



April 4, 1997

Al Alm, Assistant Secretary  
Office of Environmental Management  
U.S. Department of Energy  
1000 Independence Ave. S.W.  
Washington, D.C. 20585

John Wagoner, Manager  
U.S. Department of Energy, Richland Operations  
P.O. Box 550 (A7-50)  
Richland, WA 99352

Subject: FY 1999 DOE-RL Budget

Dear Messrs. Alm and Wagoner:

### **Major Themes in Review of Draft FY 1999 Budget**

(Advice to DOE Headquarters is highlighted in italics throughout the advice.)

There are a number of overall themes that the Hanford Advisory Board wants to stress in regard to the DOE-RL FY 1999 budget, which are described in more detail in our advice below:

- Budgeting has improved with the use of independent cost validation.
- Increasing work scope without increasing dollars, coupled with the lack of contingency, compounds the problem of funding shortages, a “bow wave” of deferred and missed milestones in the future.
- Indirect and overhead costs and the cost reimbursable nature of the new contract, with its multiple layers, may continue to drive up costs. This should not serve as a justification for non-compliance.
- Absorbing inflation in the level funding scenario actually results in continually decreasing funding levels.
- Hanford’s EM funding authorization must not be used for projects unrelated to cleanup.
- *DOE-HQ must meet its legal obligation to actively work to obtain funding for full regulatory compliance at Hanford. The DOE-RL FY 1999 budget draft (February 28, 1997) at the \$6.0 billion and the \$5.5 billion case levels falls short by \$99 to \$185 million to meet its requirements.*

### **Advice to DOE-RL on Budget**

The Hanford Advisory Board appreciates the opportunity to be involved in the U.S. Department of Energy's Fiscal Year 1999 budget and planning process. Over the past three years, DOE has demonstrated increasing openness, flexibility, and commitment to providing information in understandable formats. The all-day budget workshop on March 13 was well organized, and widespread site worker notification and exposure on cable television helped make it available to a broader audience. *This year information on budget units of analysis ("What Are We Buying?") for project line items on the Integrated Priority List (IPL) is a major step forward in allowing public understanding of the DOE prioritization process. The Board recommends it as a model for use at all sites.*

Concerns remain, however, about how the budget process is working this year. *The sequence of events leading up to the final draft RL budget submittal to Headquarters in June includes a longer overall timeframe than last year, but the window for public involvement is shortened.* In order to reflect public input in the April 30 draft submittal, RL has asked for input on the draft budget by April 10. This requires the public budget workshops to be held in March and very early April, limiting the time available for review of information and public review of key issues and draft Board advice. We appreciate DOE-RL consent to accept advice on this through May 30.

At the same time, detailed information underlying the IPL (i.e., the Project Baseline Summaries or PBSs) was not available for review. This lack of availability of PBSs weakens the opportunity for agency, Hanford Advisory Board and public review. *Because of how early the meetings were held, information necessary for informed comment by the interested public in the rest of the region has not been provided prior to the local public meetings (or for those who could not attend public meetings). The public was thus not able to comment regarding some key issues in the proposed FY 1999 budget. In the future, public meetings should be conducted after the HAB has provided advice on the budget.*

The Board also is concerned about the way in which the compliance case was used in compiling the IPL. It appears that "level-funded" requests in subsequent years will not meet all requirements for regulatory compliance (examples include RCRA groundwater and Clean Air Act operational monitoring, well abandonment/capping, and others). In the March 13 draft IPL, the \$6.0 billion and \$5.5 billion cases are between \$99 and \$185 million short of reaching compliance in the low/target scenario.

*DOE is required by law (Executive Order 12088 and the Tri-Party Agreement) to use its best efforts to request, not just identify, the funding required for full compliance. DOE's advocacy for a Ten-Year Plan funding level, which is below current levels, does not increase with inflation and does not fully cover compliance costs, as the basis for its budget request, violates these legal obligations.*

The Board recognizes that DOE-RL has received the funding level requested in FY 1997. However, the requirement to plan so far in advance and the allocation of funds without flexibility or contingency requires very hard choices about site-level allocations. As necessary work is deferred to meet budget shortfalls, a bow wave of deferral impacts moves into subsequent fiscal years. Budget requests need to reflect the real work needed to meet important needs and comply with regulatory milestones. As noted in the Board's advice on the FY97 budget, milestone delay or renegotiation should not be allowed as long as funds are not requested to provide for compliance funding.

The Board recommends that best available risk information be used and summarized in budget materials in order to understand priorities and improve stakeholders' ability to participate in budget review. Definitions for risk criteria should be included. This is needed especially to evaluate those items near the budget cutoff line and evaluate impacts of non-funding.

Hanford's EM funding authorization must not be used for projects unrelated to cleanup such as legal

costs of former Defense Program contractors, FFTF startup costs, or other non-cleanup costs.

In addition, the Board opposes inclusion of ATSDR's medical monitoring activities as currently proposed in RL's FY99 EM budget. The Board has not considered the merits of ATSDR's medical monitoring plans and funding requests. However, it is inappropriate to add an "unfunded mandate" to a budget not able to meet current compliance requirements. Further, medical monitoring funding should not divert funds from Hanford cleanup.

