Funding Policies, Part 2

Intro to Funding Policies (Part 2)

Intro to Funding Policies (Part 2)

Introduction to Funding Policies (Part 2)

Approximate Length: 1 hour

Welcome to the Funding Policies Lesson, Part 2. As an acquisition professional, it is important that you have an understanding of DoD funding policies, their applicability, and their implementation. The Funding Policies Lesson, Part 2 provides basic information about the full funding policy along with exceptions to full funding policy. Both the annual and incremental funding policies are covered in another lesson, Funding Policies, Part 1. The following topics are part of this lesson:

- Full Funding Policy
- Full Funding Policy Exceptions
- Lesson Summary

Located throughout and at the end of this lesson are Knowledge Reviews, which are not graded but enable you to measure your comprehension of the lesson material.

Learning Objectives

By completing this lesson, you should be able to:

- Identify the funding policy (annual, incremental, or full) that applies to each of the five major appropriation categories of interest to the defense acquisition community (RDT&E, Procurement, O&M, MILCON, and MILPERS).

- Describe the three major funding policies used in the defense acquisition financial management community (annual, incremental and full).
- Recognize situations where exceptions to the funding policies are appropriate for the major appropriation categories of RDT&E, Procurement and O&M.
- Identify the most appropriate time-phased cost estimate and budget request for Procurement funds for a given program description.

Portions of the learning objectives above are taught in the Funding Policies Lesson, Part 1.

This page completes the Lesson Introduction. Select a lesson from the Table of Contents to continue.

Full Funding Policy

Full Funding Policy

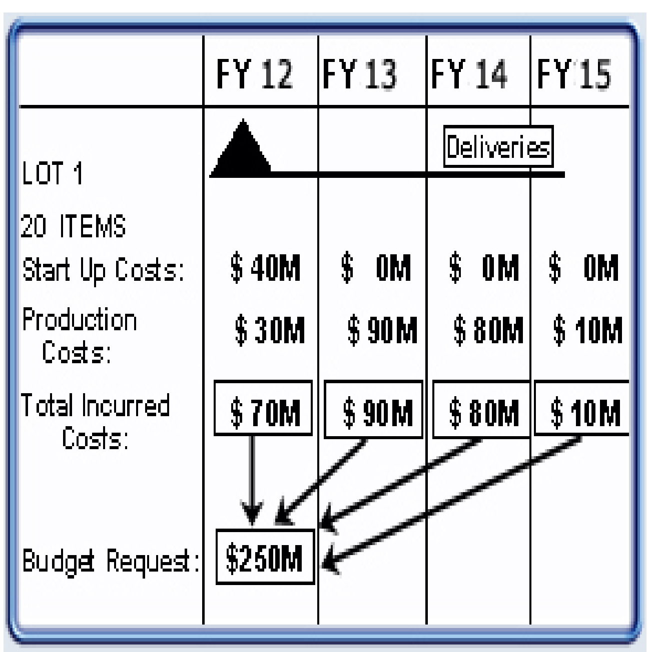
Full Funding Policy

The **full funding policy**, applicable to the Procurement and Military Construction appropriations, is the practice of budgeting for the total cost of major procurement and construction projects in the fiscal year in which they will be initiated (that is, placed on contract).

The key to applying the full funding policy is estimating how many end items will be placed on contract in each fiscal year and the associated cost of those end items.

____

Full Funding Policy Example (1 of 2)



The Starling missile system is scheduled for full rate production beginning in Fiscal Year 2012 (FY 12), when the first 20 missiles will be placed on contract. The total cost of this first lot (Lot 1) of 20 missiles is $250 million and the first missile will be delivered in FY 14.

This chart shows how the total cost of Lot 1 is computed. Costs related to the Lot 1 missiles are expected to be incurred over the period FY 12 through FY 15. In FY 12, this consists of $70 million, $40 million in start-up costs and $30 million of production costs. In FY 13, another $90 million in costs is expected to be incurred, followed by $80 million and $10 million in FY 14 and FY 15, respectively.

Long Description

This graphic shows a timeline starting with the beginning of fiscal year 06 and continuing through the end of fiscal year 15.

Below the timeline, a triangle indicates that the contract for production Lot 1 consisting of 20 missiles will be awarded during FY 12.

A graphical line starting at the base of the triangle proceeds to the right, ending under FY 15.

This line represents the missile production process. A rectangle depicting the Lot 1 missile deliveries is placed above the graphical line, covering 12 months beginning in FY 14 and ending at the same point as the graphical line in FY 15.

The time between the contract award and the first missile delivery is labeled as the production lead time.

The distribution of costs to be incurred in producing the Lot 1 missiles is shown below the graphical line.

Costs are divided into two lines: start-up costs and production costs.

Start-up costs are incurred only in FY 12 and total $40 million.

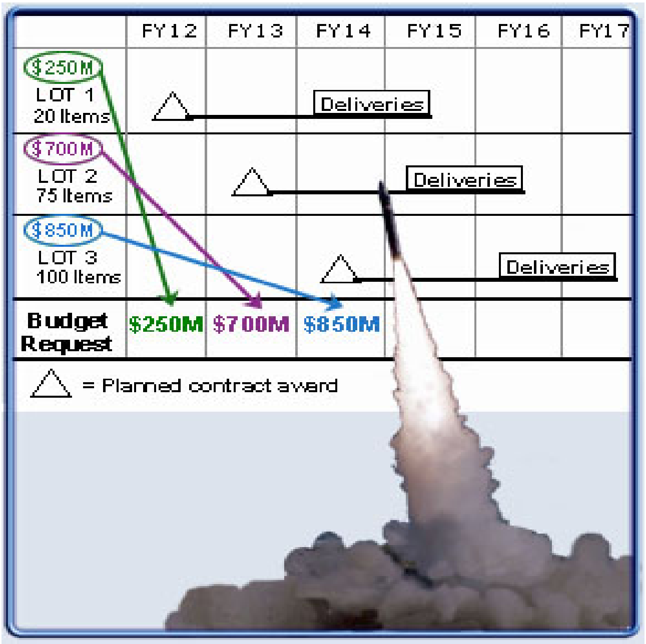
Production costs are incurred each year: $30 million in FY 12, $90 million in FY 13, $80 million in FY 14, and $10 million in FY 15.

