

# Where Does Your Cost Estimate Go?

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# Agenda

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- **Objective**
- **Background**
- **Role of Cost Estimating versus Budgeting**
- **Planning, Programming, Budgeting, and Execution (PPBE) Process and the Cost Estimate**
- **Other Considerations**
- **Other Places a Cost Estimate Goes**
- **Discussion/Questions**

# Objective

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- **Track what happens to a Program Office cost estimate (POE) after it has been developed and delivered**
  - Follow the estimate through the budget formulation process, ultimately becoming a part of the President's Budget
- **Highlight the real world application of the cost estimates:**
  - Why are they so valuable?
  - How are they utilized?
- **Discuss the importance of the cost estimator's role during the budget process, and the influence of the budget process on future estimates**
  - Highlight cost estimating best practices and lessons learned that take into account an understanding of the budget process

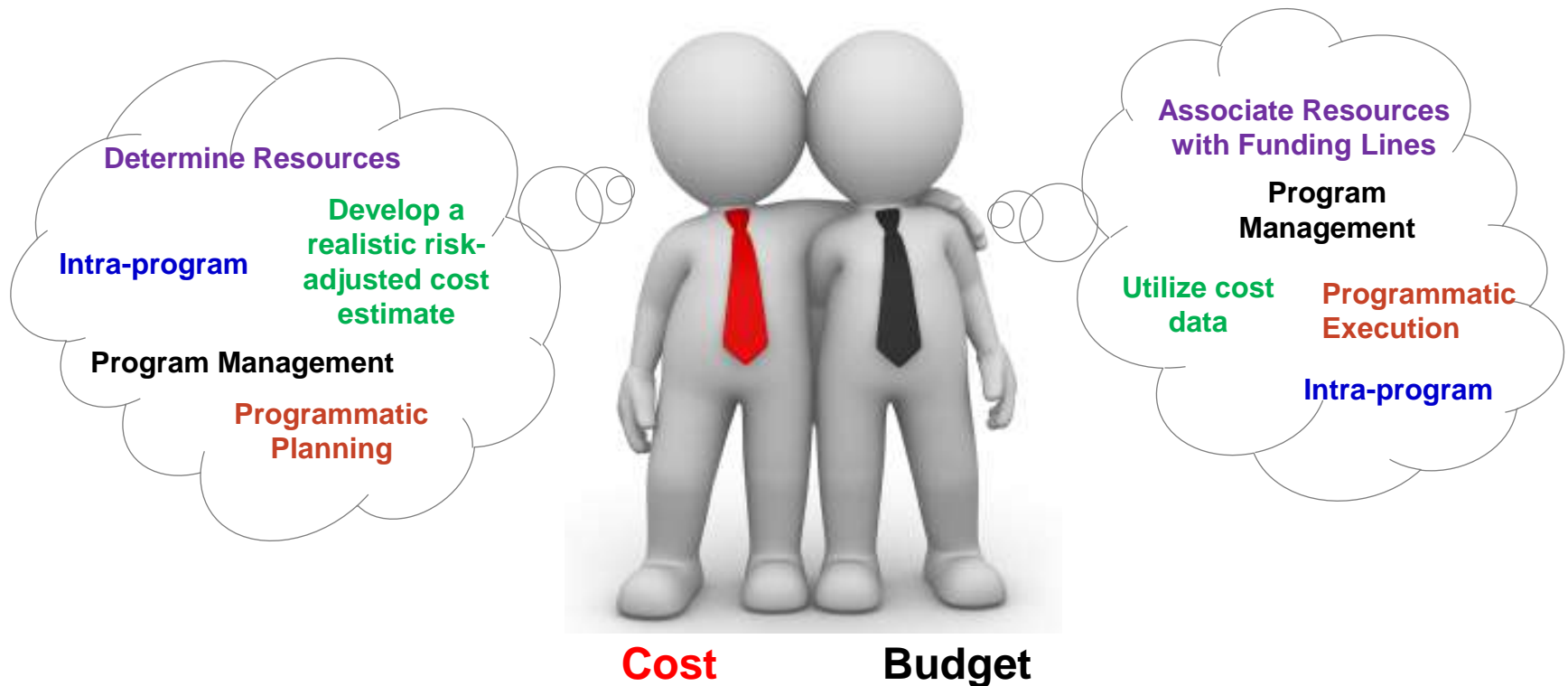
# Background

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- **Most cost analysts spend 6-18 months supporting the development of a cost estimate within a program office**
  - This is best done when cost analysts work as an integral member of the program's systems engineering team
- **Key application of a cost estimate is to establish and defend the budget, but costs analysts rarely stay involved after delivering the cost estimate**
- **The development of the Program Objective Memorandum (POM) and Budget Estimate Submission (BES) within the Planning, Programming, Budgeting and Execution (PPBE) process is usually handled by budget analysts**

# Cost versus Budget Role

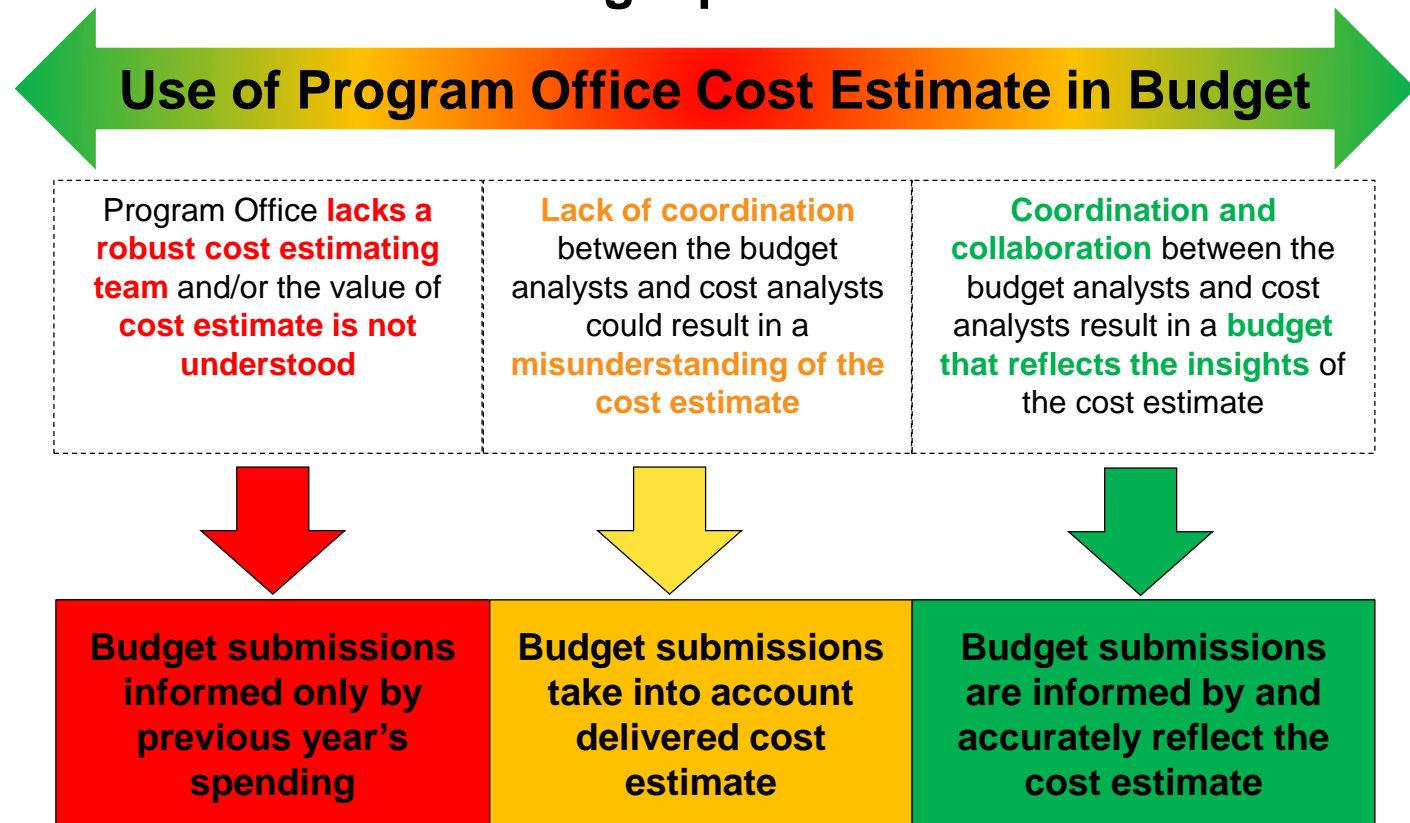
*Cost analysts develop the program's cost estimate and analyze the estimate's risks, uncertainties, and sensitivities.*



