NDIA / DOD Strategic Initiative
Multi-Year Budget Authority (MYBA) Focus Area

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Chuck Johnson
Industry Chair
NDIA Logistics Division

Roberto Rodriguez
Government Chair
NDIA Logistics Division

Happy St. Patrick’s Day

I found myself in a pub in Cork. A group of American tourists came in. One of the Americans said, in a loud voice, "I hear you Irish think you’re great drinkers. I bet 5,000 Euros that no-one here can drink 20 pints of Guinness in 30 minutes.“

The bar was silent, the American noticed one Irishman leaving, no-one took up the bet. Forty minutes later the Irishman who left returned and said, "Hey Yank, is yer bet still on?“

"Sure" said the American, "20 pints in 30 minutes for a bet of 5,000 Euros.“

"Grand" replied the Irishman, "so pour the pints and start the clock.“

It was very close, but the last drop was consumed with 2 seconds to spare.

"OK Yank, pay up !" said the Irishman.

"I'm happy to pay, here's your money," said the American. But tell me, when I first offered the wager I saw you leave. Where did you go?”

"Well sir", replied the Irishman, "5,000 Euros is a lot of money to a man like me, so I went to the pub across the road to see if I could do it!”

Strategic Initiative Charter

- Chairman of NDIA Logistics Division engaged senior leaders within DoD offering to partner at strategic level to address critical impediments precluding government and industry from reducing costs and increasing system availability.

- NDIA/DoD identified four focus areas that represent the most significant opportunities for improvement:

  - Multi-Year Budget Authority
  - Public Private Partnerships
  - Best Contracting Practices
  - People

- "This initiative must remain at the strategic level to deliver an outcome neither industry nor DoD could do alone." General Duncan McNabb (Retired, USAF), Chairman - NDIA Logistics Management Division

Team Members

Industry

- Chuck Johnson
- Darryl Scott
- Karen Wilson
- Louise Eckhardt
- Mary Fran Kirchner
- Dean Hooks
- Sid Banks
- Steve Jones

DoD

- Roberto Rodriguez (OSD(C))
- Jim Hawkins (JS/J4)
- Col Paul Pardew (JS/J4)

  \- Lt Col Brad Coley
- Advisors:

  \- Gretchen Anderson (OSD / Working Capital Fund)

  \- Douglas Bennett (SAF/FM)

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MYBA Focus Area

Subcommittee Alignment

Roberto Rodriguez, SES,
OSD Director of Investment

Chuck Johnson, Boeing
VP, Air Force Systems

Legislation
Karen Wilson

Contracting
Darryl Scott

Finance
Mary Fran Kirchner
Louise Eckhardt

Logistics
Jim Hawkins, SES

PBL
Dean Hooks

- ✓ Risks
- ✓ Impediments
- ✓ Opportunities

AFEI ntsa PSA WID

MYBA Vision

- Enact more effective and efficient capital investments and long-range planning to achieve maximum readiness at reduced costs.

MYBA Mission

- Garner OMB and Congressional advocacy for sustainment multiyear budget authority, highlighting best practices and tangible benefits to DoD and industry.

Objectives

- Research current legislation
- Address impediments hindering multiyear initiative
- Highlight best practices / shared savings between DoD and industry
- Maximize efficiencies and incentivize investments leveraging a combination of PBL contracts with MYPB funding to reduce cost
- Create a culture to shape multiyear way forward

Risks / Impediments / Opportunities

Risks

- Modify/change legislation
- Budget flexibility restriction
- Sustainment contracts funded through O&M account
- BCA / Sequestration

Impediments

- Align strategic objective & programs
- USG reluctance to commit to long-term arrangements
- Working Capital Fund
- Tenuous funding due to Sequestration

Opportunities

- Supportive legislation to enter into multiyear contracts
- Shift investment risk to industry

Legislation

- **USG Title 10, §2306b (Multiyear contracts for acquisition of property).** A multiyear contract for the purchase of property is a contract for more than one, but not more than five program years. To the extent that funds are otherwise available for obligation, the head of an agency may enter into multiyear contracts for the purchase of property. DoD could enter into a multiyear contract for advance procurement of components, parts and materials necessary to manufacture a weapon system, including a multiyear contract for such advance procurement that is entered into in order to achieve economic-lot purchases and more efficient production rates.