Total costs incurred each year are shown below the production cost line: $70 million in FY 12, $90 million in FY 13, $80 million in FY 14, and $10 million in FY 15.

A small box is drawn around each of these yearly totals, with an arrow from each box pointing to a box located on the next line under FY 12.

This line is labeled "Budget Request" and the only box on this line contains the sum of the yearly cost totals from FY 12 through FY 15, which is $250 million.

Full Funding Policy Example (2 of 2)



In FY 13, an additional 75 missiles will be placed on contract (Lot 2), with a total lot cost of $700 million and deliveries beginning in FY 15. In FY 14, 100 more missiles will be contracted for (Lot 3), with a total lot cost of $850 million and deliveries beginning in FY 16.

As required by the full funding policy, the Starling program should request the full cost of each production lot in the year in which it is placed on contract. Therefore, the Starling budget request should be $250 million for FY 12 (Lot 1), $700 million for FY 13 (Lot 2) and $850 million for FY 14 (Lot 3), as shown here.

Note that the actual delivery dates of the missiles do not affect the budget request, since the funds must be available at the time the contract is signed.

Long Description

This graphic shows a timeline starting with the beginning of FY 12 and continuing through the end of FY 17. Below the timeline are three rows of information depicting three production lots: Lot 1, Lot 2 and Lot 3. For each lot, a triangle indicates when the contract will be awarded; a graphical line starting at the base of the triangle proceeds to the right, ending when production of that lot is complete; and a rectangle depicting missile deliveries for that lot is placed above the graphical line, covering 12 months beginning with the first delivery and ending at the same point as the graphical line. Total cost of Lot 1 is $250 million for 20 items, with contract award in FY 12, deliveries starting in FY 14 and production complete in FY 15. Total cost of Lot 2 is $700 million for 75 items, with contract award in FY 13, deliveries starting in FY 15 and production complete in FY 16. Total cost of Lot 3 is $850 million for 100 items, with contract award in FY 14, deliveries starting in FY 16 and production complete in FY 17. At the bottom of the graphic is a row showing the correct budget request for each fiscal year. The FY 12 budget request is shown as $250 million, the FY 13 budget request is shown as $700 million, and the FY 14 budget request is shown as $850 million. No budget is requested for FY 15 through FY 17. An arrow from each production lot's total cost amount links the lot's cost to an entry in the budget request row. Lot 1's cost of $250 million is linked to the $250 million budget request for FY 12, Lot 2's cost of $700 million is linked to the $700 million budget request for FY 13, and Lot 3's cost of $850 million is linked to the $850 million budget request for FY 14. This denotes that the program must budget for the total cost of each lot during the year in which it is placed on contract.

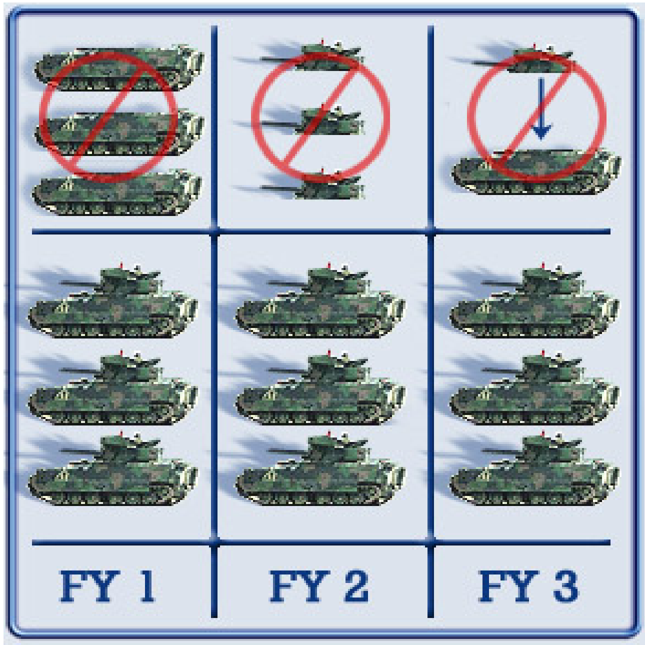
Usable End Items

The number of end items which may be budgeted for in procurement appropriations is limited by the funded delivery period. The amount to be budgeted for each lot is governed by the principle of budgeting for usable end items.

For procurement programs, the full funding policy calls for providing funding each fiscal year to procure **complete, usable end items**, so that an end item budgeted for in one fiscal year does not depend on a future year's funding to complete its procurement. Therefore, the full cost of the end item must be budgeted for in the year it will be placed on contract. Piecemeal procurement of systems is NOT permitted.

Usable End Items Example (1 of 2)

Page 5 of 15



A program to procure 100 tanks over five years may **not** budget for 100 tank bodies in Year 1, 100 engines in Year 2, 100 sets of transmissions and tank tracks in Year 3, 100 sets of remaining parts in Year 4, and assembly of 100 tanks in Year 5.