*Budget analysts focus on where and how the funds should be spent.*

# Use of Cost Estimate

- Experience shows there is a spectrum over which the cost estimate is used in the budget process



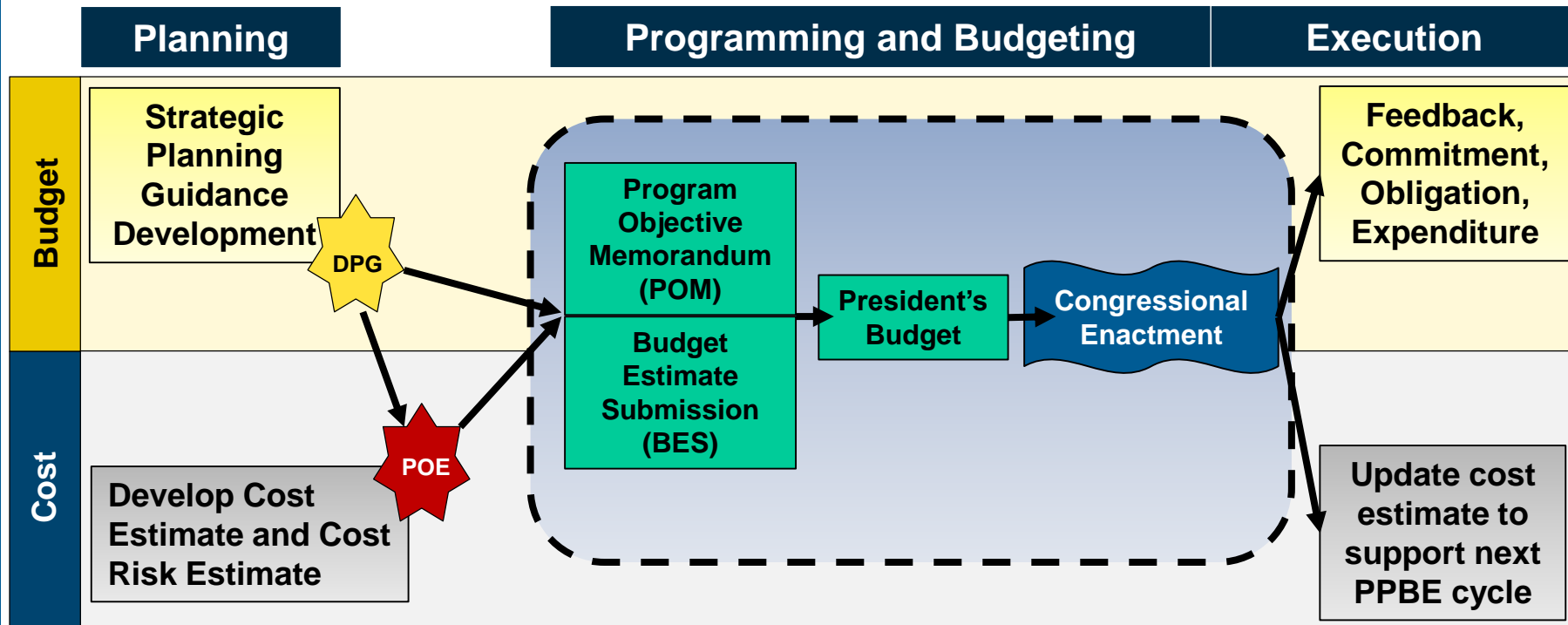
*Often the cost estimate is not effectively utilized.*