Legislation Continued

- **USG Title 10, §2306c (Multiyear contracts for acquisition of services).** Multiyear contract for acquisition of services is a contract for the purchase of services for more than one, but not more than five, program years. The head of an agency may enter into contracts for periods of not more than five years for services (i.e., maintenance or modification of aircraft, ships, vehicles, and other highly complex military equipment) and for items of supply related to such services, for which funds would otherwise be available for obligation only within the fiscal year for which appropriated. However, the head of an agency may not initiate a multiyear contract for services if the value of the multiyear contract exceeds $ 500,000,000, unless authority for the contract is specifically provided by law.

Authority for Multiyear Services

- Multiyear services legislation – 10 USC 2306c

  - Exception to Anti-Deficiency Act

- Justification Requirements

  - Up to five years; can include option years (for example C-17, UK)
  - Continuing stable requirements – “bona fide need”
  - For multiyear services will require substantial initial investment in Production Plant Equipment – PPE (versus 10% savings for products)
  - Funding must be adequate in FYDP; cancellation costs addressed
  - Best interest of U.S. by need to encourage competition and promote economies in operation

- Authority must be specifically provided by law if the multiyear contract exceeds $625M

Services

- Types of Services covered
  - ➢ Operation, Maintenance and support of facilities and installations
  - ➢ Maintenance or modification of aircraft, ships, vehicles, and other highly complex military equipment
  - ➢ Specialized training necessitating high quality instructor skills
  - ➢ Base services

- Multiyear legislation for major weapon systems and logistics support - 10 USC 2306b
  - 10% savings requirement (goal)

Best Practice
Large Lot Procurement (LLP)

- An initiative developed, but never implemented, to address concurrent overlapping Multiyear Procurement (MYP) and referred to as Large Lot Procurement (LLP).
- OSD(C) briefed LLP strategy to the DepSecDef, but no action has been taken to continue this initiative.
- It considered multiple, stable production programs as a portfolio, allowing build re-sequencing to operate factories near maximum economic rates (MER) in overlapping and integrated multiyear procurement plans.
- Preserves core manufacturing process knowledge.
- International sales (FMS) during the LLP period of performance enable more end-items to be delivered to DoD for the same cost and reduce implementation risk.
- Factory capacities are more efficiently utilized, while preserving margin for unplanned events such as warranty returns.

Best Practice

Large Lot Procurement (LLP) Continued

- Evaluation results indicated the approach was feasible and would generate significant savings.
- Issues with LLP (similar to all MYPs):
  - Significant change in standard acquisition approach
  - Shifts more financial risk to contractor
  - Removes Annual Budget Flexibility
  - Requires Multiyear Authority and EOQ
  - Requires integrated, long term planning by contractor and supply base

Best Practice

Enterprise Performance Based Logistics (EPBL)

- Through Captains of Industry forum, VADM Harnitchek - Director of Defense Logistics Agency, met with industry leaders to address efficiency approaches and solicit their feedback.
- DLA agreed to work together with industry to streamline processes, enhance performance and improve affordability, and in return, awarded an EPBL contract with 10 year Justification and Approval.
- The contract scope included providing spares support, initially expendable items with reparable items to follow, to the military depot lines.
- This strategic partnership approach will result in significantly reduced inventory levels and improved supply cycle time, decreasing DLA O&S costs.
- This initiative moved DLA closer to its goal of reducing operating costs by $13B within the next six years.