If the program did this, then all 100 tanks initiated in Year 1 would be dependent on future year funding to become complete, usable end items.

Rather, the program must budget for whole numbers of complete tanks each year until it reaches its desired total procurement quantity of 100.

Usable End Items Example (2 of 2)

Page 6 of 15

Initial spares and repair parts financed with procurement funds are considered to be complete, usable end items in and of themselves for the purposes of complying with this aspect of the full funding policy.

For military construction projects, the structure(s) that comprise a project are considered to be the end item(s), so a MILCON budget request for a particular fiscal year should contain sufficient funding to ensure the completion of all structures that will be initiated during that fiscal year.

Funded Delivery Period

To restrict programs from tying up excessive amounts of procurement budget authority, the DoD Financial Management Regulation limits the size of the budget year's "lot" of end items to only the quantity that can be delivered in a **12-month funded delivery period.** The funded delivery period is measured from the scheduled month of delivery of the first item in the lot.

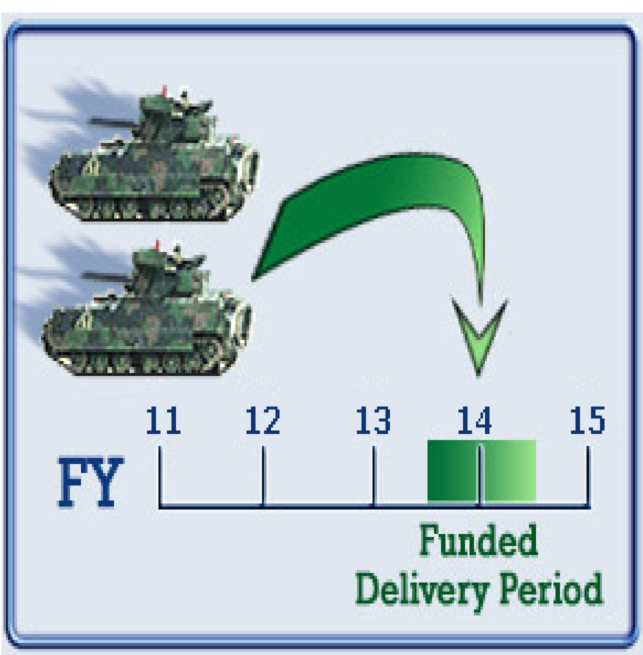
Note that the funded delivery period rule does not apply to military construction projects.

Funded Delivery Period Example (1 of 2)

Suppose Production Lot 1 will be placed on contract in Fiscal Year 2011 (FY 11). The first item of Lot 1 will be delivered in February 2013. To determine the maximum size of Lot 1, you must determine how many items the contractor can deliver during the 12-month funded delivery period, starting with the first delivery, that is, February 2013 through January 2014. If the contractor is expected to be able to deliver no more than 100 units during this period, then the maximum size of Lot 1 is 100 units. Funding for these units should be included in the budget for the year in which the Lot 1 contract will be awarded, that is, FY 11.

____

Funded Delivery Period Example (2 of 2)



Note that it is permissible to budget for quantities less than the maximum lot size determined by the funded delivery period. Also, exceptions to the 12-month funded delivery period may be granted when appropriate. For example, when a program has only 15 months of deliveries remaining to contract for, it may make sense to budget all the remaining items in a single year rather than over two years.

Knowledge Review

Page 10 of 15

The following Knowledge Review is a multiple choice question. Only one answer is correct; select the best answer and feedback will immediately appear.

The full funding policy is the practice of funding the total cost of:

a. Major RDT&E and construction projects in the fiscal year in which they will be initiated.

b. Major RDT&E and construction projects in the fiscal year in which they will be completed.

c. Major procurement and construction projects in the fiscal year in which they will be initiated.

d. Major procurement and construction projects in the fiscal year in which they will be completed.

Correct!

The full funding policy is the practice of funding the total cost of major procurement and construction projects in the fiscal year in which they will be initiated.

Knowledge Review

Page 11 of 15

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Submit button and feedback will appear.

Select all of the following that apply to the full funding policy:

a. Funding is provided each fiscal year to procure complete, usable end items.

b. Piecemeal procurement of systems is permitted.

c. Procurement-funded initial spares and repair parts, as well as structures comprising a construction project, are all considered to be complete, usable, end items.

d. It is permissible to budget for quantities less than the maximum lot size determined by the funded delivery period.

e. Exceptions to the 12-month funded delivery period are not permitted.

Correct! Regarding the full funding policy: funding is provided each fiscal year to procure complete, usable end items; procurement-funded initial spares and repair parts, as well as structures comprising a construction project, are considered to be complete, usable end items; and it is permissible to budget for quantities less than the maximum lot size determined by the funding delivery period. However, piecemeal procurement of systems is not permitted, and exceptions to the 12-month funded delivery period may be granted if appropriate.

____

Knowledge Review

The following Knowledge Reviews are multiple choice questions. Only one answer is correct; select the best answer and feedback will immediately appear.

The DODGER weapon system's program office plans to acquire a total of 48 end items costing $2 million apiece. Procurement appropriations must be used to finance the DODGER end items, so the funding policy that applies in preparing the program's budget request is:

a. Annual Funding

b. Incremental Funding

c. Full Funding

d. Bi-annual Funding

Correct!

As procurement funds are involved here, full funding is the appropriate funding policy.