# PPBE Process Review

- **The PPBE process is the primary resource management system for the DoD:**
  - Articulates strategy
  - Identifies size, structure, and equipment for military forces
  - Sets programming priorities
  - Allocates resources
  - Evaluates actual output against planned performance and adjusts resources as appropriate

***A better understanding of the budget process is beneficial to the development of cost estimate realism.***

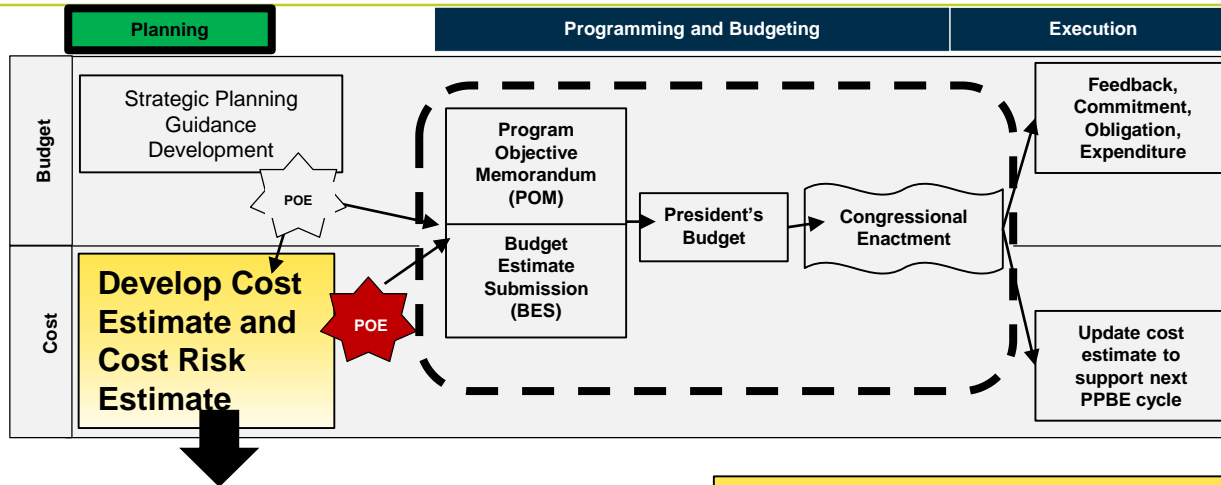
# Cost Estimate in the PPBE Process



***Roles of cost analysts and budget analysts are different, but the two should collaborate and coordinate their final products during the Programming and Budgeting phases of the PPBE Process.***



# Cost Estimate Development



FTE – Full Time Equivalent  
 WBS – Work Breakdown Structure  
 POE – Program Office Estimate

