.

The purpose of the DSCA programmatic guidance, referred to as the Corporate Security Cooperation Performance Plan or CSCPP in the FMS PBB Implementation Plan (October 25, 2000) is to provide specific information on how DSCA and the IAs will conduct business in FY02 and the out years. This document will address the business and financial outlook of DSCA as well as lay the framework for a performance plan for the IAs. The guidance document begins with an introduction of the business and financial outlook for DSCA and the IAs. The outlook includes financial information regarding the FMS Administrative trust fund, including revenue forecasts, ceiling levels, and funding targets. The next section describes the major trends and challenges facing the Security Cooperation community. The information in this section is derived from the Call for Security Cooperation Issues completed in December 2000 as well as from meetings, selected documents, surveys, and various communications with members of the Security Cooperation community. The final section will be the Programmatic and Budget Guidance for the MILDEPs. This guidance is to be used by the IAs in the development of their Implementing Agency Security Cooperation Performance Plan (IASCPP), and for presentations for the upcoming Security Cooperation Programming Conference scheduled for April 10, 2001. The Security Cooperation Programming Conference is instrumental in setting final programmatic budget levels for the IAs throughout the upcoming budget execution year.

Security Cooperation Outlook

This section presents the overall financial outlook for the FMS program by focusing on three elements (budget outlook, sales projections, and budget targets). These elements frame the health of the fiscal and budgetary landscape of FMS by impacting the FMS Trust Fund Administrative Account Balance. The budget outlook is a three year projection of anticipated income (sales) and expenses (budgets). The FMS sales projections are the most important data input into generating the projected revenue streams. Finally, the MILDEP budget targets are in essence the spending or expenditure levels that comprise the annual FMS budget ceiling level and expenses. Before presenting the outlook for FY02 and beyond, this section presents a high-level wrap-up for FY00. The purpose of this section is to communicate to the IAs the intricacies of what is involved in developing sales and revenue projections, ceiling level, as well as MILDEP budget targets. These budget targets are reiterated in the MILDEP Guidance section of this plan along with specific instructions for the IAs to prepare for the upcoming Security Cooperation Programming Conference. While DSCA is keenly aware that Security Cooperation is more than a sales program and is also a program of engagement, the fiduciary responsibility of maintaining a fiscally sound operation is also imperative.

Current FMS Business Environment

A review of FY00 and early FY01 business activity reveals a number of strategic and operational initiatives that will impact the Security Cooperation community in monumental ways. Many of the programmatic and strategic issues are addressed in the following section,



entitled Major Issues and Trends. Given the sales levels, the revenue generated from the FMS Administrative rate and Logistical Support Charge is adequate to maintain the solvency of the FMS Administrative Account for the foreseeable future. From a fiscal perspective, the sales of the last two complete years, FY99 and FY00, reached over the \$12 billion level, and FY01 sales are projected at \$12.1 billion. FMS has recovered from the economic downturns and “Asian flu” of the FY97 - FY98 period. Even as the US government increases partnering efforts with industry vis-à-vis Direct Commercial Sales, DSCA expects a continued strong FMS environment. The outlook of FMS within the Security Cooperation framework is promising.