*The Board sees that the "level funding" scenario for the Ten Year Plan, as articulated by Al Alm in September 1996, will not provide level funding because actual funding is decreasing and the numbers do not include an inflation factor. While program planning at the site level (i.e., the IPL) incorporates a 2.7% inflation factor into the future, the top-line numbers as allocated by Headquarters do not. Over the ten years, this will result in an actual loss in Hanford cleanup exceeding \$1.7 billion. In the tenth year, the Hanford cleanup budget will be over \$300 million less in real dollars than in 1997. DOE already estimates that the current funding level will not meet legal requirements. The Board is concerned about prioritizing site work in the face of a declining budget scenario, not a level funding scenario. The Board recommends that inflation be included in top-level funding numbers.*

*The Board's experience with DOE's budget process has been made more difficult by the fact that the Headquarters-directed process changes every year. The Board recommends increased consistency in how the overall process works, to aid public participation and save money. The Board understands that Headquarters intends to schedule a multi-site videoconference in late May to discuss budget issues. The Board would prefer and recommends that Headquarters provide for direct dialogue via videoconference or conference call between representatives of the Hanford Advisory Board and Headquarters decision makers on the extensive recommendations and findings in the Board's budget advice.*

Outyears' capital funding should be separate from the Hanford EM budget, similar to the privatization reserve.

## **Program-Specific Budget Advice**

### **Spent Nuclear Fuel Budget**

The Board endorses a continued high priority for Spent Nuclear Fuel program funding.

### **TWRS and TWRS Privatization Budget**

*The Board appreciates DOE's action in response to its request to place a \$427 million TWRS privatization reserve in FY 1998 in a national reserve pool. The Board is concerned, however, that this amount may appear to Congress and the media as part of the Hanford EM authorization. The Board recommends that privatization continue to be funded outside the Hanford EM budget. Per the Board's prior advice on the FY 1998 budget, information is needed on the size and components of the reserve fund, how it will be used, and whether there are alternatives within the pool approach which would reduce the total budget authority required.*

*Al Alm committed to a dialogue with the Board on the privatization pool, and the Board is requesting again that such a dialogue take place soon.*

DOE should accelerate TWRS vadose zone characterization. Adequate funding should be provided to address the needs identified in Board Consensus Advice Numbers 54 and 65.

The Board is concerned about deferral of tank characterization work needed to meet TPA requirements. About \$45 million that is needed to catch up with characterization milestones alone is not funded in today's IPL. For characterization and other work that is on the critical path and will result in failure to meet the requirements of privatized vitrification plant retrieval, or will pose safety risks, and for infrastructure required to meet privatization needs, adequate funding must be provided. Examples are IPL Priority Items 250 and 253. The overriding priority should support the privatization program to ensure that necessary feed material and infrastructure are ready when the plants are ready to start operations.

It appears that TPA milestones related to the TWRS Alternate Path will not be fully funded in FY 1999. Full funding should be provided.

The Board believes that the TWRS program has made progress on streamlining TWRS budgets. Confidence in those cost estimates is increasing. However, a supportable baseline for operations and maintenance costs is not yet available. TWRS should include productivity commitments in their current budget planning to achieve credibility and to free up funds for other essential work.

### **Facilities Transition Budget**

The Board has supported use of cleanup funds for mortgage reduction, on the assumption that savings would be applied at Hanford. Hanford has yet to benefit from such dividends. The Board has requested information on specific mortgage reduction plans, accomplishments, and savings projections in the form of payback curves. DOE should clarify this issue to provide support for further investment in mortgage reduction funding.

The Board questions the priority for demolition of vacant general purpose facilities that are not contaminated, especially those that have potential for profitable future use. The Board recommends placing higher priority in FY 1999 on meeting regulatory milestones, not in demolishing such facilities.

### **Landlord Costs and Indirects/Overheads**

The Hanford Advisory Board has expressed repeated concerns that the PHMC contract would result in increased indirect and other overhead costs (see Consensus Advice #44 dated March 14, 1996; #48 dated May 3, 1996; and #65 dated February 7, 1997). A major source of concern was the "layering" structure of the contract, with six major subcontractors and six enterprise companies, with numerous subtier subcontractors. The Board's fears have been realized. Indirect and overhead costs under the new PHMC are a net of about \$31 million overrun in FY 1997, and have impacted the shortfall in FY 1997 allocations. Transition costs from the Westinghouse contract to the PHMC are now estimated to be \$6-8 million over the \$20 million budget, without a full accounting completed. These costs are also overhead and indirect costs. DOE assured the Board that layering would not result in increased overhead costs, and a public commitment was made when it awarded the contract that proposed savings would continue contractor-controlled indirect cost reductions. The PHMC also promised a 25 percent reduction in the infrastructure budget in the first contract year (See Project Hanford Management Contract Fact Sheet, USDOE, August 1996). This has not taken place.