1. Develop Programmatic & Technical Baseline

2. Develop estimate using standard practices

3. Conduct uncertainty & risk analysis

4. Present results to Program Office

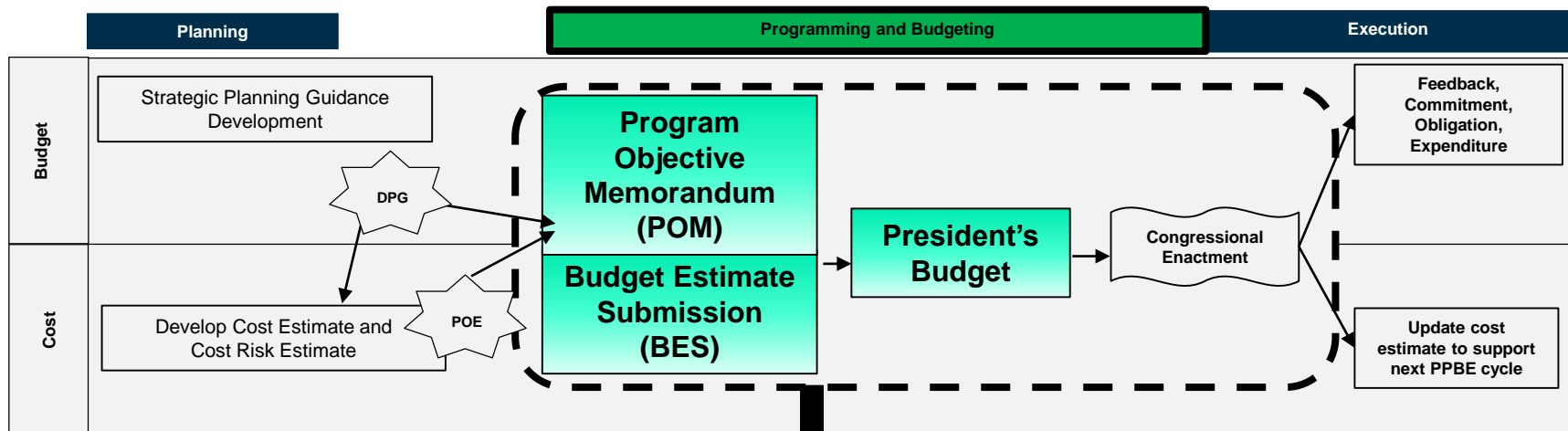
5. Consider estimate against Program constraints

6. Update estimate and results in POE

## Best practices for cost estimate to be more valuable to the budget

- Detailed near-term considerations to trace funding for budget year
- Ability to break out estimate based on funding source and timeline
- Civilian FTEs and Military Manpower funding should be tracked separately
- Detailed insight into specific WBS elements as required by known taskers

# Programming & Budgeting



## Joint Staff/CAPE Analysts Questions

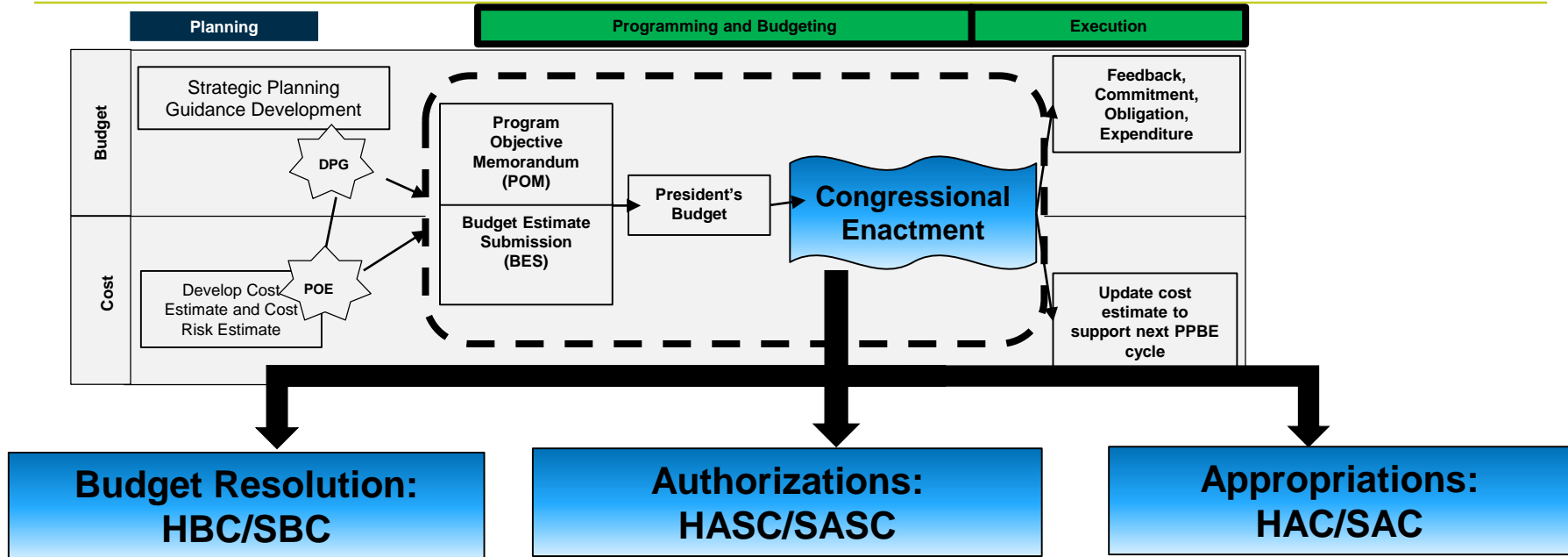
- What is included in the estimate in the FYDP and across the life cycle?
- How does the current mission estimate compare with previous mission estimate?

