



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
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WASHINGTON, DC 20350-1000

JAN 14 2013

BUDGET GUIDANCE MEMORANDUM BG 12-3A

Subj: IMPLEMENTATION OF ANNUAL CONTINUING RESOLUTION AND SEQUESTRATION ON THE FY 2013 DEPARTMENT OF THE NAVY BUDGET

Ref: (a) SECDEF memo on "Handling Budget Uncertainty in FY13" dated 10 January 2013
(b) ALNAV dated 11 January 2013

Encl: (1) DON CR and Sequestration Funding Targets by BSO
(2) Investment Template for Spreading Sequestration Reductions by Year
(3) Template for CR and Sequestration Impact Statements
(4) Working Capital Fund Impact Template

1. Purpose. To provide an update on the current status of sequestration, describe Department of the Navy (DON) timelines and processes, provide revised sequestration targets, solicit inputs for implementation plans for DON programs and impact statements for larger DON programs. This detailed planning effort will inform the DON sequestration implementation plan due to OSD on 1 February 2013. While this sequestration planning effort affects the majority of DON programs, it is considered to be an internal deliberation and is not to be discussed outside the Department.

2. Background. The Budget Control Act (BCA) of 2011 (Public Law 112-25) amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) to re-attain a balanced budget by the introduction of an automatic process of across-the-board cuts, known as sequestration. Per the BCA, sequestration was to have taken effect on 2 January 2013 if the Joint Select Committee on Deficit Reduction failed to propose, and Congress failed to enact, a bill including at least \$1.2 trillion in deficit reduction. On 2 January 2013, Congress and the President enacted the American Taxpayer Relief Act of 2012 (ATRA) which deferred sequestration effects until 1 March 2013. The administration is hopeful that Congress will pass a series of bills that would end the continuing resolution and avert sequestration. Reference (a) highlights additional information and guidance on sequestration and can be found at: https://fmbweb1.nmci.navy.mil/exec/Debt_Ceiling.htm.

3. Action. BSOs are to begin execution of DON Tier Alpha actions to preserve funding under the FY 2013 Continuing Resolution. This direction is also provided in references (a) and (b). Development and submission of DON implementation plans and CR and Sequestration Impact Statements by BSOs are described below.

4. Estimating the Impact of Sequestration. The DON has followed the OMB method for calculating the sequestration impact, assuming operations under an annual Continuing Resolution (CR). The base for sequestration includes the following:

- The FY 2013 Annualized CR is calculated from the FY 2012 Enacted appropriation and is adjusted upward by 0.612%.

- The FY 2013 Overseas Contingency Operation (OCO) budget request.
- The FY 2012 and earlier prior year unobligated balances for active accounts. The current forecast for unobligated balances in this guidance uses data through 31 December 2012.

Sequestration Impact = (FY 2013 Annualized CR + FY 2013 OCO request + PY Unobligated Balances) * 9%

a. Until a more definitized sequestration number is available, a 9% reduction will be applied to the sequestration base shown above. BSOs should be aware that the unobligated balance forecast will be updated to include an obligation projection through the end of February of 2013 for final planning estimates, however, this data will not be available from OSD until ~20 January. Revised OSD unobligated balance data will be provided as soon as available. FMB will work with BSOs where any significant changes are observed.

b. The DON also assumes that it will be expected to continue to operate within the limitations of an annualized Continuing Resolution, which reduces flexibility - no FY 2013 new starts and no quantity increases from the FY 2012 enactment to the FY 2013 CR level. As a result, the program control will be established as follows:

- (1) The sequestration reduction described above will be applied to the lower of either the FY 2013 Annualized CR amount (FY 2012+0.612%), or the FY 2013 President's Budget Request.
- (2) Military Personnel funding is excluded from sequestration action but not from the CR.
- (3) Where the PB13 amount was lower than the annualized level of the FY2013 CR, no CR adjustment has been made. Where the FY 2013 CR amount was lower than PB13, an adjustment has been entered - - thereby picking the lower of either the FY 2013 annualized CR or PB13 amounts.
- (4) The purpose for this is to exclude funds from consideration that might not materialize under an appropriation that would artificially enhance budgets.

