

Capital Asset Plan and Business Case

Requirements in OMB Circular
A-11, Part 7 and the Capital
Programming Guide

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OMB Circular A-11, Part 7

- All major capital investments must annually submit an exhibit 300 (business case) to OMB to justify budget requests, and obtain funding.
- The business case is the format for the IPT to demonstrate to management (Agency, OMB, Congress) that it has employed the disciplines of good project management to define and manage the cost, schedule and performance goals of the project and should be trusted with large amounts of public funds.
- Good business cases require a lot of time, effort and expertise. They are NOT a term paper, term papers are for students learning a subject.

What Capital Investments Require a Business Case (Exhibit 300) ?

- All major capital investments
 - Land, structures, equipment, intellectual property (e.g., software), information technology (including IT service contracts), environmental restoration...See appendix 1 of the CPG)
- All major **IT** investment business cases must be submitted to OMB with the Budget
- For all other types of capital assets OMB shall request a sample of the business cases (Section II.9.2. CPG)
- **Important note:** All information necessary to complete an Exhibit 300 already exists as part of the agency's overall IRM activities and within project specific documentation. Materials used to populate the Exhibit 300 should be readily available to OMB upon request.

Updating Exhibit 300's

- Update after budget season to reflect final Presidential decisions
- Exhibits including only publicly-releasable information are to be posted on the agency website within 2 weeks of release of President's budget
- Agencies should continuously maintain all updated information about the project. OMB may request this information at any time.
- If agencies request supplemental funds..., agencies should submit new or revised Exhibits

What Information Is Required

- New Investments (Proposed for BY +)
 - Complete Parts I and II
 - Initial concept or planning phase investments will have less detail than for those moving into acquisition or operational phase. However, must identify in life-cycle documentation the dates these issues will be addressed as the investment matures. Update the 300 when they happen
 - Prototypes must be reported as full acquisitions.
- Ongoing Investments
 - Only update sections as appropriate
 - If any of the cost, schedule or performance variances are not within 10% of current baseline, provide complete analysis or the reasons, corrective actions to be taken, and the most likely EAC
 - Use the EVM system to identify the specific work packages where problems are occurring.
 - Proposed baseline changes must be submitted to OMB prior to budget request, proposed changes should not be assumed approved.

Part 1: Summary Information and Justification

- Section A. Overview
- 23 Questions
- Question 8 – Brief summary and justification, including a description of how this closes in part or in whole an identified performance gap.
- Q9 – Did the Agency’s Executive/Investment Review Committee approve this request
 - Acting for the Secretary
 - CFO must have reviewed the cost estimate
- Q10 – Did the PM review this Exhibit?
 - Name, Phone Number, E-Mail
-

Part 1, Section A

- Question 12. **Is the project Green?**
- Has the agency developed and/or promoted cost effective, energy-efficient and environmentally sustainable techniques or practices for this project?
 - A. Will the investment include electronic assets (including computers)? Yes/No
 - B. Is the investment for new construction or major retrofit of a Federal building or facility?
 - 1 Is an ESPC or UESC being used to help fund this investment
 - 2 Will this investment meet sustainable design principles
 - 3. Is it designed to be 30% more energy efficient than relevant code?

Part 1, Section A:

- Q14 - Does the investment support a program assessed using OMB's Program Assessment Rating Tool (PART)?
 - A. Does this investment address a weakness found during the PART review?
 - B. Name of the PART program
 - C. What PART rating did it receive?
- This is Budget and Performance Integration
 - Covers all major line item programs in Budget
 - 20% reviewed each year. 100% end of FY08

Section B: Summary of Funding (All Capital Assets)

- Provide the total estimated life-cycle costs for this entire investment. (Risk Adjusted)
- For Federal buildings and facilities, LCC should include long term energy, environmental, decommissioning, and/or restoration costs.
- For cross-agency investments, this table should include all funding (both managing partner and partner agencies)
- Will the project require the agency to hire additional FTE? How many, what year?
- **Implied** - (Will the project reduce FTE?)
- If the summary of spending has changed from the last budget request, explain changes.