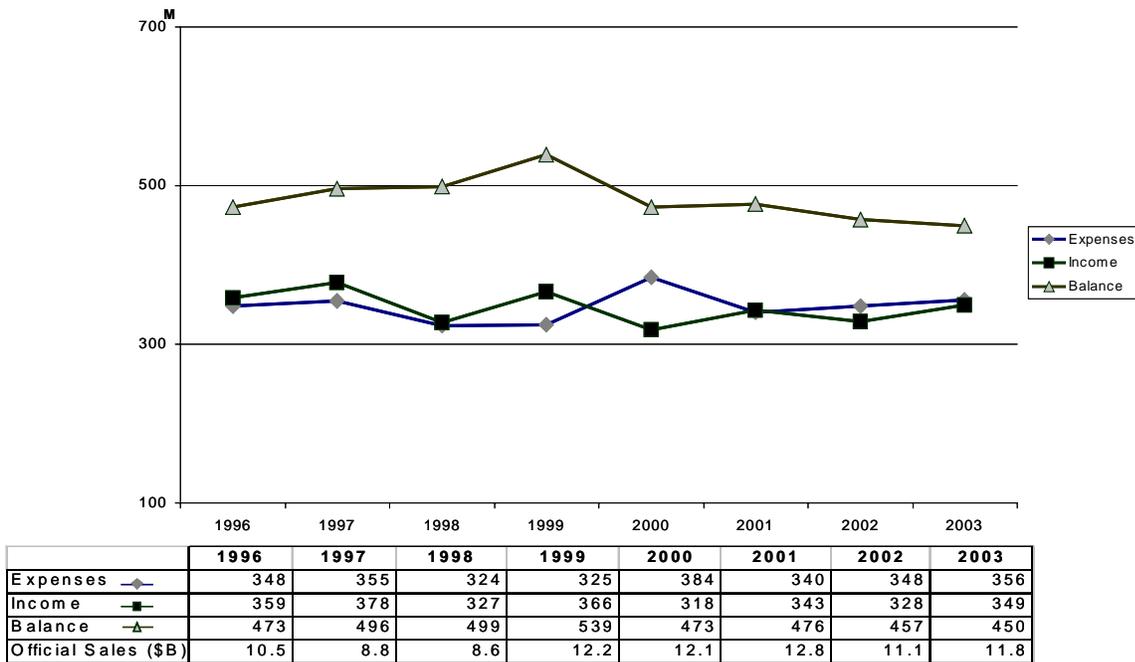
FMS Budget Outlook

This section is focused on the FMS Administrative Fund Budget Outlook. This is a three year projection (FY01 – FY03) of anticipated income and expenses. The significance of these revenue and expense actual results and estimates is that they permit an assessment of the solvency of the FMS Administrative Fund. They provide the context for decisions about the future FMS Budget annual ceilings. The overall DSCA fiscal stewardship requirement is to evaluate trends and balance income and expenses over the forecasting period. Given the sales projections independently arrived at, DSCA is responsible for adjusting rates or expenses to finance estimated requirements (budgets). Within these parameters, DSCA is also required to maintain a closeout reserve for unanticipated and/or adverse condition.

At current levels of estimated sales, we anticipate that sufficient revenue will be generated to finance the current FMS Military Department work force, accommodate pay raises, inflation, and some programmatic increases. Figure 2 provides the current budget outlook scenario, including anticipated budget targets. These targets are described in more detail later in this section. The budget outlook is comprised of three important components: expenses, income, and the fund balance. The components and their interaction determine the level of spending available annually. Income per se does not determine the amount of spending in one fiscal year. Due to the timing of the collections from FMS cases, income and expenses do not match within any given accounting period. Thus, annual income and expenses are two distinct elements in FMS.



Figure 2: Budget Outlook



Note: Sales revised for FY01. FY02 and out years budget baselines are under revision – plan to stabilize, add pay raises and inflation, and seek OMB and Congressional approval for new ceiling levels.

Expenses for the out years are set by the DSCA Office of the Comptroller. Since 1995, most of the expense levels were developed and presented in a 5 Year Plan created to assist in reducing the DoD FMS work force after the surge from the Desert Storm and Desert Shield-era FMS cases, and in anticipation of lower workload from significantly reduced sales, i.e., the \$7-8 billion range. Thus, the 5 Year Plan determined fixed expenditure numbers or baselines for the MILDEPs with the end game in mind of balancing expenses with anticipated income. For the most part these baselines have been followed. There have been, however, adjustments, to some MILDEP baselines. For instance, due to strong sales in 1996, the 1997-2000 planned reductions were extended to a longer period, and the rate of decrease was moderated. Additionally, the Navy and DSCA engaged in a dialogue about the Navy’s FMS workload and its administrative funding, and subsequently increases were applied to its 2000 and 2001 baseline levels. Now, due to trend in actual and expected sales at the \$12 billion level, DSCA is reviewing the baselines. Consequently, the 5 Year Plan will be superseded by the PBB Cycle planning and programming efforts.

The Denver Liaison Office (DLO) estimates the income line with data input from DSCA’s Program Support Division and its various Country Program Managers. The income line of the budget outlook is comprised of three interdependent inputs or components: new sales, prior sales, and the resulting revenue stream of estimated collections. The collections come from the initial 2.5 % FMS Administrative charge and the remaining administrative revenue throughout the life of the case, and the Logistics Support Charge (LSC). The income projections are based on historical “life of case” experience developed by DLO, using at least



14 years of data and multiple factors incorporated into a revenue model. The most significant input to the annual update to this revenue model is projected sales. The process and methodology for developing sales projections are discussed in the next subsection.

The third component of the budget outlook is simply the difference between the income and the expense, the fund balance. A healthy fund balance is critical to the success and survival of the FMS program. As Figure 2 illustrates, these variables, particularly the resulting fund balance, have dramatic impacts on the posture of the FMS program from year to year. Consequently, major shifts in sales and/or revenue requires strategic changes and/or analyses of the FMS expenditures and priorities.

Funding Targets and Expenditures

The annual funding targets and ceilings are currently developed by adjusting the fiscal year 2001 baseline with pay raise factors and any scheduled programmatic adjustments. As Figure 3 illustrates, there are four categories of components to the budget targets: the baselines, the actuals, and the two target years. The fiscal year budget baselines, as discussed earlier, were originally developed in a 1995 5 Year Plan that sought to reduce the work force after increased FMS case activity associated with Desert Shield and Desert Storm; however, these baselines are currently under review. The fiscal year 2001 actuals represent the actual total budget expended by the IAs in the previous fiscal year. Finally, the fiscal year budget targets are developed by multiplying the baseline by inflation factors. The budget targets are split into personnel and non-personnel expenses. Personnel expenses are multiplied by the pay raise factors contained in the US Government Green Book. Non-personnel expenses are multiplied by the non-pay raise factors also contained in the Green Book. These are also adjusted for the correct time period. For instance, most pay raises split fiscal years, so it is often necessary to apply three quarters of the pay raise to one fiscal year and the remaining quarter to the following fiscal year. These components comprise the budget targets by which implementing agencies budget. Figure 3 illustrates the FY01 baseline and actuals, and the FY02 – FY03 budget targets.