c. Enclosure (1) reflects the proposed controls as articulated above. Due to the large number of prior year projects and the large prior year balances in SCN and MILCON, including many ships and projects that do not have funding in FY 2013, enclosure (1) provides total sequestration amounts at the appropriation level for SCN, MCN, MCNR, and FHCON. Distribution by fiscal year and line item will be provided separately by FMB 2.

d. While there may be reprogramming authority or other mechanisms provided later for realignments across appropriation, this DON effort presumes no flexibility for realignments within the FY 2013 CR. Also, the sequestration reductions provided must be applied at the PPA level (P-1/R-1/C-1) for investment accounts in FY 2013, but may be realigned among FY 2013 and prior years with active and available unobligated balances. Enclosure (2) provides a template for BSOs to complete to report recommended adjustments across fiscal years within a P-1/R-1/C-1 line item.

5. Civilian Personnel.

a. Hiring Freeze. Per references (a) and (b), a hiring freeze is now in effect for Navy commands. This hiring freeze will be managed by BSO Commanders. Hiring actions may be performed under the hiring freeze for critical billets that the Commander defines as "essential."

No additional job offers will be made by the OCHR Human Resources Service Centers until each BSO develops and issues their hiring freeze plan. BSOs must satisfy their local union notification and bargaining requirements associated with their plan. The Marine Corps direction regarding potential civilian personnel actions will be issued by HQMC to reflect decisions by the Commandant, as applicable. Any Marine Corps hiring freeze will be announced separately and managed by HQMC. ASN(M&RA) will work with individual BSOs to address questions and approve hiring freeze plans. ASN(M&RA) POC for the hiring freeze is Mr. Doug Lundberg at Douglas.Lundberg@navy.mil.

- 1) BSOs are alerted that for reimbursable billets the fund holder must coordinate with the BSO early enough to ensure that the reimbursable workforce is planned, available, and funded.
- 2) More specifically, NAVSEA and the Shipyards must coordinate with the Fleets, as the fund holder, to ensure proper levels of reimbursable workforce are planned and funded. Joint decisions to determine essential work and appropriate work force are essential.
- 3) Beyond the Fleet workforce, BSOs must be sensitive to other reimbursable work, e.g., SOCOM, DHP, Intelligence, and FMS
- 4) DoD has authorized voluntary separation incentives and voluntary early retirements. BSOs can look at this option when considering personnel action.

b. Civilian Personnel Furlough. If implemented, civilian furloughs will be centrally managed and will be a government-wide effort with limited exceptions. The White House will control future guidance with respect to a civilian furlough. Within this effort, BSOs should assume in their implementation plans a one-day furlough per week starting 16 April 2013 and continuing for 22 weeks. In any cases where risk to safety or security are untenable, BSOs should submit an impact statement highlighting the specific issue or circumstance that will result from the furlough. In the event a furlough is not authorized, BSOs should be assessing alternative measures to achieve the required reductions. OCHR will provide supplemental guidance on furloughs. ASN(M&RA) POC for furloughs is Mr. Doug Lundberg at Douglas.Lundberg@navy.mil.

c. Temporary and Term Employment. Per references (a) and (b), BSO Commanders are authorized to reduce temporary and term employee levels. BSO Commanders will manage this effort for critical billets that the Commander defines as “essential.” BSOs are reminded that Tier Alpha presumed a level of savings from these cuts. If temp and term savings do not materialize, BSOs would have to offer alternate cuts. The termination of term employees may require advance notice and appeal rights. When developing plans, BSOs should not propose releasing temporary employees prior to 15 February. You should consult with OCHR if terminating term employees is part of your proposed action plan. ASN(M&RA) POC for temporary and term employee action is Mr. Doug Lundberg at Douglas.Lundberg@navy.mil.

d. Navy Working Capital Fund (NWCF). As civilian personnel at NWCF entities are driven by workload requirements, coordination between customers and WCF entities is critical to ensuring an appropriately sized WCF workforce. Revised customer spend plans will drive changes to WCF requirements. Requirements from paragraph 4.a, 4.b, and 4.c above apply to WCF employees as well.

