Reform of the Federal IT Budget
—Increasing Strategy, Decreasing Complexity

By Dan Chenok

The federal budget process is an exercise in time travel. At any given moment, agency budget and program managers may live in as many as three years at the same time. Right now, those three years are FY2012 (the budget for which spending is currently happening); FY2013 (the year beginning this October 1, now under consideration by Congress regarding the president's budget request); and FY2014 (the budget year agencies begin to plan for in the spring, submit to OMB in September, and carry out the request that ultimately emerges from the president in February). Then the three-year cycle begins anew. Agency budget planning generally occurs through identifying a spending ceiling level for a large number of program accounts that have multiple parts (sub-accounts).

Over the past two decades, this picture has become even more complicated by the fact that Congress rarely enacts a budget by October 1. So agencies face a division of the second year in the three-year cycle into two parts: the first part, characterized by a continuing resolution that keeps spending levels at the same ceilings as the previous year; and the second part, in which the rest of that year's money is spent under the Congressionally enacted levels.

This means that over the spring and summer of 2012, agencies plan for spending that will occur a minimum of 14 months later (FY 2014, beginning October 1, 2013). If that spending occurs toward the end of FY 2014—often the case as agencies spend more money as the year-end deadline approaches—the time lag from initial planning to spending can be up to 30 months.

The Complexity of the IT Budget

This temporal budget calendar becomes even more complex for chief information officers and other IT and budget executives because of the way that the budget for federal information technology (IT) is developed. Since the 1990s, OMB policy has required agencies to submit their IT budgets through the Exhibit 53 (see http://www.itdashboard.gov/faq-agencies/exhibit-53-fields for more information), which is
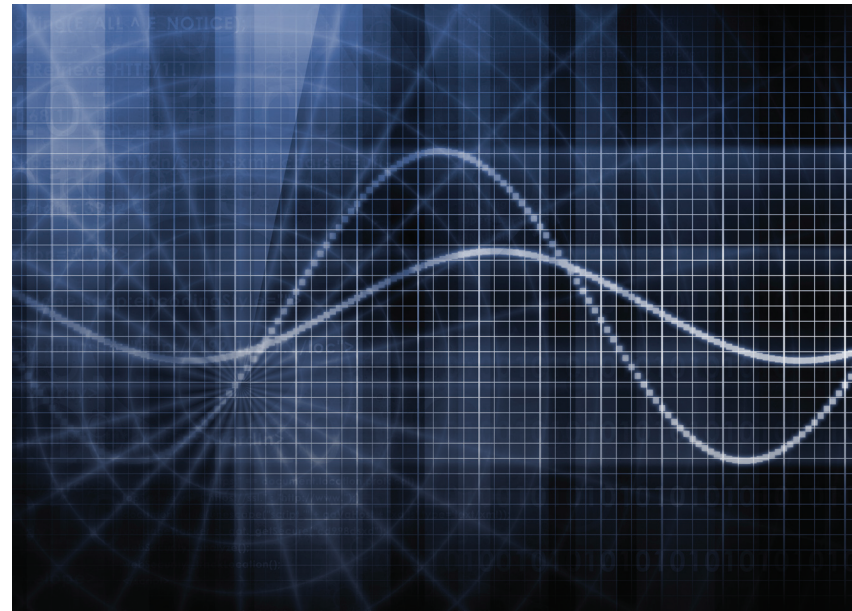
an aggregate total of all IT spending reported to agency IT budget officials on both large ("major") IT projects and other smaller projects. Unlike the core budget described above, where the administration requests and Congress sets overall ("topline") levels of spending for individual accounts, the IT budget aggregates actual spending on technology projects in a "bottoms-up" fashion. Because most agencies do not make technology a separate account in their budget (a notable exception is the Department of Veterans Affairs), the IT budget sums up project-level spending across multiple budget accounts that occurred last year, is occurring this year, and is forecast to occur next year. In effect, the three-year cycle for IT spending differs from that of the rest of the budget in how it is put together—bottoms-up, rather than through spending within toplines that are tied to budget accounts.

This makes IT spending harder to control, year-to-year (or, since agencies live in three years at once, year-year-year to year-year-year). The federal IT budget has grown consistently since the late 1990s, from roughly $35 billion in FY 2000

Dan Chenok is a Senior Fellow in the IBM Center for The Business of Government. He is responsible for thought leadership in the area of government technology and government management improvements. He also leads consulting services for Public Sector Technology Strategy working with IBM government, healthcare, and education clients.

(which started in October 1999) to the current $80 billion, for three primary reasons:

- agencies have identified more spending as IT (for example, spending in a program budget for an IT system that is brought into the IT budget)

- agencies have actually planned to spend more on IT as a strategic resource

- agencies have increased spending on IT during the year, due largely to either new projects not in their original plan or cost overruns on current projects

The first of these factors represented a large portion of the increase for several years after 2000, as agencies were able to get more visibility into which investments they made on technology. The second factor—determining where to allocate IT spending as a strategic resource—should be where agencies spend the most effort and make the most considered choices. However, the third of these factors has actually been the cause of a large percentage of the increase in measured IT spending. The extent of the increase due to project-level spending growth can be seen by examining the difference over time between planned spending for the budget year (the third of the three years in the IT planning cycle) against two related totals:

- the "enacted" spending level (the second year in the planning cycle), or that IT spending that agencies estimate will occur in the current year (aka the year in which budget request is made)

- the "actual" spending level (the first year in the planning cycle), or the IT spending that agencies confirm occurred in the prior year (aka, the year before the budget request is made).