____

Knowledge Review

The DODGER program would like to put its entire requirement of 48 end items on contract as soon as possible, starting in FY 1. The price of component A is expected to drop significantly in FY 2, so the program office has budgeted for procurement of all DODGER components except for component A in FY 1, with component A and final assembly being budgeted for in FY 2. End item deliveries would begin in FY 3 and continue through FY 5. Would this budget request be approved by the Component comptroller?

a. Yes, since the program budgeted for the full cost of the DODGER end items.

b. Yes, since the program budgeted for its total requirement of 48 end items.

c. No, since the DODGER end items are not being delivered in the fiscal year in which they are budgeted.

d. No, since the program has not budgeted for full, usable end items in each fiscal year.

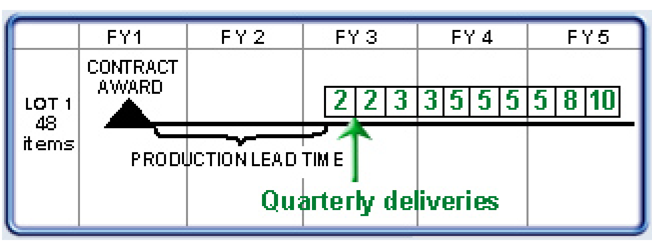
Correct!

This budget request would not be approved because it violates the portion of the full funding policy that requires programs to budget for full, usable end items in each fiscal year. The full funding policy does not require that end items be delivered in the same fiscal year as the one in which they are budgeted.

Knowledge Review

Page 14 of 15

The DODGER program office has revised its budget request, and now plans to fund its 48 end items and place them on contract in FY 1. Quarterly deliveries begin in FY 3 and continue through FY 5 as shown in the diagram. Reviewing this proposal to maximize the size of each production lot while still complying with the funded delivery period policy, the Component comptroller should:



a. Divide the request into three lots based on the fiscal year in which the units can be delivered (Lot 1 = 7, Lot 2 = 18, Lot 3 = 23).

b. Divide the request into three lots based on the number that can be delivered in four consecutive quarters (Lot 1 = 10, Lot 2 = 20, Lot 3 = 18).

c. Divide the request into two lots consisting of five quarters of deliveries to spread the budget request over two years (Lot 1 = 15, Lot 2 = 33).

d. Leave the request as a single lot, since the total quantity is less than 100 and the funded delivery period rule does not apply in this case.

Correct! This request should be divided into three lots based on the number that can be delivered in four consecutive quarters (Lot 1 = 10, Lot 2 = 20, Lot 3 = 18). The maximum lot size is based on the number that can be delivered in the 12 months (4 quarters) following the delivery of the first item in a lot. The fiscal year in which the deliveries occur is irrelevant, and there is no quantity threshold for applying the funded delivery period rule.

Long Description

Table depicting delivery of 48 DODGER end items from FY 3 to FY 5. FY 3 deliveries consist of 2 in the second quarter, 2 in the third quarter, and 3 in the fourth quarter. FY 4 deliveries consist of 3 in the first quarter, and 5 each in the second, third and fourth quarters. FY 5 deliveries consist of 5 in the first quarter, 8 in the second quarter, and 10 in the third quarter.

Knowledge Review

After you have completed the following question, select another topic from the Table of Contents to continue, as this page completes the topic. The first DODGER production contract is to be awarded in FY 1. The number of items to be placed on contract each year, their estimated cost (in then year dollars), and the total cost to be incurred each year is shown in the table. What is the correct amount to include in the DODGER procurement budget requests for FY 1 through FY 5?

Year	Quantity	Total Cost of qty. to be placed on contract	Cost to be incurred
FY 1	10	$20M	$ 7M
FY 2	20	$40M	$26M
FY 3	18	$36M	$37M
FY 4			$20M
FY 5			$ 6M

a. FY 1=$20M; FY 2=$40M; FY 3=$36M; FY 4=$0; FY 5=$0

b. FY 1=$7M; FY 2=$26M; FY 3=$37M; FY 4=$20M; FY 5=$6M

c. FY 1=$27M; FY 2=$66M; FY 3=$73M; FY 4=$20M; FY 5=$6M

d. FY 1=$10M; FY 2=$20M; FY 3=$18M; FY 4=$0; FY 5=$0

Correct! The correct amount to include in the budget requests are: FY1,$20M; FY2, $40M; FY3, $36M; FY4, $0; FY5, $0.

Long Description

Table containing data for knowledge review question. In FY 1, 10 end items costing $20M will be placed on contract. In FY 2, 20 end items costing $40M will be placed on contract, while in FY 3, 18 end items costing $36M will be placed on contract. For the total quantity of 48 end items, costs will be incurred by the contractor as follows: FY 1, $7M; FY 2, $26M; FY 3, $37M; FY 4, $20M, and FY 5, $6M.