SUMMARY OF SPENDING FOR PROJECT (INVESTMENT) STAGES
(Reported In Millions)

(Estimates for BY+1 and beyond are for planning purposes only and do not represent budget decisions)

	PY-1 and Earlier	PY 2003	CY 2004	BY 2005	BY+1 2006	BY+2 2007	BY+3 2008	BY+4 and Beyond	Total
Planning	1.1000	0	0	0	0	0	0	0	1.1000
Acquisition	10.7000	2.4500	2.7100	2.7300	1.6000	1.4000	1.4000	1.4000	24.3900
Subtotal Planning and Acquisition	11.8000	2.4500	2.7100	2.7300	1.6000	1.4000	1.4000	1.4000	25.4900
Operations & Maintenance	18.6000	2.0100	1.7400	1.7500	2.4000	2.4000	2.4000	2.4000	33.7000
TOTAL	30.4000	4.4600	4.4500	4.4800	4.0000	3.8000	3.8000	3.8000	59.1900
Government FTE Costs should not be included in the amounts provided above.									
Government FTE Costs	0	.188	.194	.200	.206	.212	.218	.225	1.443
Number of FTE Represented by Costs.	0	0.9000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	6.9000

Note: For the cross-agency investments, this table should include all funding (both managing partner and partner agencies). Government FTE Costs should not be included as part of the **TOTAL** represented.

Section C: Acquisition/Contract Strategy

- 1. Complete the table
 - Contract of Task Order Number
 - Type of contract/task order
 - Has the contract been awarded (Y/N)
 - Date of award, if not awarded, – planned date
 - Start and end date of contract/task order
 - Total Value of Contract/T.O. (includes all options)
 - Is this an interagency acquisition?
 - Is it performance-based?
 - Competitively awarded? (Y/N) – (many TO's will not be).
 - Alternative financing? (ESPC, UESC, EUL, N/A)
 - Is EVM in the contract? (Y/N)
 - Does the contract include the required security and privacy clauses? (Y/N)

Section C: Acquisition/Contract Strategy

- Name of Contracting Officer
- CO contact information (phone/email)
- CO Certification Level. (1, 2, 3, N/A)
- If N/A, does the CO have the competencies and skills necessary
- 2. If EVM is not required or will not be a contract requirement for any of the contracts/T.O.'s, explain why
- Do the contracts ensure Section 508 compliance?
- Is there an acquisition plan which has been approved in accordance with agency requirements
 - If yes, what date?
 - If no, will an acquisition plan be developed?
If no, explain why:

Acquisition Plan

- Actual plan developed must meet the requirements in:
- FAR Part 7, Acquisition Plans
- FAR Part 34, Major System Acquisition
- OMB's Capital Programming Guide
 - Phase 1: Planning and Budgeting
 - Phase II: Acquisition

FAR Contracting Policy

- Part 7 – Acquisition Planning
- 7.105 Contents of Written Acquisition Plans
 - Must address all the technical, business, management and other significant considerations that will control the acquisition
 - The Planner must follow the applicable instructions in paragraphs (a) and (b) below
 - (a) There are 8 major areas
 - (b) There are 21 areas.

7.105(b)(3) Source Selection Procedures

- When EVM is required (see FAR 34.202(a)) and a pre-award IBR is contemplated, the acquisition plan must discuss—
 - How the pre-award IBR will be considered in the source selection decision
 - How it will be conducted in the source selection process (see FAR 15.306); and
 - Whether offeror's will be directly compensated for the costs of participating in a pre-award IBR.

7.105(b)(10) Management Information Requirements.

- If an EVMS is to be used, discuss the methodology the Government will employ to analyze and use the EV data to assess and monitor contract performance.
- Discuss how the Offeror's/Contractor's EVMS will be verified for compliance with ANSI/EIA 748; and
- The timing and conduct of IBR's (whether prior to or post award).

Part 34, Major System Acquisition

- 34.2 Earned Value Management Systems is a new subpart.
- (a) An EVMS is required for major acquisition for development, IAW OMB A-11, The Government may also require an EVMS for other acquisitions, IAW agency procedures.
- (b) Offeror's that propose to use a system not in compliance with 748 must submit a comprehensive plan for compliance
- (e) CO's will determine the adequacy of the proposed EVMS plan prior to contract award
- (c) At a minimum require monthly EVM reports
- (d) EVMS requirement will be applied to subcontractors using the same rules as applied to the prime contractor.