Best Practice

Enterprise Performance Based Logistics (EPBL) continued

- **The benefits to industry and USG are significant:**
  - **Industry:**
    - Long-term agreements with supply base to leverage industry buying power
    - Strategic Analytical Forecasting to optimize inventory levels
    - Performance based incentives drive parts availability across the supply chain
    - Reduced transactions through bunching individual proposals for the same part
    - Capitalize on product domain knowledge OEM
  - **USG:**
    - DLA meets operational readiness by improving material availability to 90% and reducing cost by 10% over the first five years of the contract
    - Significant reduction in inventory levels and improved supply cycle time
    - Contract supports DLA Captains of Industry goals and objectives without displacing government jobs
    - Established benchmark for the rest of industry

Best Practice

C-17 Globemaster III Integrated Sustainment Program (GISP)

- The C-17 aircraft has been contractor supported since its first flight on September 15, 1991.
- January 1, 1998 sustainment continued but executed under a Performance Based Logistics contract known as *Globemaster III Integrated Sustainment Program*.
- Under the C-17 GISP PBL contract:
  - Aircraft availability and readiness meet or exceed Air Force requirements, 85% sustained availability
  - Virtual fleet spares pool and global support network, resulting in lowered spares acquisition costs and maximized readiness
  - In line with DoD Better Buying Power 2.0, specifically "increase effective use of PBLs", the program continues to lower support costs to achieve C-17 lifecycle savings goal
  - This benchmark sustainment initiative could further decrease O&S costs through a multiyear budget authority.

Best Practice

United Kingdom Total Life Customer Support (UK-TLCS)

- A 34 year partnering agreement to support the UK Chinook fleet through 2040.
- TLCS provides heavy depot maintenance, engineering technical support, spares, supply chain management, battle damage repairs, in-theater maintenance, repairs and modifications.
- TLCS has increased maintenance capability to support an increase in flight hours.
- The investments by industry in productivity and innovation improvements have positioned TLCS as the ideal pathfinder program:
    - TLCS has consistently exceeded key performance indicators with regard to aircraft availability,
    - Delivers readiness typically 10% above requirement, yielding an extra 3 - 4 aircraft available and aircraft serviceability at >95% against a requirement of 70%

Deloitte - PBLs in DoD 1998-2011

Has the Strategy Delivered on Expectations?

Sense of PBLs Today

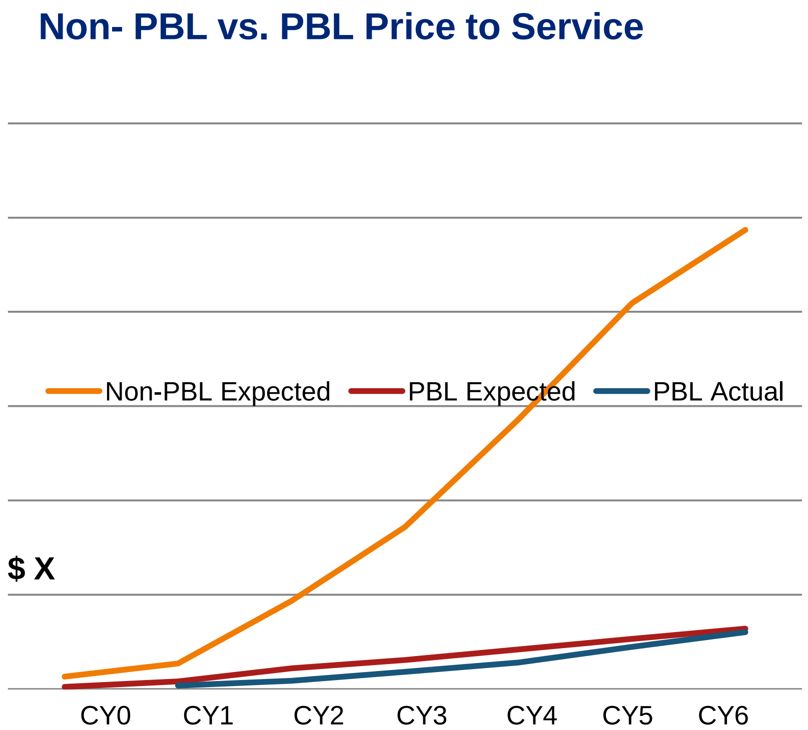
- PBLs have distinctly positive impact on readiness
- Benefit/cost ratio questionable in some minds
- No data driven, fact-based analyses documenting impact of PBLs on costs