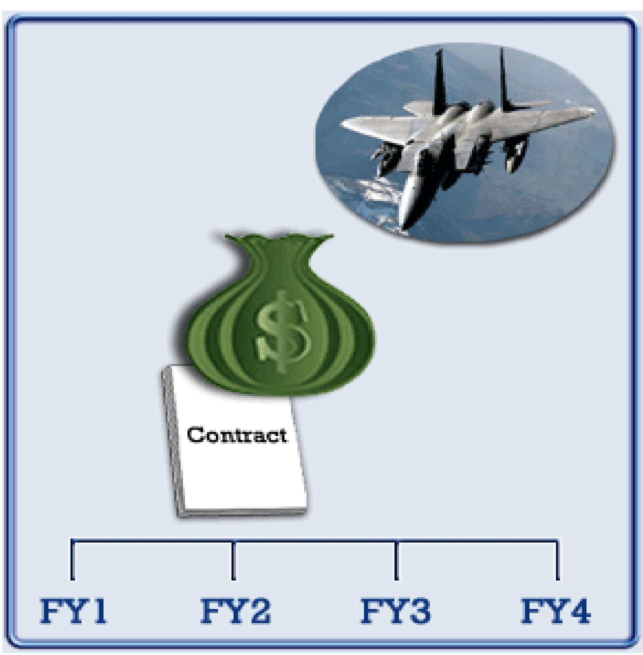
Full Funding Policy Exceptions

Full Funding Policy Exceptions

Full Funding Policy Exceptions

Two major exceptions to the full funding policy as it applies to Procurement appropriations are **advance procurement** and **multiyear procurement.**

Advance Procurement (1 of 2)



The advance procurement exception to the full funding policy permits budgeting for less than complete end items to:

- Ensure that long-lead items do not disrupt the production schedule, or
- Maintain critical workforce skills that would otherwise be lost in a production line break

Long-lead items are components, parts or materials whose procurement leadtimes (time between contracting and delivery) are significantly longer than the leadtimes of other components, parts, or material of the same end item. Some examples of long-lead components are radar equipment for aircraft, nuclear propulsion systems for ships, armor for tanks, composites, forgings, etc.

____

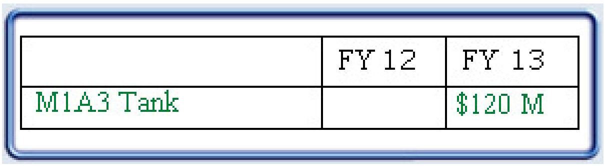
Advance Procurement (2 of 2)

Use of advance procurement must be included in the program's acquisition strategy and approved by the Milestone Decision Authority. In the President's Budget request, the advance procurement request for a system is shown on a separate line from the system budget request.

Advance procurement funding should be requested as far in advance of the funding for the rest of the related end item(s) as necessary. The total cost of the end items is unaffected by the use of advance procurement; rather some of the cost is budgeted in an earlier year than would be the case without advance procurement. Select the following hyperlink to access an example of budgeting for Advance Procurement.

Advance Procurement Example

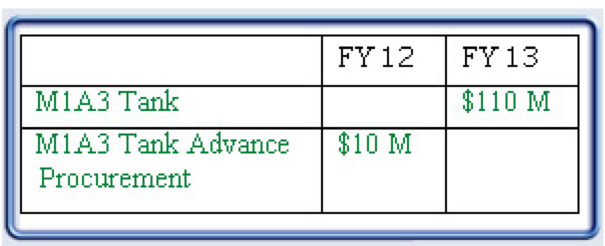
Suppose that 20 tanks are to be placed on contract in Fiscal Year 2013 (FY 13). The total cost of these 20 tanks is $120 million. If no advance procurement is required, the budget request would consist of a single system line item like this:



	FY 12	FY 13
M1A3 Tank		$120 M

Long Description: Table with 3 columns. Column headers are: Column a., none; Column b., FY 12; and Column c., FY 13. Line 1 column entries are: Column a., M1A3 Tank; Column b., none; and Column c. $120M.

However, if the armor for these 20 tanks must be placed on contract in FY 12 to maintain the production schedule and will cost $10 million, then advance procurement is required and the correct funding profile for these tanks is:



	FY 12	FY 13
M1A3 Tank		$110 M
M1A3 Tank Advance Procurement	$10 M	

Long Description: Table with 3 columns. Column headers are: Column a., none; Column b., FY 12; and Column c., FY 13. Line 1 column entries are: Column a., M1A3 Tank; Column b., none; and Column c. $110M. Line 2 column entries are: Column a., M1A3 Tank Advance Procurement; Column b., $10M; and Column c. none

Multiyear Procurement (1 of 2)

Multiyear procurement (MYP) is a strategy under which the government may contract to buy multiple years worth (that is, multiple production lots) of usable end items, usually limited to five years. A MYP contract vehicle reduces the government's unit cost for the items acquired when compared to contracting for the same items on an annual basis, as it reduces risk to the contractor's business base. This enables the contractor to reduce costs in two ways:

- Using price breaks for bulk (economic order quantity (EOQ)) purchases of materials and components to reduce materials costs, and
- Investing in productivity enhancements to reduce labor costs that might not be attractive under normal year-to-year procurement.

The funding of EOQ purchases under a MYP contract makes multiyear procurement an exception to the usable end item criteria of the full funding policy.

Multiyear Procurement (2 of 2)

Page 5 of 15

In addition to reduced procurement costs, programs with MYP contracts enjoy a certain amount of funding stability. Once a MYP contract is entered into, the government must continue funding the contract to its conclusion unless it cancels the contract and incurs a cancellation charge, which the government is generally unwilling to do. However, this benefit to the Program Manager can be a drawback from the perspective of higher management levels. Budgeting flexibility is reduced each time a MYP contract is approved, as funds for the MYPs are effectively "fenced" and not available for reallocation to other programs. Therefore, DoD and Congress both scrutinize programs relative to the MYP approval criteria to ensure that the advantages of using MYP in each case outweigh the disadvantages.

Requirements for Multiyear Procurement Approval (1 of 3)

Page 6 of 15

DoD must ensure that certain statutory requirements are met prior to approving use of MYP:

- Substantial savings in total anticipated costs compared to carrying out the program through annual contracts.
- Stable requirements for the item during the contemplated contract period in terms of production rate, procurement rate, and total quantities.
- Stable funding means funding for the contract will be requested at the level required to avoid contract cancellation. It assumes agreement by the Component, OSD, and Congress to maintain adequate funding.