Two Provisions, One Clause for EVM

- 52.234-2 Notice of EVMS – Pre-Award IBR
- 52.234-3 Notice of EVMS- Post-Award IBR
- The above are the same, except the Pre-Award IBR provision has a paragraph (d): The Government will conduct an IBR, as designated by the agency, prior to contract Award.
- 52.234-4 Earned Value Management System
 - (a) The contractor shall use an EVMS that has been determined by the **Cognizant Federal Agency (CFA)** to be compliant with the guidelines in ANSI/EIA 748 (current version at time of award) to manage the contract. (See NDIA EVM Systems Acceptance Guide)
 - (d) The CO may require an IBR at
 - Exercise of significant options, or
 - Incorporation of major modifications.
- CPG I.5.5.5 - An IBR **must** be accomplished whenever there are major changes to the baseline.

CPG Contracting Principles

- Strive to use Fixed-price or fixed-price incentive contracts to the maximum extent possible.
- The use of Cost-type contracts usually means that the capability is not readily available in the market .
- For long duration contracts that include significant development, it may initially be impossible to estimate the cost of performing the entire contract with sufficient accuracy to use a fixed-price type contract.
- As the contract progresses and the ability to estimate cost of performance improves the use of fixed-price contracts becomes more practical.
- Initiate the contract with a small T&M or cost plus fixed fee contract for studies or early design, evolve to a cost plus award or incentive fee for later design and initial development, and then to a cost plus incentive fee, fixed price incentive or firm fixed price contract once all development work is complete.
- For long duration contracts, it may also be desirable to negotiate an estimated cost or price in increments.

CPG Contracting

- 1.5.5.5 Integrating EV into Acquisition Strategy.
- All contracts with EVM are required to have an IBR pre- or post-award to finalize the agreement on the baseline and ensure the risks are identified and understood.
- Depending on the risk to establishing an achievable performance measurement baseline at time of contract award, the use of an IBR before or after award must be determined.
- **Nevertheless**, agencies are expected to achieve at the completion of the contract at least 90 percent of the cost, schedule and performance goals established at the time of contract award.

CPG Contracting

- T&M contracts should only be used in the planning phase and only when there is insufficient knowledge about the requirement to be able to use a cost reimbursement contract.
- Agencies should only require in the contract sufficient goods or services to result in the agency receiving complete useful assets. Do not incentive contractors to provide more than needed to meet strategic goals.
- EVM is normally used on Fixed-price incentive contracts and cost reimbursement contracts. EVM shall also be used on firm-fixed price and any other type of contract that meets the major acquisition threshold if that contract contains a significant amount of development work.

CPG Contracting

- Contract Incentives; (II.2.2)
 - for cost and schedule reductions while maintaining the expected performance, or
 - for performance improvement while maintaining cost and schedule goals, if performance improvement is actually needed to meet agency strategic goals and objectives.
 - Standards for payment of incentives must be clearly defined
 - Incentive payments must not be made if standards are not met
- Sound acquisition management requires holding managers accountable. (Acquisition Phase Introduction)
 - Agencies should establish for the IPT, and others as appropriate, a system of incentives to encourage achievement of the projects baseline goals. These incentives should include rewards (including bonuses), recognition, and consideration in both personnel evaluations and promotion decisions, when performance of the IPT personnel contribute to achieving or exceeding the cost, schedule and performance goals of the acquisition.
 - Incentives are not appropriate if the acquisition does not achieve its baseline goals.

Section D. Performance Information

- Performance goals that link to the annual performance plan and map to the gap in the agency's strategic goals and objectives this investment is designed to fill. They are the internal and external performance benefits this investment is expected to deliver to the agency.
- Initially they are the goals in Section A, Question 8 – Brief summary and justification, including a description of how this closes in part or in whole an identified performance gap.
- The final goals are the acceptance criteria in the statement of work and the exit criteria for work packages on the critical path.

Section D: Performance Information

Use Table 1 below for reporting performance goals and measures for all non-IT investments and for existing IT investments that were initiated prior to FY 2005. Include goals for all years of the investment.