## OMB Analysts Questions

- SNAP Test & Evaluation
- OMB 300 (FTEs)
- Project Description Sheets (PDS)

***Coordination and collaboration with the budget analysts to justify inputs by connecting programming and budgeting to the cost estimate.***

# Congressional Enactment



**Examples of cost information requested by the committees:**

- Life Cycle Cost Estimate (LCCE) by Fiscal Year
- Pie chart by cost element
- LCCE mapped to Spend Plan
- Mapping of LCCE to milestones in Budget Year

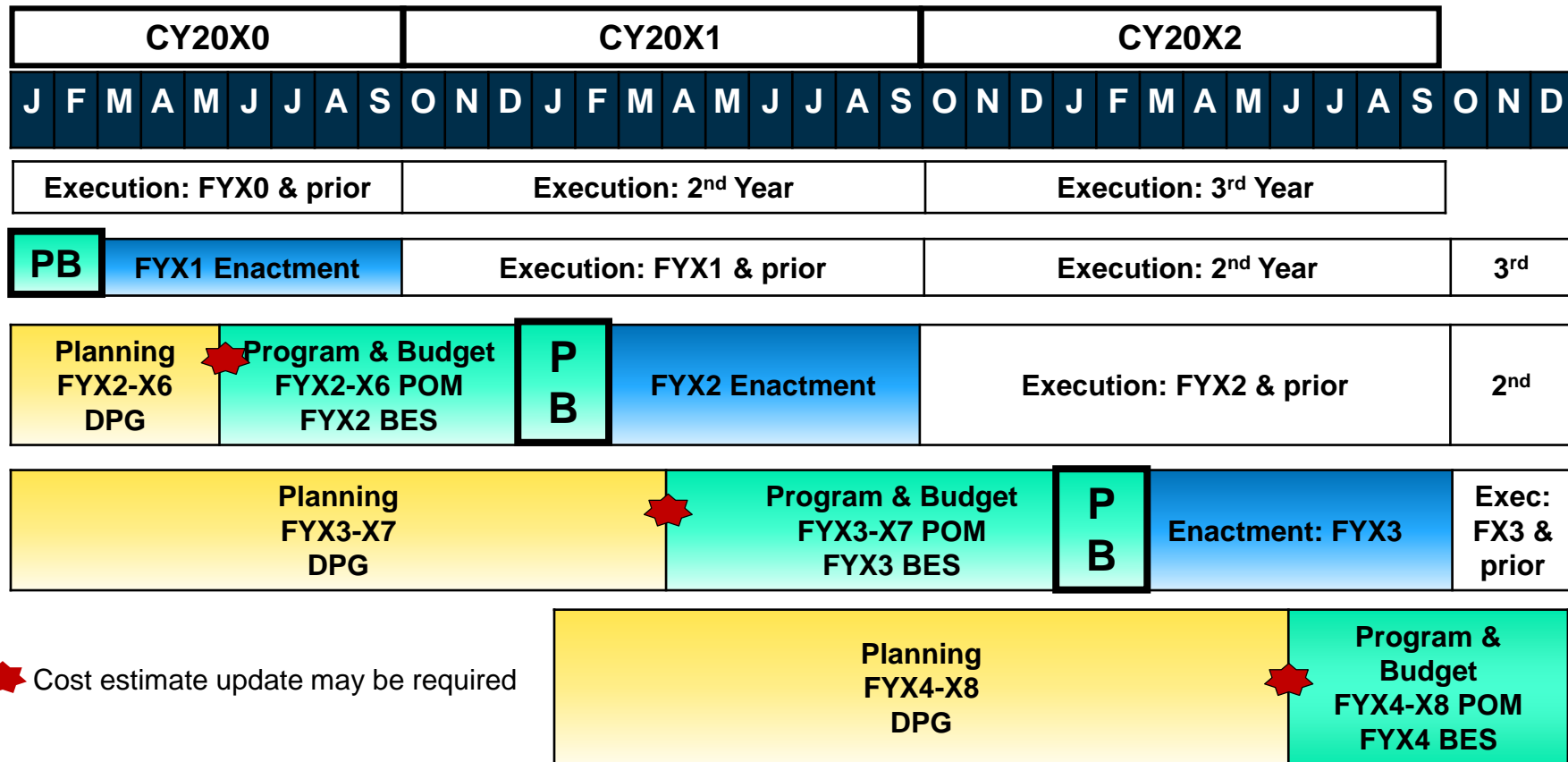
***During Congressional Enactment, House and Senate Committees may request additional details on cost, schedule, and performance.***