Three additional requirements are discussed on the next page.

Requirements for Multiyear Procurement Approval (2 of 3)

Additional statutory requirements before approving the use of MYP are:

- Stable design for the item without excessive technical risks. This usually implies that the system has been in production for one or more lots, proving out the design, before MYP is approved.
- Realistic cost estimates of the MYP contract cost and its anticipated savings.
- The system being procured on the MYP contract enhances national security.

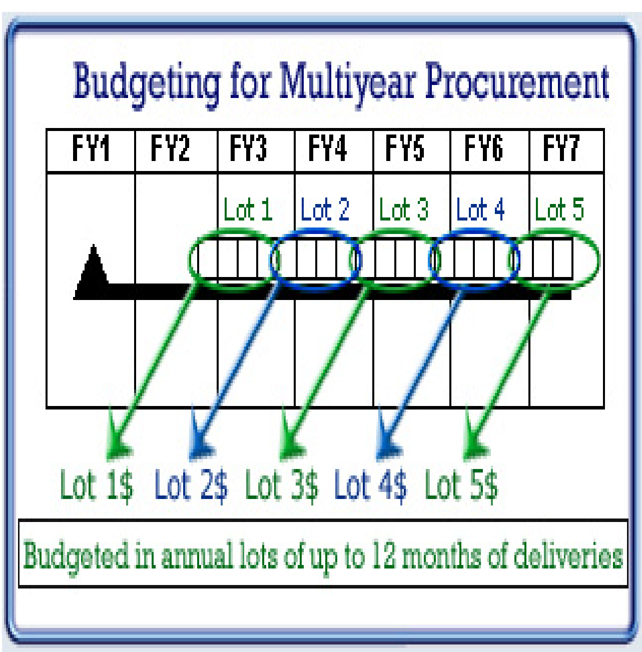
In addition, a MYP contract whose total cost exceeds $500 million may not be initiated by DoD unless specifically provided for in appropriations and authorization legislation.

Requirements for Multiyear Procurement Approval (3 of 3)

DoD also internally requires that items to be purchased under a MYP contract be technically mature, normally having completed RDT&E (including development testing, or equivalent) and Initial Operational Test and Evaluation (IOT&E), with relatively few changes in item design anticipated.

Additional information on this subject can be found at this url: DoD Financial Management Regulation 7000.14-R, Volume 2A, Chapter 1, paragraph 010203.

Budgeting for Multiyear Procurement



The full value of a MYP contract is not budgeted for in the year in which the contract is awarded. Rather, the contract is to be budgeted and funded in lots based on the value of the end items to be initiated during each year of the contract.

The graphic at right depicts a five-year multiyear procurement contract to be awarded in FY 1 with 23 quarters worth of deliveries starting in the last quarter of FY 2 and continuing through the second quarter of FY 7. The basic budget request for this contract in FY 1 would consist of the cost of the first 4 quarters (12 months) of deliverable items. The basic FY 2 budget request for this contract would consist of the cost of the next 4 quarters worth of deliveries, etc., until the final 3 quarters worth of deliveries were budgeted for in FY 5.

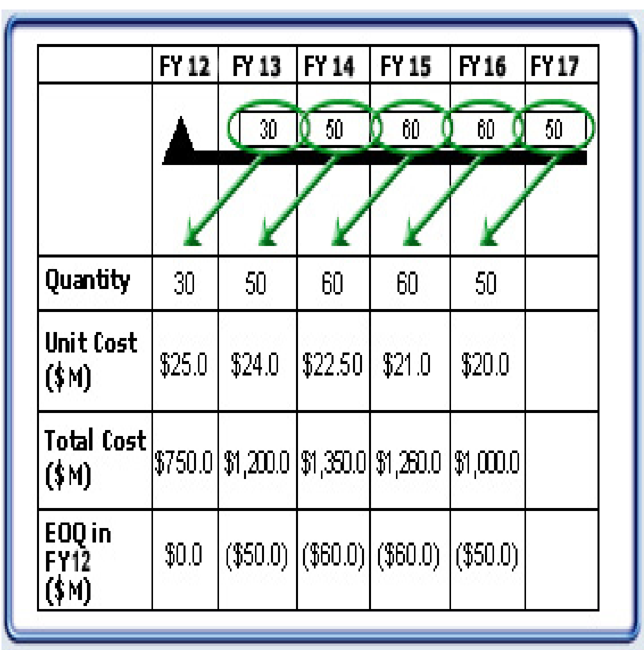
Economic Order Quantity (EOQ) purchases of materials or components for a system are budgeted as part of the Advance Procurement budget line item associated with that particular system.

Long Description

Title is Budgeting for Multiyear Procurement. Table with 7 columns. Column headers are: a., FY01; b., FY02; c., FY03; d., FY04; e., FY05; f., FY06, and g., FY07. Line 1 is a timeline, with Contract award in FY01 (column a.) and deliveries in FY 02-07 (columns b. through g.) Below the table is a box with the statement: "Budgeted in annual lots of up to 12 months of deliveries." Arrows lead from each lot's deliveries included in the contract, back (at an angle of one FY back) to that statement.