Figure 3: FY02 - FY03 Target Summary in Millions

Implementing Agency	FY00 Baseline	FY01 Baseline	FY02 Target	FY03 Target
Army	75.634	77.271	79.303	81.549
Navy	50.278	51.118	53.572	54.768
Air Force	76.375	75.943	78.007	79.892
Other	140.713	135.668	137.118	140.191
Total	343.000	340.000	348.000	356.000

Note: Dollars in Millions

It was originally intended that this PBB Programmatic and Budget Guidance document would contain the floor and ceiling for the out year targets; however, this has changed slightly. For the purposes of the upcoming fiscal year, the targets in Figure 3 are in essence the floor. No ceiling will be issued. However, there is the potential for these targets to be adjusted by up to



5% of the MILDEP target (subject to the Congressional notification process) when the above targets are analyzed, and from the information obtained from the Security Cooperation Planning Conference. As Figure 4 illustrates, baselines for all IAs increased from FY00 to FY01, with the exception of the Air Force and Other Agencies. Likewise, the out year budget targets (FY02 – FY03) contain slight increases for all IAs. Programmatic decreases in the other Agencies category (i.e., DSAMS) decreased the baseline of this category, as well as the out year targets. Figure 4 illustrates the whole number and percentage changes for the out year targets by MILDEPs.

**Figure 4: Percent Changes
FY01 – FY03 Baseline and Targets**

Implementing Agency	FY00	FY01	FY02	FY03
	Baseline	Baseline	Target	Target
Army	75.634	77.271	79.303	81.149
# Change		1.637	2.032	1.846
% Change		2.16%	2.63%	2.33%
Navy	50.278	51.118	53.572	54.768
# Change		0.84	2.454	1.196
% Change		1.67%	4.80%	2.23%
Air Force	76.375	75.943	78.007	79.892
# Change		-0.432	2.064	1.885
% Change		-0.57%	2.72%	2.42%
Other	140.713	135.668	137.118	140.191
# Change		-5.045	1.45	3.073
% Change		-3.58%	1.07%	2.24%
Total	343	340	348	356

Note: Dollars in Millions

The process and methodology for determining MILDEP budget targets will no doubt change in the future as a result of the increased use and reliance on the new PBB Cycle. It is foreseen that this process will provide a much clearer linkage between necessary resources to produce and/or perform an output or objective. In addition, the planned Performance Based Costing (PBC) initiative could provide an even more disciplined and analytical tool for setting budget targets by relying on cost models that map the relationship between outputs and resource consumption and usage. Similar to the new revenue projection process, timely information used in a model could provide a tool for developing budget baselines, ranges, and scenarios of potential future occurrences. DSCA foresees its new Security Cooperation Programming Conference, the first of which will occur April 10, 2001, as the most important vehicle for developing future budget targets. During the conference, DSCA and IAs will begin a focused discussion about resources needed to conduct FMS and other Security Cooperation programs.

For planning purposes during the transition FY02 budget, MILDEPs should begin to assess the budgetary targets with particular emphasis on FY02 and FY03. The MILDEPs should review the amounts as planning levels against which they should baseline their Security Cooperation programs within the core functions. Emphasis should be given to determine how the planned core business functions can be accommodated within these totals. Above target



needs should also be a part of this analysis and should be accompanied by a clear explanation of the reason for the above target need, what core function the above target need impacts, how the above target need supports the objectives and broad vision of this budgetary guidance plan, as well as the programmatic impact if the above target need is not granted. Initial plans, issues, and requests should be voiced at the planning conference.

These instructions will be expanded in the Programmatic Guidance section at the end of this document, and issued in more detail during the actual budget call process of the PBB Cycle in May 2001. For purposes of the Security Cooperation Programming Conference, MILDEP analysis should be high-level and programmatic in nature.

Development of Sales Projections

In order to ensure that stakeholders of the Security Cooperation community understand how the sales projection process works we are providing a discussion on this very important topic in this document. The development of sales revenue projections allows DSCA to strategically manage the trust fund balance, and to gain important insight into the future of the program itself. Because FMS must sustain itself with administrative fees from foreign military sales, the revenue projections are an important part of determining the level of the Congressional FMS trust fund ceiling.

The methodology for determining revenue projections has recently undergone revision. With assistance from an external think tank, both the technical sales forecasting methodology and the internal process of developing sales estimates were revised. The new methodology is essentially based on a two-pronged approach:

- An improved bottoms-up sales estimates process by country
- A new linear regression forecasting model based on statistical analysis of historical data and variables

The largest technical methodology revision is the development of a robust linear regression forecast model for each country which develops low, medium, and high FMS sales ranges that are used as a baseline for revenue forecasts. The baseline (high-medium-low) sales projections are developed by using 10 years of actual sales data by country for the upcoming plan year. For instance, for FY03, 10 years of actual sales data by country was entered into a model, data outliers (extreme spikes/highs or extreme dips/lows) in the data were removed (or smoothed), and conservative baseline revenue projections for the plan year were developed for each country in low, medium, and high categories. These ranges were compared to the bottoms-up sales estimates by country to further solidify the sales ranges or bands.

The final FMS sales projections are developed by taking the halfway point between the mean and the high sales levels developed by the baseline projections. The FMS sales projections are intentionally conservative as it is much more acceptable to explain increases in sales projections (unforeseen sale for instance) to stakeholders than to explain a decrease in sales projections. Thus, DSCA understands that the base level may well increase over time as new major sales are made, either through FMS or direct commercial sales (for which FMS is likely to be the vehicle used for the follow-on sustainment and/or upgrade over the life cycle of that system).



Major Issues and Trends

Introduction

This section provides a broad view of issues and trends occurring within and/or impacting the Security Cooperation community. These issues and trends were solicited through the Call for Security Cooperation Issues, the first process in the new PBB Cycle which asked essentially all members of the community for input. Other significant issues and trends are merely internal and external forces that impact any industry. These are not exhaustive, but according to input and analysis, represent significant issues at the forefront of Security Cooperation.