HBC – House Budget Committee  
SBC – Senate Budget Committee

HASC – House Armed Services Committee  
SASC – Senate Armed Services Committee

HAC – House Appropriations Committee  
SAC – Senate Appropriations Committee

# PPBE Timeline



Cost estimate update may be required

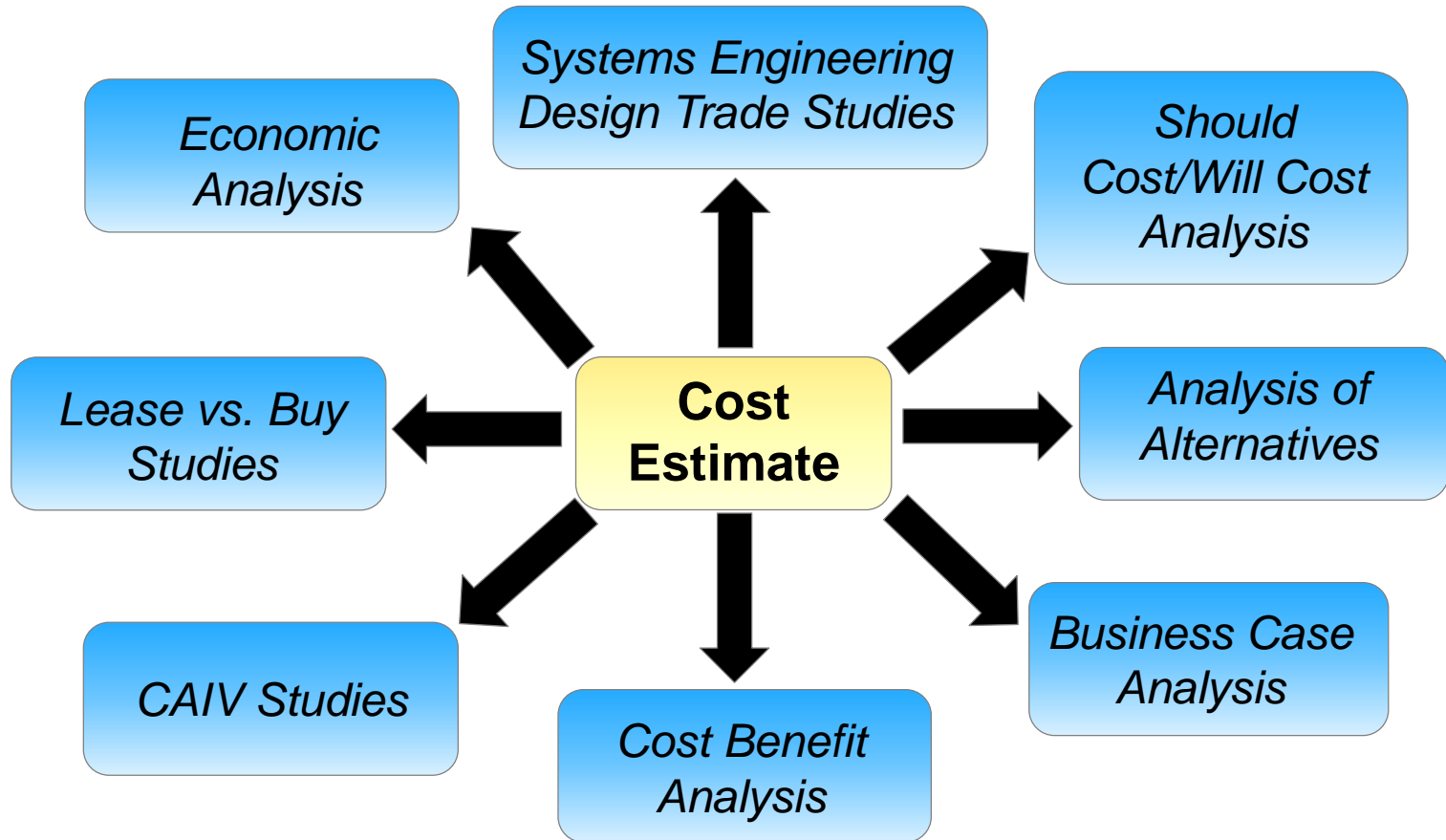
*The phases of the PPBE process occur in parallel as budgets for the current year and future years are planned and developed.*

