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June 8, 2010

THE DIRECTOR

M-10-19

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: Peter R. Orszag   
Director

SUBJECT: Fiscal Year 2012 Budget Guidance

The President has asked that we continue on our path toward freezing non-security discretionary spending for three years, cutting the deficit in half by the end of his first term, and restoring fiscal sustainability over the medium term. Doing so requires eliminating low-priority programs, squeezing out waste from all activities, and achieving better performance with the resources we have.

As a first step toward accomplishing these objectives, the President has requested that each non-security agency submit a budget request five percent below the discretionary total provided for that agency for FY 2012 in the FY 2011 Budget. This will allow the President's Budget to accomplish an overall non-security discretionary freeze even while providing funding for new initiatives and any contingencies that arise over the coming months. Tight budget targets will also be imposed on security-related agencies.

In meeting these budget targets, agencies should not simply reduce spending across the board. Instead, agencies should aim to restructure their operations strategically.

- Eliminating low-priority programs and activities can free up the resources necessary to continue investments in priority areas even as overall budgets are constrained. Separate guidance will direct agencies to identify the programs accounting for five percent of their discretionary spending that have the lowest impact on agency missions.
- Re-engineering staffing plans, improving procurement and grants management processes, and strengthening IT and financial management can squeeze waste out of existing operations and produce better outcomes.
- Focusing management attention on high-priority performance goals can deliver better service to the American people within available resources.

This memo provides specific guidance to all Executive Branch agencies on the following components of FY 2012 Budget submissions:

- I. FY 2012 Budget and performance targets
- II. Government-wide initiatives

We look forward to working with your agency to develop the President's FY 2012 Budget. Please communicate the priority of this effort to agency staff and request their full support as we engage with them in the coming months.

## **I. FY 2012 Budget and Performance Targets**

This section of the memorandum provides specific guidance on several aspects of your budget submission to OMB, due September 13, 2010.

- ***Policy and Funding Priorities.*** Your request should highlight your top policy and funding priorities and discuss how they further Presidential goals such as encouraging economic growth, investing in the future, and responsibly governing the Nation. However, you should also keep in mind as you prepare your request that the FY 2012 Budget will be prepared against a backdrop of fiscal austerity. As noted above, the President is firmly committed to a freeze on overall non-security funding through FY 2013, and the FY 2012 Budget will be prepared within these parameters.
- ***High Priority Performance Goals.*** Agencies are currently working to achieve the High Priority Performance Goals (HPPGs) they set last fall. Given that HPPGs have only recently been established, the expectation is that most agency HPPGs will continue into FY 2012 within agency discretionary targets. In limited cases where agency priorities or circumstances have changed significantly (e.g., new legislation has been enacted), agencies may propose adding or deleting HPPGs. All budget submissions should include specific FY 2012 performance targets for each HPPG.
- ***FY 2012 Agency Discretionary Funding Targets.*** Unless your agency has been given explicit direction to the contrary by OMB, your overall request should not exceed a level of five percent below the discretionary total provided for your agency for FY 2012 in the FY 2011 Budget. Within this level, your request should fully fund any Presidential initiatives included in the FY 2012 Budget, as well as the Government-wide initiatives specified in this memorandum. This five percent cut from the FY 2012 level in the FY 2011 Budget should not be achieved by proposing reductions to mandatory spending in appropriations bills, reclassifications of existing discretionary spending to mandatory, or enactment of new user fees to offset existing spending. These types of proposals may be included in your package as separate proposals on their merits or for consideration as alternatives to other cuts proposed in the main request. Agencies should also not use an across-the-board cut to meet the guidance level. Agencies may submit with their request priority add-backs and may also suggest alternative, lower levels for Presidential initiatives to accommodate these add-backs.
- ***Mandatory Funding Targets.*** To complement the Fiscal Commission's review of large entitlement and tax policies, Federal agencies should work with OMB to review savings opportunities in the full range of mandatory programs. At a minimum, your submission should also include the same total level of mandatory savings as proposed in the FY 2011 Budget, adjusted for any savings that have already been enacted. OMB representatives will reach out to agencies in the coming months to discuss additional options for

additional deficit reduction proposals, which could be included in the FY 2012 budget. To support compliance with the Statutory Pay-As-You-Go (PAYGO) Act of 2010 (P.L. 111-139), any proposed legislative increases in mandatory spending included in your request must be fully offset. Likewise, any proposed administrative actions that increase mandatory spending should be fully offset.

- ***Terminations, Reductions, and Savings.*** Regardless of your agency's discretionary funding target, all agency submissions should include at least five significant terminations, reductions, and administrative savings initiatives that reduce costs below FY 2011 Budget levels. The submission should include analysis and evidence showing the effects of the reductions and why they are warranted. Agencies are encouraged to develop new proposals that were not included in the FY 2011 Budget.
- ***New and Continuing Presidential Initiatives.*** Your submission should include updated cost estimates for any Presidential initiative and justify any change from estimates included in the FY 2011 Budget with analysis and evidence showing why the change is warranted.
- ***Programmatic Increases or Anomalies.*** Your submission must include in-depth analysis for each requested increase above FY 2011 levels, including any out-year implications.
- ***Integrated Performance Information.*** Your submission should include information—preferably from already established and approved measures—showing the performance gains associated with any proposed increases above the FY 2011 Budget.
- ***Tax and Spending Policy Integration.*** Your submission should include, where appropriate, analysis of how to better integrate key tax and spending policies with similar objectives and goals. Your staff should work with their OMB contact to develop this analysis.
- ***Base programs.*** Your submission should highlight the methods used to allocate base funding, such as cost-benefit analysis or other merit-based or competitive criteria. Any project- or location-specific funding should provide a clear merit basis for inclusion in the budget.
- ***Overseas Contingency Operations.*** If your agency participates in these activities, your submission should include a full-year estimate of these costs for FY 2012 (i.e., the Administration does not intend to request supplemental appropriations).
- ***Evaluation Initiative.*** OMB intends to extend the evaluation initiative for another year. Funding will be set aside for competitive awards under this initiative and added to agency top lines after the rest of the budget process is complete. Further guidance on this component of agency budget submissions will be forthcoming.
- ***Evidence-Based Innovation.*** Especially within tight resource constraints, agencies are encouraged to use their budget submissions to reconsider the basic design of their