The questions in the Call for Security Cooperation Issues were developed to engage agencies and stakeholders to respond to issues and concerns that were both internal and external to their organizations. The participants provided responses and challenges they felt would effect not only their organization, but also the entire Security Cooperation community. The responses included the following examples:

- As foreign customers' military budgets decrease, implementing agencies must find alternative ways to engage customers that will benefit US strategic interests and the customers. Such engagements may include a greater reliance on other Security Cooperation programs such as FMF, IMET, and EDA. DSCA and implementing agencies must ready themselves for alternatives to FMS activities.
- The FMS process for case development, implementation, and closure is cumbersome and arduous. The Security Cooperation community needs to work to develop a more streamlined process.
- The sharing of information was a common theme throughout the responses. The call is for a standard information infrastructure that will allow agencies to share information with each other. In addition, agencies stressed that customers also need the availability of timely information with regard to their FMS cases and accounts.
- The potentially changing role of DFAS will impact resources for implementing agencies. As DFAS completes analysis standardizing the role it has with the MILDEPs potential impacts on resources will need to be considered.
- With changing administrations in and outside the US, strategic priorities may also change. Implementing agencies must be ready to meet the challenges and demands of new initiatives and priorities.

Some issues and trends are of such major significance that they cross and impact every stakeholder involved with Security Cooperation. These issues impact programs, policy, and budgets. As part of DSCA's Programmatic Guidance, these trends and issues will be addressed in the upcoming fiscal year. The major trends and issues common to all the implementing agencies that responded to DSCA's Security Cooperation Issues Call and that DSCA identified are:

- Work Force
- Direct Commercial Sales
- Automation
- Program Management Lines



- Policy Formulation
- Performance Measures/Metrics Standardization

The following are brief descriptions and analyses of the impact of these common issues on the mission of Security Cooperation. Many of the policy-related issues discussed below have been mentioned by stakeholders such as the General Accounting Office (GAO).

Work Force

Several respondents to the Call for Security Cooperation Issues voiced a number of growing concerns about the workforce that conducts Security Cooperation activities. The concerns centered around adequate training, availability, and demographics of personnel. The responses to the call confirmed the thinking of DSCA. In an effort to be proactive in dealing with work force concerns, the Director of Defense Security Cooperation Agency tasked the Defense Institute of Security Assistance Management (DISAM) to perform a study of the Security Cooperation workforce, which is due for release in February 2001. The DISAM faculty, through a review of best practices and related studies, a series of interviews with managers, and a web-based survey, examined the composition of the Security Cooperation workforce in terms of required skills, grade structure, years of service, retirement eligibility, and attitudes towards career progression. The end result of the study is a series of recommendations designed to enhance workforce planning and professional development for the Security Cooperation community.

Interviews with Security Cooperation managers in several dozen headquarters and field organizations centered around the potential creation of a career field in international affairs for SA personnel, as well as the participation of Security Cooperation personnel in a variety of existing management development internships. While respondents to both personal interviews and the web-based survey generally preferred the development of functional expertise (logistics, finance, contracting, etc.) to early specialization in international political issues, most respondents favored an increased focus on career development and specialized training for Security Cooperation personnel. A DSCA-funded Security Cooperation Internship Program was proposed as an outcome of this Workforce Analysis to develop a cadre of employees with the correct mix of business and international relations skills. Such an internship would include specially-tailored graduate education in both of these topics. Other proposed professional development initiatives included formal certification in Security Cooperation, job rotations to different agencies within the same geographic area, creation of a Security Cooperation career progression guide, and setting up a “corporate university” type of information-sharing web portal to foster the exchange of Security Cooperation information, documents, best practices, and professional development initiatives. These proposals will be shared with the Training and Career Development Integrated Process Team (IPT), sponsored by DSCA and led by the Deputy Under Secretary of the Air Force for International Affairs (SAF/IA), that is currently reviewing the draft policy, “International Affairs Education, Training, and Career Development Guidelines.”

Following the review of the DISAM study, expected in May 2001, and the SAF/IA analysis, it is expected that DSCA will formalize a mechanism and approach to address these looming issues in partnership with the MILDEPs. It is envisioned that the internship program would be conducted at the MILDEPs and DSCA, additional funding for the internship and personnel



spaces would be managed centrally at DSCA. This would not preclude the MILDEPs from establishing an internship program within their established budget targets as an augmentation to the DSCA directed program. Any other initiatives in this area are expected to be surfaced from the IPT, established by DSCA to consider personnel matters.

Direct Commercial Sales

The old paradigm was that DCS was a program that only involved industry; which meant that DSCA and IAs need not get involved. The new paradigm, which is that DCS is a program of engagement, and as such, DoD and DSCA will be involved because US national security interests are involved. DCS provide additional opportunities to engage foreign customers and further US interests. Partnering with industry is another way to support National Security strategies. DoD, in conjunction with DSCA's Legislative and Public Affairs Directorate, has drafted an amendment to the Arms Export Control Act (AECA) which would allow DSCA to improve support services to US defense firms involved in overseas defense procurements; the amendment also provides a mechanism to charge industry partners directly for support services. The policies and terms for DSCA's support and advocacy of defense firms are being developed concurrently with the anticipated changes with the AECA. DSCA will conduct surveys and meetings to make determinations on how to best support direct commercial sales/contracts in conjunction with supporting national strategic policy. The discussion will include resource requirements, as well as potential impact on agencies that conduct Security Cooperation activities. DSCA plans to support direct commercial sales, and will determine appropriate funding sources, regardless of the outcome of the legislative process. The ultimate goal of any effort is to further US strategic interests by teaming DSCA with not only industry but also implementing agencies.