Performance Information Table 1:					
Fiscal Year	Strategic Goal (s) Supported	Performance Measure	Actual/Baseline (from previous year)	Planned Performance Metric (Target)	Performance Metric Results (Actual)
2008					
2008					
2008					
2008					

Section D: Performance Information

All new IT investments initiated for FY 2005 and beyond must use table 2 and are required to use the Federal Enterprise Architecture (FEA) Performance Reference Model

Performance Information Table 2						
Fiscal Year	Measurement Area	Measurement Grouping	Measurement Indicator	Baseline	Planned Improvements to the Baseline	Actual Results
2006	Mission and Business Results					
2006	Customer Results					
2007	Process & Activities					
2007	Technology					

Sections E and F

- Section E: Security and Privacy (IT Capital Assets only)
- Section F: Enterprise Architecture (EA) (IT Capital Assets Only)
- Not covered in this presentation

Part II: Planning, Acquisition and Performance Information

- Section A: Alternatives Analysis is completed:
- After answering the Three Critical Questions:
 - Does the investment in a major capital asset support core/priority mission functions that need to be performed by the Federal Government?
 - Does the investment need to be undertaken by the requesting agency because no alternative private sector or governmental source can better support the function?
 - Does the investment support work processes that have been simplified or otherwise redesigned to reduce cost, improve effectiveness, and make maximum use of commercial, off-the-shelf technology.
- And then Considering other other than new acquisitions to reduce the performance gap
 - Meeting objectives through regulation or user fees;
 - Using human capital rather than capital assets; and
 - Applying grants or other means beyond direct service provision supported by capital assets.

Part II: Section A: Alternatives Analysis

- Identify and consider at least three viable alternatives, in addition to the current baseline – status quo re-engineered.
- Use OMB Circular A-94 for all investment and the Clinger-Cohen Act of 1996 for IT investments for your benefit/cost analysis.
- 1. Did you conduct an alternatives Analysis? If yes, provide the date, if no, When? If none planned, Why

Part II: Section A: Alternatives Analysis

- For each of the 4 Alternatives provide
- Description of alternative
- Risk Adjusted Lifecycle Costs Estimate
 - What estimating technique did you use?
- Risk Adjusted lifecycle Benefits Estimate
- Why was the selected alternative chosen?
- What specific qualitative benefits will be realized? (Include in Performance Standards)

Part II: Section A: Alternatives Analysis

- Management should provide IPT with an estimate of the range of budget resources that may be available for the asset.
- Conduct market research
- Emphasis should be placed on generating innovation and competition and on the use of commercial items and non-developmental items
- Availability
- Affordability
- Costs and Benefits
- How much have sustainable design principles been incorporated into the requirements?
- Risk must be included for each alternative

Section B: Risk Management

- Expected to have performed a risk assessment during the early planning and initial concept phase, developed a risk adjusted life-cycle cost estimate and a plan to eliminate, mitigate or manage risk, and be actively managing risk throughout investment's life-cycle
- 1. Does the investment have a Risk Management Plan?
 - If yes, date
 - Has the plan been significantly changed since last year's submission to OMB?
 - If yes, describe significant changes.
- 2. If no plan – When?
- 3. Briefly, describe how investment risks are reflected in the life-cycle cost estimate and investment schedule
- Use appendix 5, Risk Management, as the basis for your risk management process
- Use appendix 9, Cost Estimating, as the basis for your cost estimating process
- Agencies are expected to award contracts that have a high probability of achieving at least 90% of the cost, schedule and performance goals established in the planning phase.

CPG Risk Principles

- Risk management leads to the development of a Risk-Adjusted Program Budget and Risk-Adjusted Schedule (See NDIA EVM Application Guide)
- The IPT must ensure that the proposals and in-house estimates clearly recognize the amount and impact of risk on cost, schedule and technical effort.
- New technology should be subject to Technical Readiness Level (TRL) and Degree of Difficulty (R&D3) reviews to help determine the risk and necessary reserves.
- High risk should be accepted only if it can be justified by high expected returns, and only if program failure can be absorbed by the agency with loss of service capability or significant effect on the budget.
- Decision thresholds should be set for cost, schedule and performance expectations of development projects beyond which the ROI becomes so low that the project should be cancelled.

Risk Management Principles

- Limit development
- Use competition
 - Avoid monopolies through multi-sourcing and using commercial standards.
 - May use stipends to encourage the very best companies to put forth the very best proposals
- Use financial incentives for contractors
 - Make sure they incentivize what you want