programs to institutionalize the use of evidence, to foster innovation rooted in research, and to encourage rigorous evaluation. In FY 2009 and FY 2010, several agencies put these principles into action in promising ways. For example, HHS established tiered competitions that directed more dollars to programs with a stronger evidence base. The Department of Housing and Urban Development obtained authority for an across-the-board levy of funding for core programs to create a fund to support research, innovation, and linked performance improvements. The Department of Education proposed to consolidate dozens of undemonstrated narrow-purpose grants into larger, more flexible, and more performance-oriented funding streams. OMB will convene a meeting among interested agencies about how best to tailor such approaches to individual agencies' needs.

- ***Cross-agency Goal and Budget Submission.*** This Administration has launched numerous cross-agency collaborations to promote efforts among agencies to work effectively together to achieve Presidential priorities. OMB encourages agencies to consult with each other during the budget planning process so that resources are allocated to maximize their impact and avoid inappropriate duplication. OMB will formalize efforts that working groups have been exploring in several areas—including Science, Technology, Engineering and Mathematics education; large ecosystem restoration; climate science; climate technology; clean energy; nanotechnology; computing research; homelessness reduction; place-based policies; and obesity reduction—to coordinate FY 2012 Budget submissions among relevant agencies. Agencies are encouraged to look for additional opportunities where, by partnering with other agencies, they can work within guidelines to achieve a larger positive impact on outcomes. If your agency needs assistance from OMB in improving coordination with other agencies, please contact your RMO.

## II. Government-wide Initiatives

OMB is coordinating a number of Government-wide initiatives. The following provides guidance for the FY 2012 Budget on these initiatives:

- ***Improper Payments Reductions.*** Your submission should include specific actions for contributing to the FY 2012 government-wide goals of reducing improper payments by \$20 billion and recapturing \$2 billion in improper payments to vendors. These actions should include discussions of cost-benefit tradeoffs and connection to the agencies' overall strategy for improper payment reduction, including efforts associated with implementation of E.O. 13520. OFFM will also work with applicable agencies to set targets for disposing of unneeded real property and improving debt collection outcomes either through agency specific debt collection programs or through the Treasury Department.
- ***Partnership Fund for Program Integrity Innovation.*** The Partnership Fund provides funds to test innovative methods of reducing improper payments, improving administrative efficiency, improving service delivery and reducing beneficiary access barriers by bridging data and operations across programs where Federal and State cooperation would be beneficial. Funds are appropriated to OMB and allocated to a lead

Federal agency to support pilot projects in States and communities that have potential to be successful at scale. Agencies are encouraged to submit pilot concepts developed in consultation with program experts in other agencies. OMB will issue additional guidance on pilot submissions this summer.

- **Acquisition Improvements.** Your submission should include specific actions to achieve defined savings goals, including savings projected through terminations and reductions, renegotiations of existing contracts for lower prices, strategic sourcing, and other efficiencies. Your submission should also include specific actions and goals to reduce your agency's reliance on high-risk contract vehicles, including contracts awarded noncompetitively, procurements where only one bid is received, and cost-reimbursement and time-and-materials contracts.
- **Acquisition Workforce.** Your submission should include appropriate funds for the continued execution of the agency's plan for development of your agency's acquisition workforce, including funds to support hiring of both entry-level and mid-career staff. For the Department of Defense, the request should address the actions of the Department in this area, including hiring and training. For civilian agencies, the submission should also specifically address funding required to sustain the increase reflected in the FY 2011 Budget and any additional investments needed to support the agency's Acquisition Human Capital Plan for 2012 submitted to OMB in March 2010 within the overall funding target.
- **IT Infrastructure.** Your submission should include funding for the timely execution of agency plans to consolidate data centers developed in FY 2010 (reference FY 2011 passback guidance). In coordination with the data center consolidations, agencies should evaluate the potential to adopt cloud computing solutions by analyzing computing alternatives for IT investments in FY 2012. Agencies will be expected to adopt cloud computing solutions where they represent the best value at an acceptable level of risk.
- **IT Project Management.** Agencies must complete a review of their IT investment portfolios prior to submitting their FY 2012 Budget requests, identify high-risk projects and create plans for re-scoping such projects. All high-risk IT projects will undergo more detailed evaluation as part of the FY 2012 Budget process. Further information concerning this review process will be forthcoming over the next several weeks.
- **Cyber Security.** Your submission should include funding for the tools necessary to enable continuous monitoring of agency IT systems security as described in OMB memorandum M-10-15, "FY 2010 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management," dated April 21, 2010.
- **Improving Employee Engagement.** Your submission should use findings from the Employee Viewpoint Survey or other employee surveys to identify areas most needing improvement and describe the actions you plan to take during FY 2012 to improve performance in those areas. In addition, your submission should detail steps taken over the past year to address previously identified issues, actions, and the results of these