DCS not only affect DSCA, but also the MILDEPS and other IAs. As DSCA develops policies to work with industry, so too must the MILDEPS and IAs. Implementing agencies have more than just a stake in DCS, they have a vital role in defining how Direct Commercial Sales support national strategic interests. There are significant challenges for the IAs, such as the potential imbalance between the level of effort required to support DCS and the initial return on the sale. Implementing agencies must be proactive in dealing with direct commercial sales, to ensure that the impact of this other Security Cooperation activity has a positive impact on foreign military sales cases. Currently, some of these DCS issues are being reviewed by the Partnering IPT.

Automation

In leveraging information technology, DSCA will take advantage of the expansion of internet and other technology tools that have helped not only other government agencies, but also other industries. There will be a strong focus on web based technology to directly facilitate Security Cooperation processes. The use of information technology (IT) should achieve cost savings, increase productivity, and improve the timeliness and quality of customer service delivery. Information technology should enhance and improve business processes and support management decisions and policies. The use of information technology in the Security Cooperation community is paramount to improving the exchange of information and the efficiency with which services are delivered to Security Cooperation stakeholders and customers. DSCA is in the process of determining the best possible use of technology to



automate Security Cooperation activities. The goal of DSCA is to leverage information technology so that it supports Security Cooperation.

As the Security Cooperation community utilizes information technology, the agency will realize great gains in productivity and efficiency. The Security Cooperation community will embrace new technology systems that will empower the community to better work efforts. The community will explore replacing legacy systems that are repaired and modified from year to year. As it moves forward with information technology, the community must first progress in thinking about the way the organization conducts business. First, it will define the best way to do business and then determine how best to use technology to make that process as efficient as possible. The use of information technology requires enormous capital investments. The only way to maximize the return on investment for information technology is to first develop the business process. Information technology is the tool that will support the process.

In addition to these efforts, DSCA is also reviewing FMS-wide systems such as the DSAMS. DSAMS is an instrumental part of FMS execution. Due to the rapidly changing landscape of technology, as well as the changing needs of IAs and customers, the case execution module is undergoing a thorough user's requirements analysis. This analysis should provide DSCA with a much better understanding of the IA needs, as well as how technology can accommodate such needs.

During the next fiscal year and the out years, DSCA will work to evaluate existing legacy systems as well as ongoing technology improvements to determine optimum ways of leveraging technology to improve the delivery of service through automation, improved communication, and increased access to information. Information technology investment will be made in areas that improve the way we do business.

Program Management Lines

The use of program management lines (PMLs) specifically as it relates to activities considered standard and those that should be charged to the case has been debated for some years. Currently, each implementing agency interprets the policies for case funded expenses and PMLs differently. The current policies regarding PMLs allow agencies to exercise their own discretion in determining what expenses should be charged to their customers. DSCA is in the process of revising policies that will bring consistency to how each IA determines when a service or item should be funded with PMLs and which should be funded through FMS Admin funds. This guidance will be reviewed by the MILDEPs prior to codification.

A matrix has been developed to capture all major activities and the types of costs such as personnel pay, benefits, and overtime, that may be associated to those activities. The purpose of the matrix is to align activities with costs and the sources of funding. The information for the matrix was collected from exiting policy and guidelines including the Security Assistance Management Manual (SAMM), Financial Management Reviews (FMR), and past Budget Calls.



Refinement of policy regarding PMLs will standardize the use of program management lines across each IA. As these policies are considered, the budgetary impact must also be examined. Funding shifts in PMLs (either positive or negative) may lead to funding shifts in FMS or other funding. As with any other significant policy change, each IA must determine the impact of PML policies on the overall FMS budget. The budgetary impacts, with detailed supporting information should be communicated to DSCA. The change in the use of resources may not result in changes in the funding ceilings of implementing agencies.

Policy Formulation

Whether refining the policies for PMLs or Direct Commercial Sales, the changes involve programmatic and budgetary consideration. Any significant changes in policy must be considered from a programmatic and budgetary point of view. The discussion and dialogue involved with examination of policy must involve a study of the budgetary impact. If not, any change in policy that has significant budgetary implications will result in a program or activity that is inadequately resourced, inefficient, and ineffective. DSCA will work with implementing agencies to fully define policy formulation that encompasses programmatic and budgetary assessments. Not every policy change requires a study of the budgetary impact, but when a fundamental change in business process is under consideration, a budgetary assessment is necessary for sound decision-making. DSCA encourages IAs to invigorate the policy formulation process with helpful insights, surveys, and assessments from both the programmatic and budgetary sides of the agencies.

Performance Measures/Metrics Standardization

The Security Cooperation community currently has a number of different performance measures and metrics. Some of these include the metrics developed for the new FMS Core Functions, those used in the Quarterly Deputy's Forum, as well as those developed by the MILDEPs. In reviewing these measures, one can find areas of commonality and difference. Reproduction of measures and standards can serve to reinforce shared goals and priorities, and some forums are more suited for strategic, rather than operational measures. However, duplication of efforts to develop measures creates confusion and weakens objectives. As we standardize the core functions and core activities involved in conducting FMS and Security Cooperation, we must also determine what measures provide us with information for benchmarking and improving our business. The development of performance measures and goals must involve dialogue and partnership among DSCA and all the IAs. Measures that are developed separately and in varying degrees provide little to no useful information in determining how resources are used or how well we conduct our work. We must examine existing measures and criteria as a community to best find standards that can be applied not only across each agency, but at varying levels within the agency. Additionally, performance measures should be linked to strategy and objectives. Currently, there are initiatives in place to review performance metrics, including the Business Process IPT.