# Other Considerations

Consideration	Impacts
<b>Independent Cost Estimate (ICE)</b>	<ul style="list-style-type: none"> <li>- An ICE provides a level of assurance that there is concurrence and legitimacy in the cost estimate (i.e., budget estimate).</li> <li>- Budget submissions should be consistent with the ICE when required.</li> </ul>
<b>Issue Paper Process</b>	<ul style="list-style-type: none"> <li>- Issue Papers address a specific funding issue in the Programming (POM) process</li> <li>- Justification will demand greater visibility due to sacrifices made in the process</li> </ul>
<b>Budget Constraints during Execution</b>	<ul style="list-style-type: none"> <li>- Congressional earmarks on funding are one way Congress ensures its questions are answered in a timely manner and its objectives are seriously considered</li> </ul>
<b>Cost Estimate information to Congress vs. DoD</b>	<ul style="list-style-type: none"> <li>- Keep in mind your audience when preparing results slides</li> </ul>
<b>Non-DoD Budget Process</b>	<ul style="list-style-type: none"> <li>- Intelligence Community has a similar process to the PPBE called the IPPBE</li> <li>- Other agencies follow similar timelines for budget submissions</li> <li>- Impact and role of the cost estimate should not differ in other agencies</li> </ul>

***These occur at various stages of the PPBE process, and have an impact on the final cost estimate and, thus, the budget.***

# Other Places a Cost Estimate Goes



***A cost estimate has many other useful applications in addition to establishing and defending the budget.***

# Conclusion

- **Cost estimates are a critical component to systems engineering and the budget planning and execution processes**
  - A risk-adjusted estimate developed to provide the right level of detail helps to establish a defensible budget and an executable program
- **Cost analysts should be a part of the budget process and invested in the outcome of the cost estimate**



# Discussion/Questions

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# Acronym List

- **BES – Budget Estimate Submission**
- **CAIV – Cost As an Independent Variable**
- **CAPE – Cost Assessment and Program Evaluation**
- **CY – Current Year**
- **DPG – Defense Planning Guidance**
- **FTE – Full Time Equivalent**
- **FY – Fiscal Year**
- **FYDP – Future Years Defense Program**
- **HAC – House Appropriations Committee**
- **HASC – House Armed Services Committee**
- **HBC – House Budget Committee**
- **Independent Cost Estimate – ICE**
- **LCCE – Life Cycle Cost Estimate**
- **OMB – Office of Management & Budget**
- **PB – President’s Budget**
- **PDS – Project Description Sheet**
- **POE – Program Office Cost Estimate**
- **POM – Program Objective Memorandum**
- **PPBE – Planning, Programming, Budgeting, and Execution**
- **SAC – Senate Appropriations Committee**
- **SASC – Senate Armed Services Committee**
- **SBC – Senate Budget Committee**
- **SNAP – Select and Native Programming (Data Input System)**
- **WBS – Work Breakdown Structure**