6. Implementation Plans and Impact. Based on the CR and sequestration targets provided in enclosure (1), BSOs will develop implementation plans in PBIS for O&M, SCN, and Military Construction and will submit sequestration impact statements based on the below direction. Specific direction is as follows:

a. Operation and Maintenance Accounts. FMB has coordinated extensively with BSO Comptrollers on the development of Tier Alpha cuts to address the CR, and is working on Tier Bravo options to deal with sequestration reductions. Revised BSO targets for the CR and sequestration adjustments are provided in enclosure (1) and in a new PBIS control table entitled "Sequestration Planning Control". BSOs will note that CR and sequestration targets are provided at the appropriation level of funding, and these adjustments must be spread by AG SAG in PBIS. As stated, CR rules allow BSOs flexibility to apply the CR adjustments as appropriate to achieve the previously coordinated Tier Alpha reductions - - sequestration cuts to be addressed by the Tier Bravo options will be developed. BSO implementation plans will be due in PBIS to FMB NLT than 25 January 2013. For updates to any unexpected O&M adjustments in Tier Alpha, BSOs will submit an implementation impact statement to FMB1 describing the change. In addition, the following should be provided per reference (a):

- Extent of civilian hiring freezes, expected number of temps/terms released; impact of the furlough.
- Reduction to Flying Hour, Steaming Days, Vehicle Miles and other operations/training/support activities that affect force readiness.
- Any areas receiving disproportionate cuts

Questions regarding O&M implementation plans or impact statements should be forwarded to James.Moser@navy.mil or james.moser@navy.smil.mil.

b. Investment Accounts: For procurement, research and development accounts, sequestration and CR impacts (where applicable) are applied at the Line Item (P-1, R-1) level of detail. Sequestration adjustments may be made for all investment programs at the PPA level by realigning the sequestration reduction among FY13 funding and any prior years with active and available unobligated balances. These recommended adjustments will be provided to FMB 2 in the enclosure (2) template addressed in paragraph 3.d and will be entered in PBIS for Issue 64293 at the P-1, R-1 and C-1 level of detail. BSO input for PBIS records and enclosure (2) will be due to FMB NLT than 25 January 2013.

For significant investment programs (ACAT 1D, ACAT 1C, MAIS, Joint, Special Interest) an implementation impact statement will be submitted to FMB 2. Enclosure (3) provides the template to be used to report recommended sequestration adjustments among fiscal years for a line item, the impact of a year-long CR (funding, authorization, new starts, quantity impact, rate of operations, multiyear procurement), and the impact to the program of the sequestration reduction. Enclosures (2) and (3) will be used for the development of the DON submission to OSD, possible year-long CR anomalies, and follow-on actions to sequestration. Questions regarding investment spend plans or impact statements should be forwarded to Burchard.Jackson@navy.mil or Burchard.Jackson@navy.smil.mil.

c. Construction and Family Housing accounts. NAVFAC will work with FMB2 to report CR and sequestration impact by project and year for Military Construction and Family Housing Construction. In addition, for Family Housing Operations, any Quality of Life issues should be identified.

d. Navy Working Capital Fund (NWCF). NWCF activities should coordinate with the BSOs on potential reductions in customer funding for their planned DON orders. BSOs are requested to complete enclosure (4) to indicate where proposed reductions will significantly impact NWCF customer orders. This information will be used in a subsequent data call to NWCF Activities to assess changes to FY 2013 financial operations, including revenue and net operating results. Questions on this template should be directed to the acting FMB 41, CDR Steve Macdonald, at 703-692-4842.