Budget and Programmatic Guidance

This section reiterates the IA funding targets for FY02 and FY03, discusses high-level funding guidance which will be followed by a more detailed execution document during the budget call in May 2001, discusses business area initiatives by core function, and specifically provides instructions on how to respond to this guidance document in preparation for the Security Cooperation Programming Conference scheduled for April 10, 2001.

Anticipated Funding Levels

Figure 5 illustrates the anticipated funding levels for the IA budget levels for FY02 and FY03. The IA levels have been adjusted for pay raises and inflation. Accordingly, the overall budget levels are expected to increase by 2.35% in FY02 and 2.30% in FY03.

Figure 5: Anticipated Funding Levels for FY02 - FY03

Implementing Agency	FY00 Baseline	FY01 Baseline	FY02 Target	FY03 Target
Army	75.634	77.271	79.303	81.549
Navy	50.278	51.118	53.572	54.768
Air Force	76.375	75.943	78.007	79.892
Other	140.713	135.668	137.118	140.191
Total	343.000	340.000	348.000	356.000

Note: Dollars in Millions

During the transition year for the preparation of the FY02 budget, MILDEPs should begin to assess and plan programmatic execution using the budgetary targets above. These targets should represent FY02 and FY03 baselines by object class and core functions. Emphasis should be given to determine how the planned core business functions can be accommodated within these totals. Above target needs should be a part of this analysis and should be accompanied by a clear explanation of the reason for the above target need, what core function the above target need impacts, how the above target need supports the objectives and broad vision of this budget and programmatic guidance plan, as well as the programmatic impact if it is not granted. Guidance for developing above target needs is outlined in the following subsection. In light of the potential need, the baseline review, and the possibility of requesting a ceiling increase from Congress, these targets may very well change. However, there is no guarantee at this point of a funding increase.

Overall Funding Guidance

Specific templates for usual and above target budgets, including the new presentation by core functions, will be distributed during the budget call process of the new PBB Cycle, scheduled to take place in May 2001. However, in order for the MILDEPs to understand how the overall guidance will work and what will be expected at the programming conference, this subsection discusses some of the overall budget expectations.

Because DSCA works within a constrained budget environment, there are certain essential baseline priorities that must be included in the MILDEP budget to ensure current levels of



service are sustained. MILDEPs will be authorized to reallocate within the baseline priorities before submitting above target needs. Specific guidance on reprogramming will be provided with the May 2001 budget call. The baseline priorities are listed in Figure 6.

Figure 6: Essential Baseline Priorities for FY02 - FY03

Essential Baseline Priorities	Description	High Level Directions
Salaries	Labor expenditures associated with full and part-time positions and salaries in direct support of the FMS mission.	MILDEPs must make sure all annual costs associated with Salaries, Salary Adjustments, Overtime, Benefits, Workers Compensation, and Unemployment Compensation are figured into the FY02 and FY03 budget. Target submission should be consistent with those reflected in the FY01 budgetary submission.
Travel	Expenditures related to travel in direct support of the FMS mission.	Funding for Travel should be added to the budget at current service levels plus inflation (Green Book multiples).
Rents and Other Contractual Services	Expenditures associated with rents and other contractual services in direct support of the FMS mission.	Rents and other Contractual Services should be included at current level plus inflationary adjustments (Green Book multiples).
ADP	Expenditures associated with development and modernization of security assistance ADP systems that are essential to the FMS mission.	Development and/ or modernization of security assistance ADP systems are limited to that which is absolutely essential to support critical missions. New developmental effort is not authorized. DSAMS requirements will be identified at the DSCA level.



Essential Baseline Priorities	Description	High Level Directions
Other or Additional Needs	Expenditures associated with other budgetary needs, including improvements, new programs, new employees, and other activities in support of the FMS mission.	<p>Any items to be budgeted that are over and above the budget target must be defined as above target that will be considered during the overall budgeting process. Above targets should be presented as follows:</p> <ul style="list-style-type: none"> ▪ Description of the above target including the related program/weapon system/service/product. ▪ Projected cost of the above target by labor and non-labor. ▪ Explanation as to why this activity/service/product cannot be accommodated within the regular level of funding. ▪ Budgetary impact and/or alternatives should above target not be accepted.

Note: High-level guidelines will be reiterated in detailed budget call documents in May 2001

All budgetary items should be presented by both the regular object class and by core function. During the transition year FY01, the crosswalk methodology utilized by the MILDEPs to translate object class to core functions is left to the discretion of the MILDEP, however, suggested and/or accepted methodologies may be necessary in the future.

Business Area Emphasis

Within the new PBB Cycle, the FMS community, and perhaps later all of Security Cooperation, will begin to budget by a common language of core functions. The first year of the PBB Cycle is one of transition, therefore baseline information regarding budgeting by core function is left to the discretion of the MILDEPs. As information is gathered and discussed during and after the Security Cooperation Programming Conference, adjustments will be made if necessary.