The Board thus finds it necessary to reinforce its advice to the Department of Ecology and EPA regarding DOE's desire to defer legally required work in any fiscal year. A shortage of funds does not merit relaxation of legal requirements, when the shortfalls are in large part due to excessive overhead and indirect costs incurred by contractors, and DOE's failure to exercise strict controls over those costs. DOE's first priority should be meeting milestones, not reducing work scope to cover overhead overruns

and contract transition costs or awards. As indirects increase or decrease, those adjustments should not be made at the expense of safety or cleanup.

Additionally, DOE's failure to budget for indirects and overheads on the same schedule as direct program costs severely impairs the programs' ability to plan their work and the public's ability to scrutinize those overhead budgets. DOE should develop and process indirect budgets on the same timeline as direct budgets to allow for full evaluation well before the beginning of a fiscal year.

The Board acknowledges the work done by DOE to clarify expenditures on indirects and overheads and to compare them across contractors. The comparison of PHMC indirect costs to the prior contractor's indirect costs apparently disclosed cost increases due to layering. The Board is concerned, however, about the demonstrated inability to account for indirect costs in current and projected budget structures. There should continue to be prepared and disclosed publicly an annual functional/uniform accounting of indirects, including subcontractors and enterprise companies (until such time that enterprise companies receive no cost reimbursable work and all outsourced work is competitively bid). Full information on the comparison between PHMC indirects and direct overheads and those costs for similar functions under the prior contractor and baseline should be provided to the Board's Dollars and Sense Committee.

The Board requests disclosure of the total fees and indirect function costs under the prior contract and under the PHMC, including enterprise companies. The PHMC contract states that the government would not pay a total amount in fees and awards site-wide that is more than the total that would have been paid under a single M&O contractor. This commitment is circumvented by making the enterprise companies' fees an allowable cost under the PHMC contract for "on-site" work. Essentially, the government is paying fee on top of fee, in another example of layering under the PHMC.

It is the Board's perception that Hanford's cleanup budget pays more than its fair share of Pacific Northwest National Laboratory's (PNNL's) overhead costs. Other PNNL customers, including other DOE programs such as the EM-50 program, other federal agencies, and private customers, use Hanford facilities and should pay their share of the costs associated with the facilities they use. *USDOE should require all users of PNNL's laboratories to pay for their basic maintenance and operation and handling of radioactive and dangerous wastes. The cleanup budget should pay only for its share of these costs, which will make additional funding available for legally required cleanup work. The Board believes that DOE has the authority to address this issue as part of its oversight of its contract with PNNL. The Board requests specific information on this issue.*

### **Waste Management Budget**

The Board is concerned about the waste management programs meeting their indirect productivity challenges. Failure to do so would put essential scope at risk. DOE should ensure that these productivity challenges are met. There is also concern that deferred work will be delayed longer than anticipated (e.g., remote-handled TRU waste, Milestone M-91, and mixed waste treatment). This is an excellent example of the bow-wave concern expressed earlier. Per the Board's advice on compliance funding (Consensus Advice #64 and 65), all milestones should be funded.

The Board agrees with the program's decision to build no more waste storage facilities, and to focus on treatment and disposal. It will be hard to find funding for treatment and disposal unless the lack of storage forces it.

The Board is concerned about the lack of plans for disposition of pre-1970 TRU waste, and related funding. They do not appear to be included in the budget.

## Environmental Restoration Budget

Planned funding will put the ER program two years behind plan for cleanup of areas along the River, including reactor interim safe storage, despite the Board's consistent advice on prioritizing that work, significant public concern, and DOE's commitment to complete the effort by 2011. Delays in 200, 300, and 100 Area cleanups, and the reactors, are all due to ER being well below funding levels needed to meet those legal requirements. The Board perceives that ER is receiving more funding nationally due to progress in cleanups, but Hanford's ER program is not sharing in those increases, despite the high public concern for cleaning up the Columbia River corridor. *Headquarters should take action on funding needed to meet ER program priorities at Hanford.*

## EM-50 Technology Development Budget

*The Board many times over the past several years has requested that the EM-50 budget process be as open as the process followed for other EM activities at DOE-RL and follow the same time-table.*

We look forward to your response and to periodic progress updates on this matter.

Very truly yours,

Merilyn B. Reeves, Chair  
Hanford Advisory Board

cc: Tom Fitzsimmon, Washington Department of Ecology  
Chuck Clarke, Environmental Protection Agency  
Alice Murphy, Designated Federal Official  
The Oregon and Washington Congressional Delegations  
Randy Smith, Environmental Protection Agency  
Dan Silver, Washington Department of Ecology

Attachment

---

*This advice represents HAB consensus for this specific topic. It should not be taken out of context to extrapolate Board agreement on other subject matters.*

---

[Hanford Home Page](#) | [HAB](#) | [Advice Index](#)

*For questions or comments, please send [email](mailto:Hanford_Advisory_Board@rl.gov) to Hanford\_Advisory\_Board@rl.gov*  
*HAB Consensus Advice #70*  
*Subject: FY 1999 DOE-RL Budget*  
*Adopted: April 4, 1997*