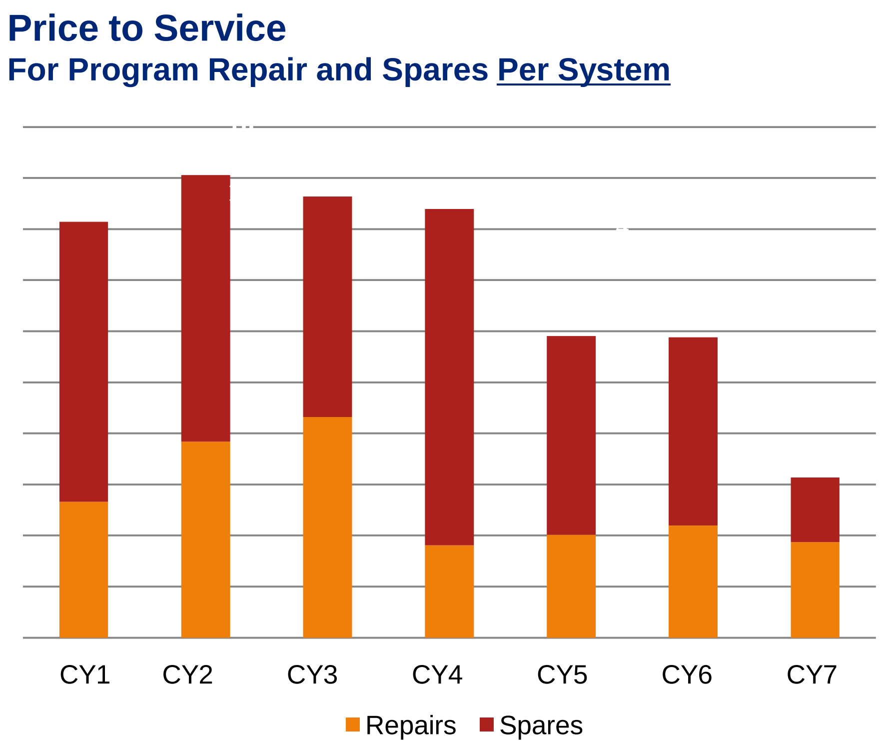
Proof Point chartered to address this gap and end the debate

- Hypothesis: Sustaining materiel via Performance Based Logistics arrangements delivers improved readiness at reduced life cycle costs
  - The cost per unit of performance to the Department is lower when a system, sub-system or component is maintained via a PBL agreement rather than through traditional, transactional maintenance arrangements
- Phase I Methodology:
  - 10 "Middle Dives"
  - 1 "Deep Dive"
- Phase II Methodology:
  - 11 "Middle Dives
  - 5 "Deep Dives"

Deloitte Case Study #1: *Substantial Adherence to Contractual Tenets & Execution Aligned to Contract*

Program	Type	Contract Length	Contract Type	Maturity	Cost	Performance
	System	5 years	Firm Fixed Price			





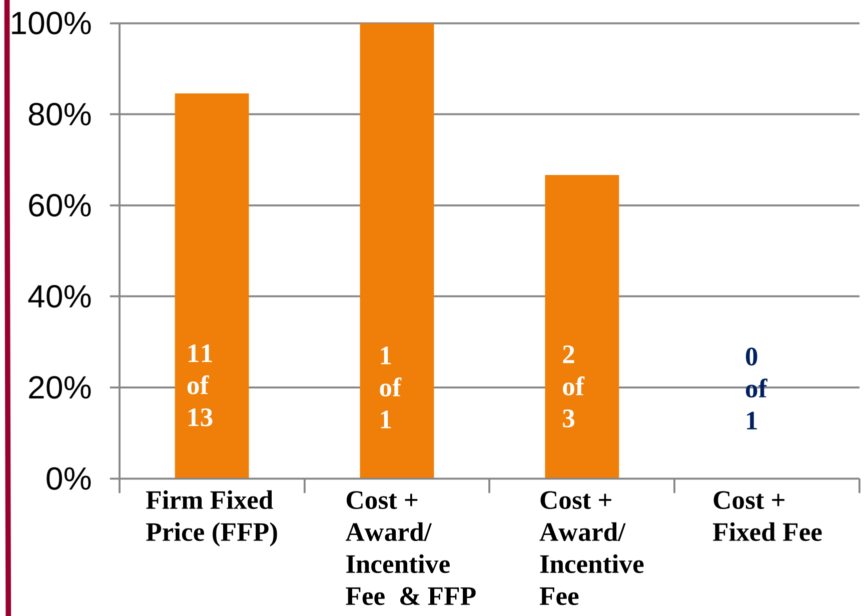
Deloitte - Key Observations:

- Contract structure incentivized provider to invest in:
  - Repair process
  - Supply chain optimization
  - Reliability improvement
- Significant savings Non-PBL vs. PBL
- Repairs and spares per system price to Service declining
- Contract renewed at lower price to Service
- Achieved all performance metrics

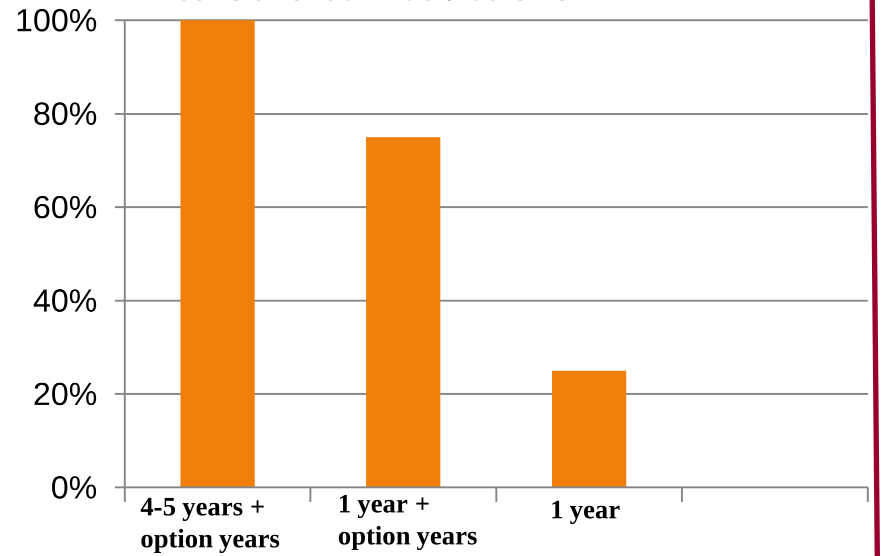
Deloitte - Empirical Evidence

- 12 of 14 PBLs with cost reduction incentives embedded in the contractual arrangement, delivered price-to-Service reductions over the life of the PBL
- 17 of 18 PBLs with targeted performance objectives/performance improvement incentives embedded in the contractual arrangement, delivered improved performance over the life of the PBL

Contract Type
% Programs Experiencing Price-to-Service Reductions



Contract Length
% Programs Experiencing Price-to-Service Reductions



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Deloitte - Statistical Point of Proof with a Defined Level of Confidence

- PBLs **can** work to reduce DoD's costs per unit of performance while simultaneously driving up the absolute levels of system, sub-system and component readiness/availability

- PBLs incentivized PBL provider behavior that delivered superior sustainment pricing and performance for systems, sub-systems and components

Deloitte - Preponderance of the Evidence

Longer term contracts that provide assured revenue streams and contain well-crafted cost and performance incentives drive predictably positive outcomes for the Services

Congressional Language

SASC Report (S. 2410, Senate Report 113-176)

- **<u>Performance Based Logistics</u>**: Requires DoD to submit a plan prepared by the USD AT&L for the future use of PBL, how to improve execution, efficiency, cost and readiness.
- To better understand the effectiveness and efficiency of PBL, the committee directs the Under Secretary of Defense for Acquisition, Technology, and Logistics to provide the Congressional defense committees with a plan for the future use of PBL reflecting how the use of PBL can improve execution, efficiency, cost, and readiness of applicable programs.

Better Buying Power 1.0 / 2.0 / 3.0

Seven Better Buying Power Focus Areas

- Achieve Affordable Programs
- Control Costs Throughout the Product Lifecycle
- Incentivize Productivity & Innovation in Industry and Government
- Eliminate Unproductive Processes and Bureaucracy
- Promote Effective Competition
- Improve Tradecraft in Acquisition of Services
- Improve the Professionalism of the Total Acquisition Workforce

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DoD PBL Guidebook

PBL GUIDEBOOK

A Guide to Developing Performance-Based Arrangements

Better Buying Power (BBP) is the continuing implementation of practices and policies designed to improve the productivity of the Department of Defense and of the industrial base that provides the products and services we use to equip and support our Warfighters. BBP guidance applies to everything the Department buys, from major programs to commercial products to services of all types.