Pre-LOR

Funding should be directed to insure that all routine and non-routine Pre-LOR activities are handled in a timely manner. Wherever possible, automated solutions should be explored for routine Pre-LOR activities such as weapons system descriptions, Rough Order of Magnitude (ROM) price quotes, estimated delivery times, and other frequently recurring information. These activities should be assessed to determine if a database (web-based), decision support tool, knowledge sharing tool, or other methods can be utilized to decrease time associated with such activities.



Additionally, MILDEPs are encouraged to begin assessing their ability to track the initial non-financial FMS performance measures developed last year. It is anticipated that in the next calendar year (approximately April 2002), DSCA will perform the first execution review for the new PBB Cycle on the FY02 financial data, as well as the non-financial performance measures. The initial non-financial performance measures for Pre-LOR are the scope of Pre-LOR activities by routine and non-routine in the form of basic counts.

Case Development

Funding for LOA development should be directed to insure that 80% of LOAs are processed within 120 days of LOR receipt (the metric used in both the SAMM and the Quarterly Deputy's Forum). Emphasis should also be directed to insure the accuracy of pricing included in all LOAs and the quality and comprehensiveness of LOA rates. It is understood that there is a relationship between the quality and time expended in the pre-LOR phase and the quality and accuracy of the data and information in the Case Development phase; however, again MILDEPs are encouraged to emphasize routine and non-routine service levels for an optimal mix.

Additionally, MILDEPs are encouraged to begin assessing their ability to track the initial non-financial FMS performance measures developed last year in anticipation of the first execution review scheduled for April 2002 for the FY02 budget. The initial non-financial performance measure for Case Development is the number of LORs received (including LOA and P&A Data) in the form of a basic count.

Case Execution

The level of effort for Case Execution is believed to consume the single largest commitment of resources within the core functions. Case Execution is complex and specific requirements vary by case. In fact, according to a recent DSCA study, Case Execution has historically consumed 63% to 77% of the funding. As DSCA reanalyzes the approach for DSAMS the case execution module pending a detailed analysis of current user requirements, MILDEPs are encouraged to assess the Case Execution phase for process efficiencies and automation insertion and/or improvements. Some ideas that have arisen in various forums include inventory management, distribution, and logistics, bar coding customer files, automated reports, web-based customer status checks, and automated tickler files that notify users of open supply complete cases.

Additionally, MILDEPs are encouraged to begin assessing their ability to track the initial non-financial FMS performance measures developed last year in anticipation of the first execution review around April 2002. The initial non-financial performance measures for Case Execution are the number of cases not supply complete, the number of open supply discrepancy reports (SDRs), the number of formal reviews (PMRs, CMRs, and FMRs), and number of supply complete cases less than and more than 2 years old.

Case Closure

Funding for Case Closure should be directed towards those supply or logistically complete cases that have not yet been closed, particularly those that have been supply complete over two years. As previously discussed, in the initial FMS performance measures development session last year, monitoring of the number of supply complete cases less than and greater



than two years are expected to begin on a regular basis through execution reviews in April 2002.

Other Security Cooperation

Within the core function of Other Security Cooperation, emphasis should be placed on the level of effort expended on Other Security Cooperation initiatives, such as the increasing growth of non-FMS activities as evident in the annual DSCA manpower surveys. Emphasis and awareness should be placed on the following non-FMS issues:

- FMF/IMET – Although it is anticipated that the new Administration will be more responsive to the value of this program as a tool of engagement, it is unrealistic to expect near-term Congressional approval of substantial funding increases in this area. This is also true for the FMF Administrative fund. Planning for FY02 and FY03 for IMET and FMF should, thus, assume a conservative and modest increase over FY01 levels.
- EDA – Increased attention is being given to this program as worldwide military budgets decline. The MILDEPs should anticipate increased interest in and demand for excess material of all kinds.
- Drawdowns – The MILDEPs should be postured to respond to at least one presidential drawdown in each of FY02 and FY03.
- DCS – As discussed in the Trends and Issues Section of this guidance document, use of DCS is expected to increase. While this is a worthy and increasingly popular mechanism for foreign customers and industry partners, DSCA must be cognizant of the budgetary and fiscal impacts of DCS initiatives. Thus, MILDEPs are encouraged to monitor and communicate such issues.

Again, while these are instrumental tools in Security Cooperation, emphasis should be placed on the budgetary impact, and MILDEPs are encouraged to note the level of effort expended on such initiatives.

Business Sustaining

Business sustaining activities are those that sustain a program and/or organization. These are for the most part administrative, technical, legal, and human resource support services. Emphasis should be placed on current levels of business sustaining support.

DSCA recognizes that a significant change will be in determining the effort and resources needed for Business Sustaining activities. The core function of Business Sustaining is an expense that needs to be monitored and accounted for during the course of the year. As the Security Cooperation community begins to examine and evaluate activities by Core Function, the community can begin to develop more accurate information on the use of resources, and eventually ways of using resources more efficiently.

MILDEP Response and Next Steps

This subsection provides the detailed steps and timeline for the IAs to prepare their responses to this budget guidance document which will be presented in the Security Cooperation Programming Conference scheduled for April 10, 2001.