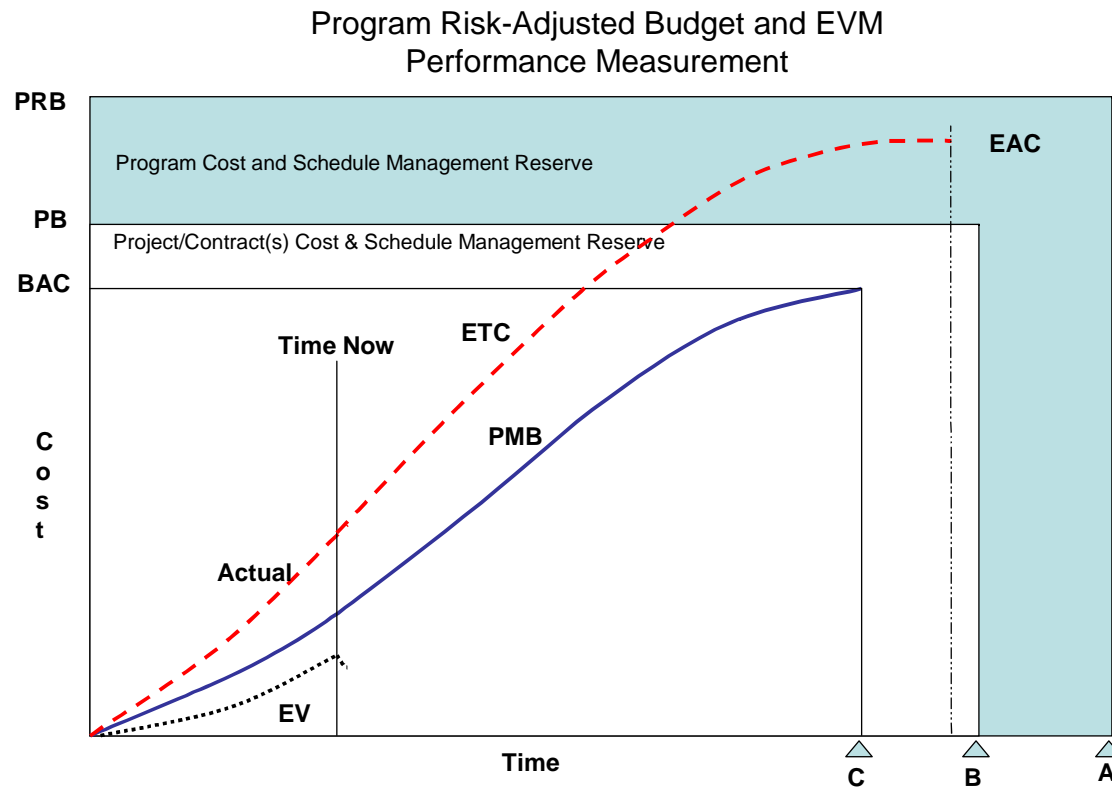
Program Risk-Adjusted Budget (PRB)

- I.5.2 The program's (investment's) risk-adjusted budget establishes the baseline for reporting to OMB on program performance.
- The PRB is formed after determining the Program Budget (PB) and the performance Measurement Baseline (PMB).
- The appropriate agency official (ERB) must ensure that the PRB is justified based on risk, and that the agency will fund the program at that level.
- OMB approval required on all budgets

Program Risk-Adjusted Budget (PRB)

- **Program Risk-Adjusted Budget (PRB) – The total budget that includes an additional amount of resources and schedule above the program budget that customer management determines may be necessary to ensure project/program success. The amount above the PB covers risk that was not identifiable through the IBR and other risk management approaches, but that history on similar programs or the amount of total risk on the particular program, indicates will likely be needed to ensure sufficient resources will be budgeted for project/program success. The budget between the PB and PRB is held at a level above the program level to be released to the program when justified to fund cost and schedule overruns from the Performance Measurement Baseline that happen through no fault of the program management process.**

Program Risk-Adjusted Budget



Section C: Cost and Schedule Performance

- EVM is required only on DME (development) portions of investments
- For mixed life-cycle, O&M milestones should still be included in the table (Comparison of Initial Baseline and Current Approved Baseline.)
- Does the EVMS meet the criteria in 748? Y/N
- What is:
 - PV, EV, AC
 - What costs are included, Govt. Only/Contractor Only/Both?
 - SPI
 - SV
 - CPICV
 - Is the CV or SV greater than +/- 10%
 - Explain variance
 - Corrective Actions
 - Current EAC
 - Any significant changes to baseline in past year?
 - If yes, when approved by OMB?

Questions

- Agencies have flexibility in how they implement the key principles and concepts in the CPG.
- However, the key principles and importance of thorough planning, risk management, full funding, portfolio analysis, performance-based acquisition management, accountability for achieving the established goals will not change
- In General, OMB will only consider recommending for funding in the President's Budget priority capital asset investments that comply with good capital programming principles.