The chart below demonstrates this trend clearly. From 2004 until 2011, the IT budget request grew from $59.4 million to $79.4 million, or a change of $20 million. However,

IT Spending Over Time ($000s)

Year	Proposed (Budget Year)	Enacted (Current Year)	Actual (Prior Year)	Year 1 Spend Growth	Year 2 Spend Growth
2004	$59,370	$59,329	$60,183	-$41	$813
2005	$59,875	$60,543	$62,228	$668	$2,353
2006	$65,180	$63,531	$66,215	-$1,649	$1,035
2007	$63,847	$64,911	$65,554	$1,064	$1,707
2008	$66,405	$68,314	$72,777	$1,909	$6,372
2009	$70,914	$74,225	$76,135	$3,311	$5,221
2010	$78,440	$80,645	$80,727	$2,205	$2,287
2011	$79,375	$78,784	$80,183	-$591	$808
2012	$81,241	$79,464		-$1,777	
2013	$78,878				
Total (2004-10)	**$20,005**			**$6,876**	**$20,597**

Source: Exhibit 53s, 2003–2012

measuring the requested total against the actual spending for that same year shows an increase of **$20.6 million** due to new spending over time—meaning that the entire requested increase in spending went to pay for additional costs of projects, or additional projects started, after the initial request for a given year. To understand the case for a given year: the 2004 request was for $59.4 million, while actual spending came in at $60.2 million; the similar difference for 2005 was $59.9 million for the request and $62.2 million for the actual spend. This pattern was repeated for every year. Only during the last two budgets has this difference leveled off.

In effect, agencies forecast a certain level of spending in the budget year based on actual spending in the current year—but the repeated pattern for most of these years has been growth in actual spending over that expected by the agency forecast. This means that even when administrations hold down IT budgets in their forecast—as the Obama administration has done, including a first-ever decrease in the Department of Defense IT budget for FY 2013 (http://www.cio.gov/FY2013-IT.pdf)—spending increases during the year can raise actual spending on IT in ways that OMB and agency CIOs have less ability to control. Such a pattern crowds out capacity to direct IT spending toward strategic priorities.

Moving Toward More Control of IT Spending

How can OMB and the agencies work together to shift long-term IT spending from being dominated by year-to-year cost growth, and place more emphasis on strategic allocations for key government priorities? The answer lies primarily in continuing to bring the IT budget closer to the fiscal budget in how it is put together.

As noted above, the budget process does not view IT as a distinct spending classification within the overall budget. Under this process, neither OMB nor Congress can simply change the topline of IT spending, at least not through conventional budget control mechanisms (in theory, Congress could set a limit on IT spending and agencies would have to do a lot of manual adjustments to their budget planning to comply, but that has not occurred and would be very cumbersome to implement.) OMB has, since the Bush administration, sought to link the Exhibit 53 line item for a technology project to the budget account that pays for that project. This has the benefit of increasing transparency but does little to control spending—the IT project is often a small portion of a larger budget account, or can be funded through combining funds from multiple accounts or sub-accounts, which makes IT spending difficult to control.

As indicated earlier, the VA has brought IT spending into a visible account controlled by the CIO, based on authority granted by VA's authorizing and appropriations committees. This allows the CIO to review IT spending for the budget year and make topline allocations—if cost increases occur in actual spending, budget control can be exercised because agencies cannot spend more than is authorized under a given account (to do so would violate the Antideficiency Act, which carries criminal penalties).

The OMB 25-Point Plan for IT Reform (http://www.cio.gov/documents/25-point-implementation-plan-to-reform-federal%20it.pdf) calls upon Congress to vest greater authority for IT spending in agency CIOs through reforms in budget rules that would make IT more like the rest of the budget. Strong central CIO control of a central IT budget reflects one model. Another model would be to create an account where the CIO coordinates the control of spending with program executives, since IT is not a program end unto itself but rather a means to achieve programmatic goals; in this latter model, the IT budget would be built through account-level assignments that come together as coordinated by the CIO. In fact, both models require strong coordination to implement properly.

This is not to say that the visibility into actual spending under the Exhibit 53 should be eliminated. As the chart on page 81 shows, tracking actual spending is critically important to understand trends and provide accountability, a fact reinforced by current initiatives like USASpending,gov, Recovery.Gov, and the DATA Act that recently passed the House of Representatives. But linking the IT spending to the overall budget, in a way that provides greater ability for CIOs to work with program executives in making strategic IT spending decisions as a conscious and integral part of budget planning, will help to control that spending—not to mention making the three-year budget cycle a little less complicated, at least for IT. ◻