DSCA has provided a vision from the Director, Lt Gen Walters, an overview of the budget outlook including budget targets, critical trends, and issues in the Security Cooperation community, as well as broad business area emphasis by core functions. The goal of this document is to provide a clear picture of the Security Cooperation community, as well as to begin the critical dialogue needed for DSCA and IAs to foster a more collaborative and accountable planning, programming, and budgeting process. Indeed, this entire document should be considered a source of understanding the general direction that DSCA is taking for the FY02 and FY03 budget preparation, and should provide issues upon which to reflect as the formulation of the responses for the Security Cooperation Programming Conference occurs. Please note that the IA response is an instrumental part of the ongoing budgetary and programmatic dialogue that will take place over the next fiscal year, and the response should provide target levels, but also invoke thought on the direction of Security Cooperation from the MILDEP perspective.

The following figure provides a budget preparation timeline.

Figure 7: Budget Preparation Key Dates for FY02 and FY03 Budget Call

Key Date	Event
February 15, 2001	DSCA Budget Guidance Published and Released
March (throughout)	MILDEP responses prepared (MILDEP support on-hand for assistance and support)
April 10, 2001	Security Cooperation Programming Conference
May (early)	DSCA Budget Call
August (early)	MILDEP Budget Submissions

As the figure illustrates, the month of March will most likely be the busiest month as MILDEPs adjust to the new PBB Cycle format and requirements. However, MILDEP support and assistance will be in full effect.

For the April 10, 2001 Security Cooperation Programming Conference, please make note of the following programmatic response requirements and objectives:

- **Response Presentation:** MILDEPs are requested to prepare a 60 minute presentation in the format of a powerpoint presentation. The contents should include, at a minimum, components listed in Figure 8 below.
- **Response Objective:** The overall objective of the presentation is to begin a programmatic dialogue with MILDEPs to coordinate and link DSCA corporate level priorities and funding to MILDEP priorities and actions:
 1. Determine what program areas and priorities can be accommodated within the MILDEP target.
 2. Determine what program areas and priorities cannot be accommodated within the MILDEP target, and that may need above the target funding.
 3. Set the stage for a programmatic level discussion of priorities and funding.



Figure 8: MILDEP Requirements for Programmatic Guidance Response During Programming Conference

Requirements	Programmatic Guidance Response Directions
<i>I. Programmatic and Resources Issues</i>	
<p>A. Anticipated programs and operations within the target level and above the target level for FY02 and FY03, and generally for out years</p>	<ol style="list-style-type: none"> 1. Given the anticipated targets for FY02 and FY03 in total and for your MILDEP, and the Budget and Programmatic Guidance outlined by business area (core functions) contained in Business Area section above of this Plan, request the MILDEPs address the following: <ul style="list-style-type: none"> ▪ Describe the anticipated program activity level in your MILDEP for FY02 (and where possible for FY03) highlighting such activities as: major new business opportunities (pre-LOR); efforts to meet or surpass the LOA development guidelines (LOA Development); management of the existing business base in such areas, including any ongoing or new initiatives that affect country program management, financial management, requisitioning processing, and acquisition/contracting (Case Execution); closure targets and efforts to meet or surpass established targets, including any initiatives to improve the existing closure process (Case Closure); efforts in other Security Cooperation programs that are impacting the FMS Administrative budget (Other Security Cooperation); any activities being undertaken in the business sustainment area. ▪ Can the anticipated program activity level in FY02 and FY03 be accommodated within the planning targets? 2. DSCA is prepared to entertain needs above target, not to exceed 5% of the MILDEP target <ul style="list-style-type: none"> ▪ Presentation should be by order of importance. Explain why these programs may not be accommodated within the target budget level ▪ What core function/business area is most impacted, what are the general business impacts of not funding this program or operation? ▪ Does this anticipated above the target level need impact only FY02, or does it impact FY03 and/or out years as well?
<p>B. Anticipated Sales and Workload</p>	<ol style="list-style-type: none"> 1. Please provide your general projections of workload and sales levels by: <ul style="list-style-type: none"> ▪ New Sales ▪ Existing/ sustainment ▪ Other programs and/or operational initiatives with resource implications



II. Strategic and Operational Issues	
A. Director's Statement	MILDEPs are encouraged to respond to and/or elaborate briefly on issues and concepts identified by the Director (for instance ideas and approaches to web-based initiatives and/or solutions, and/or ways to make the new paradigm work better with FMS)
B. Issues and Trends	<ol style="list-style-type: none"> 1. MILDEPs are encouraged to respond to and/or comment on the issues and trends and particularly offer solutions and/or ideas for approaching/resolving issues 2. MILDEPs are requested to provide any issues and trends that are not currently included in the Guidance, and that they believe will have significant impact on their operations.
III. Out Year Comments	
Out Year (FY03 – FY07) Comments	MILDEPs are encouraged to respond to and/or elaborate briefly on anticipated changes to their business base or infrastructure that may impact the MILDEP budget position.
IV. Feedback on New PBB Cycle	
Feedback on the New PBB Cycle	<ol style="list-style-type: none"> 1. MILDEPs are encouraged to provide feedback on their perception of and potential improvements to the first 3 processes of the new PBB Cycle (this may be done in writing and/or via the web-site to save time) 2. Do you have suggestions for the first Security Cooperation Programming Conference?

Note: It is understood that the budget detail may very well change; however, a good presentation of baseline target budgets is expected.

Templates for the FY02 Programmatic and Budgetary Guidance are attached. For questions regarding this guidance and/or the document itself, please contact DSCA/RM and/or your MILDEP Support team.



Appendix A: Programmatic and Budgetary Guidance Templates

The attached template is a power point version of what the MILDEP minimal response should be for the April 10, 2001 programming conference.