____

Multiyear Procurement Example (1 of 2)



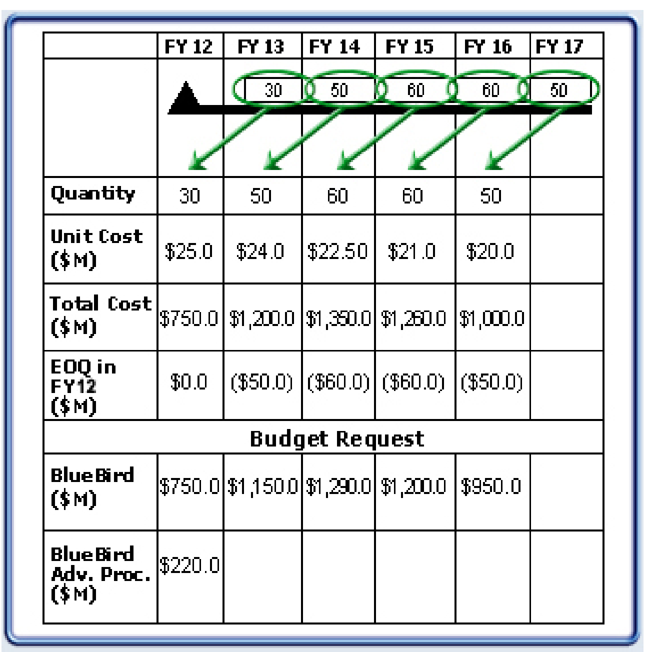
	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
		30	50	60	60	50
Quantity	30	50	60	60	50	
Unit Cost ($M)	$25.0	$24.0	$22.50	$21.0	$20.0	
Total Cost ($M)	$750.0	$1,200.0	$1,350.0	$1,260.0	$1,000.0	
EOQ in FY12 ($M)	$0.0	($50.0)	($60.0)	($60.0)	($50.0)	

A MYP contract will be used to buy 250 Bluebird aircraft over five years beginning in FY 12. The total cost of the items budgeted during each year of the contract has been estimated based on the quantity to be initiated and the expected unit cost of the aircraft. A single EOQ buy of components and materials will be made in FY 12, decreasing the required budget amounts for FY 13 through FY 16 production lots as shown in the table. For example, the FY 13 production lot of 50 aircraft is expected to cost a total of $1200 million. Of this amount, $50 million is for components and materials that will be part of the FY 12 EOQ buy.

Long Description

Table containing example data. First row shows MYP contract award in FY 12 for 250 Bluebird end items with deliveries starting in second quarter of FY 13 and extending through third quarter of FY 17. Five funded delivery periods are each enclosed in an oval, with the quantity shown within. Funded delivery period quantities are 30, 50, 60, 60, and 50. An arrow from each funded delivery period is drawn to the appropriate year column in the second row and the corresponding quantity is entered there to denote the number of items to be funded in each year. Quantities are: FY 12, 30; FY 13, 50; FY 14, 60; FY 15, 60; FY 16, 50. In the third row is the unit cost for the aircraft during each year of the contract. Unit costs are: FY 12, $25.0M; FY 13, $24.0M; FY 14, $22.5M; FY 15, $21.0M; FY 16, $20.0M. The fourth row shows the total cost of the aircraft to be funded each year, calculated by multiplying the quantity in row 2 by the unit cost in row 3. Total costs are: FY 12, $750M; FY 13, $1,200M; FY 14, $1,350M; FY 15, $1,260M; FY 16 $1,000M. The fifth row shows the amount to be deducted from the total cost of each lot to be budgeted as part of the FY 12 EOQ buy. Amounts to be deducted for the EOQ buy are: FY 12, 0; FY 13, $50M; FY 14, $60 M; FY 15, $60 M; FY 16, $50M.

Multiyear Procurement Example (2 of 2)



	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
		30	50	60	60	50
Quantity	30	50	60	60	50	
Unit Cost ($M)	$25.0	$24.0	$22.50	$21.0	$20.0	
Total Cost ($M)	$750.0	$1,200.0	$1,350.0	$1,260.0	$1,000.0	
EOQ in FY12 ($M)	$0.0	($50.0)	($60.0)	($60.0)	($50.0)	
Budget Request						
BlueBird ($M)	$750.0	$1,150.0	$1,290.0	$1,200.0	$950.0	
BlueBird Adv. Proc. ($M)	$220.0					

The table at right shows the correct Bluebird program budget request, with separate budget line items for the Bluebird system and its associated Advance Procurement.

The Bluebird system budget line consists of the total cost of each year's lot of items, minus the EOQ portion. For example, for the FY 13 production lot, $1,150 million should be budgeted on the Bluebird system line.

The Bluebird Advance Procurement line in this case consists only of the EOQ buy in FY 12, which is the total of the EOQ requirements associated with all of the production lots ($220M).

Select the table long description hyperlink for additional explanation of its contents.