PBL is the *preferred sustainment strategy* for weapon system product support that employs the purchase of support as an integrated, affordable performance package designed to optimize system readiness. PBL meets performance goals for a weapon system through a support structure based on long-term performance agreements with clear lines of authority and responsibility. *PBL concepts are now policy* and have been initiated to provide more effective, affordable, operationally - ready systems through increased reliability, supportability, and maintainability.

U.S. Department of Defense | 2014

Financial Management Budget Discussion

Gretchen Anderson – Director for Revolving Funds, OSD(C)

Douglas Bennett – Principal Dep Asst Secretary (Financial Management), SAF / FM

Multiyear / Long-Term Contracting

Perceptions / Risks / Opportunities / Impediments

- Concern over depleting the Working Capital Fund
  - Navy OK, Army & Air Force are reluctant to use WCF
  - The WCF is a revolving fund and MYPB could represent a big expense that could impact other efforts.
- Perception of "Must Pay" Bill
  - As a customer, entering a multiyear contract locks me into a set cost that must be paid each year, even if my needs change.
- Perceived Lack of Flexibility
  - I have to lock in a service level now and forecasting future need is out of my control. If I need to change the contract, I will have no negotiating strength so the contractor will take advantage of me.
- Perception of Lack of Competition
  - Congress, and much of DoD, operates under the principle that competition is the best way to reduce costs. This is extended to the perception that the more competition and the more frequent the competition, the lower the cost. Long term contracts directly go against this.

Working Capital Funds (WCF)

• MYBA … OSD believes the risk transfers from industry to DoD

• MYBA … will there be less flexibility for DoD?

• WCF needs to be protected at current levels
- it exists to mitigate risk for operational forces

• Need to adhere to Fiscal Law

• MYBA is not in the best interest of the DoD or taxpayers and causes unintended consequences
- high anxiety with WCF and a decrease in cash accounts

• Any potential candidate for a multiyear would have to be looked at on a case-by-case basis
- there should be a series of questions for each candidate

• A decision tree and business case analysis are needed to determine viability

MYBA (JS / J4)

What We Think

- No DoD budget increase in near-term
- Living in “More for Less” environment
  - DoD and Industry: Partnership for success
- Multi-year Budget Authority can:
  - Reduce DoD operations and support costs
  - Facilitate effective workforce management
  - Remove long-range planning impediments
  - Discourage short-term profit seekers
  - Encourage partnerships thru product life cycle

What We Know

- Not a universal fit, but can add value
- Multiyear budget allows industry to make rational commitment to performance-improving investments
- As multiyear contracts can add value, multiyear budget authority can also
- Multiyear contracts with minimal base (i.e., 3 -5 years) and max option years can provide efficiency to both DoD and industry

Considerations

- Appearance of a decrease in competition
- Operational flexibility decreases
- Savings to risk ratio can be hard to predict

Benefits

- Multiyear funding offers predictability and stability
  - ➢ Consistent flow of work that could result in a cost effective outcome
  - ➢ Incentivize productivity and innovation
  - ➢ Integrated planning and scheduling.
  - ➢ Accurate prediction of manpower and operational requirements
  - ➢ Leverage industry global supply chain buying power and manufacturing and technology investment
- Single year funding approach is cost ineffective

What's Next ?

- Draft up recommended refinement of current USG Title 10 legislative language on multiyear.
- Draft up a template WCF decision tree and business case analysis to determine candidate program viability.
- Draft potential contractual clause(s) to incorporate more competition (Tier II / III / small business) in PBL / MYB.
- Recommend MYBA be incorporated into next BBP update.
- "Wargame" potential future MYBA / PBLs (F-35, LRS-B, KC-46, P-8, …?) or LLP (bomber fleet, tanker fleet, ISR fleet, …?)
  - Will meet with Ambassador McGann at NDU

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