e. Military Personnel. While Military personnel accounts were exempted by sequestration, they are affected by the continuing resolution. BSOs will submit revised implementation plans for military personnel accounts to account for the impacts of the CR highlighted in enclosure (1) and are due to FMB NLT than 25 January 2013. BSOs should take into account any under-execution in FY 2013 that will result in surpluses and report these via enclosure (3) to FMB1.

f. Conferences for all Appropriations. Any government-sponsored conferences scheduled from January to March 2013 should be postponed to April or beyond. Per current approval authorities, re-approval is required for those conferences that cannot be easily delayed, are considered absolutely mission essential, or are required to maintain professional license or equivalent certifications. Re-approval will be contingent on showing estimated costs have been minimized to the greatest degree possible. For non-government sponsored conferences, U.S. government participation is not prohibited, but should contribute to the DON's mission and be adjusted to minimize costs, especially travel and lodging. Invited speakers included in conference requests should seek the approval of the next higher command level to verify speaker need before the conference request is submitted for re-approval. All future conference requests will include a FO/GO/SES endorsement highlighting how costs have been minimized and whether the conference is mission critical and/or fulfills license and certification requirements.

g. Travel and Training for all Appropriations. All non-mission essential travel and training should be minimized to the greatest degree possible. The first FO/GO/SES in the chain of command should determine whether travel is mission essential. This guidance is effective through 1 April. It will then be reviewed and adjusted based on the outcome of the final FY 2013 topline.

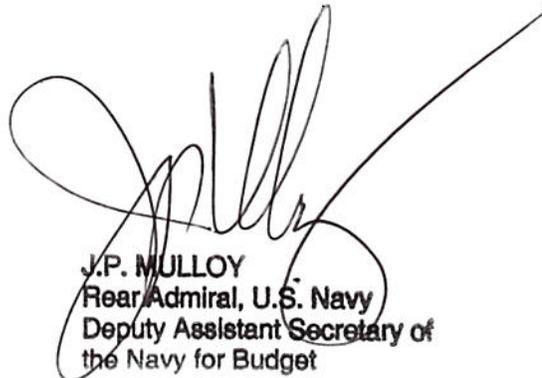
7. New Starts, Quantity Increases and Multiyear Procurements. While under a year-long CR, DoN commands do not have the authority to initiate any FY 2013 new starts, multiyear procurements, or contract for increases in procurement over FY 2012 quantities. These limits must be considered by BSOs when developing investment implementation plans. The impact statements should address any problems with these CR limitations which may later be included as legislative proposals or anomalies in requesting relief form OMB and /or congress.

8. Control of pre-decisional information. Participants are reminded that discussion of sequestration information outside of DoD is not permitted.

9. Congressional and Public Affairs Guidance. CHINFO is the central control authority for messaging and the DON narrative related to either the CR, or sequestration. Requests for information from any organization on these topics should be coordinated with CHINFO to ensure a consistent message that includes the OSD/SECNAV perspective is provided.

10. Action. Per references (a) and (b), BSOs are to begin executing initial actions of DON Tier Alpha options to preserve funding under the FY 2013 Continuing Resolution. BSOs are to also upload implementation plans in PBIS and provide enclosure (2) and (3) completed templates for for investment programs NLT 25 January 2013. Questions related to this memorandum may be directed to Mr Bill Orton at (703) 695-5827, or William.Orton@navy.mil. Questions concerning spend plans may be forwarded to Mr Dennis Kelley at (703) 692-1679 or Dennis.Kelley@navy.mil. Questions on O&M spend plans should be forwarded to Mr. James Moser at (703) 695-5803 or James.Moser@navy.mil. Questions regarding investment spend plans or impact statements should be forwarded to CAPT Cory Jackson at (703) 697-1618 Burchard.Jackson@navy.mil.

I KNOW THIS
IS HARD WORK BUT
IT MUST BE DONE
ACCURATELY AND
QUICKLY!



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