Long Description

Table containing example data. First row shows MYP contract award in FY 12 for 250 Bluebird end items with deliveries starting in second quarter of FY 13 and extending through third quarter of FY 17. Five funded delivery periods are each enclosed in an oval, with the quantity shown within. Funded delivery period quantities are 30, 50, 60, 60, and 50. An arrow from each funded delivery period is drawn to the appropriate year column in the second row and the corresponding quantity is entered there to denote the number of items to be funded in each year. Quantities are: FY 12, 30; FY 13, 50; FY 14, 60; FY 15, 60; FY 16, 50. In the third row is the unit cost for the aircraft during each year of the contract. Unit costs are: FY 12, $25.0M; FY 13, $24.0M; FY 14, $22.5M; FY 15, $21.0M; FY 16, $20.0M. The fourth row shows the total cost of the aircraft to be funded each year, calculated by multiplying the quantity in row 2 by the unit cost in row 3. Total costs are: FY 12, $750M; FY 13, $1,200M; FY 14, $1,350M; FY 15, $1,260M; FY 16 $1,000M. The fifth row shows the amount to be deducted from the total cost of each lot to be budgeted as part of the FY 12 EOQ buy. Amounts to be deducted for the EOQ buy are: FY 12, 0; FY 13, $50M; FY 14, $60 M; FY 15, $60 M; FY 16, $50M. The lower portion of the table shows the correct Bluebird budget request. The first budget line is the funding request for the Bluebird system. This consists of the total aircraft cost from row 4 minus the portion of the total cost that is part of the EOQ request (row 5). The Bluebird system budget request is: FY 12, $750M; FY 13, $1,150M; FY 14, $1,290M; FY 15, $1,200M; FY 16, $950M. The second budget line is the funding request for Bluebird Advance Procurement. This is calculated by adding all EOQ amounts entered in row 5 and entering this total under FY 12. The Bluebird Advance Procurement budget request is: FY 12, $220M.

Cancellation of MYP Contracts

Because multiyear procurement (MYP) contracts are not initially funded for the entire period of performance, most include a clause providing that performance during the second and subsequent years of the contract is contingent upon the appropriation of funds.

MYP contracts generally also provide for a cancellation charge to be paid to the contractor if such appropriations are not made. Select the hyperlink to learn more about this cancellation charge.

Select the following hyperlink to learn about the cancellation ceiling for an MYP contract.

Additional information on this subject can be found at this url: DoD Financial Management Regulation 7000.14-R, Volume 2A, Chapter 1, paragraph 010203.

Cancellation Charge

The cancellation charge generally covers non-recurring costs incurred by the contractor that would have been recouped as part of the cost of the remaining items on the contract if the contract had been completed. An example of such costs is the unrecouped cost of investments in productivity enhancements made by the contractor. Recurring costs may be included in the cancellation charge, but only if approved by the Agency Head and the Undersecretary of Defense (Comptroller).

Cancellation Ceiling

The cancellation ceiling for a MYP contract is the maximum cancellation payment that the contractor can receive if the contract is cancelled. The cancellation ceiling will decrease over the life of the MYP contract as non-recurring costs are amortized over each year’s quantity of end items.

DoD policy is to fully fund the cancellation ceiling for a MYP contract unless an exception is approved by the Undersecretary of Defense (Comptroller).

____

Knowledge Review

Page 13 of 15

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Submit button and feedback will appear.

Select all of the statements below that are true concerning advance procurement.

a. May be implemented without approval by the Milestone Decision Authority

b. May be used to purchase long-lead items to protect the production schedule

c. May be used to contract for multiple years' worth of production end items before they are needed

d. May be used to sustain critical elements of the workforce during a production line break

Correct!

Advance procurement may be used to purchase long-lead items and/or to protect the production schedule to sustain critical elements of the workforce during a production line break. Use of advance procurement must be approved by the Milestone Decision Authority. Advance procurement is not used to contract for multiple years' worth of production end items before they are needed; this is done through multiyear procurement.

____

Knowledge Review

Page 14 of 15

The following Knowledge Review is a multiple choice question. Only one answer is correct; select the best answer and feedback will immediately appear.

Which one of the following statements best describes the purpose of using multiyear procurement?

a. To maintain a contractor's business base

b. To stockpile large quantities of materials and components

c. To reduce the cost of end items

d. To guarantee that the quantity of items desired by the Component will be procured

Correct!

The purpose of using multiyear procurement is to reduce the cost of end items. Each of the other responses is a potential result of using multiyear procurement, but not the purpose of undertaking the multiyear procurement in the first place.

Knowledge Review

After you have completed the following question, select another topic from the Table of Contents to continue, as this page completes the topic.

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Check Answers button and feedback will appear.

Which of the following must apply regarding Multiyear Procurement?

a. Substantial savings in total anticipated costs compared to carrying out the program through annual contracts.

b. Stable requirements for the item during the contemplated contract period in terms of production rate, procurement rate, and total quantities.

c. Stable funding for the contract will be requested at the level required to avoid contract cancellation.

d. Stable design for the item without excessive technical risks.

e. Items to be purchased are technically mature.

Correct. All of the listed requirements must apply regarding Multiyear Procurement.

Summary

Knowledge Review

Page 1 of 6

The following Knowledge Review is a multiple choice question. Only one answer is correct; select the best answer and feedback will immediately appear.

The key to applying the full funding policy is:

a. Estimating the associated cost of the end item components to be funded in each fiscal year.

b. Estimating how many end items will be placed on contract the first fiscal year and the associated cost of those end items.

c. Estimating how many end items will be placed on contract in each fiscal year and the associated cost of those end items.

d. Estimating the total number of end items to be funded.

Correct!

The key to applying the full funding policy is estimating how many end items will be placed on contract in each fiscal year and the associated cost of those end items.

Knowledge Review

Page 2 of 6

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Check Answers button and feedback will appear.

Select all that apply to procurement appropriations:

a. Funding is provided each fiscal year to procure complete, usable end items.

b. Piecemeal procurement of systems is not permitted.

c. The size of a budget year's "lot" of end items is limited to only the quantity that can be delivered in a 12-month funded delivery period, although exceptions are sometimes permitted.

d. It is permissible to budget for quantities less than the maximum lot size determined by the funded delivery period.

All of the listed statements apply to procurement appropriations.

Knowledge Review

The following Knowledge Review is a True or False question. Select the best answer and feedback will immediately appear.

Use of advance procurement must be included in the program acquisition strategy and approved by the Milestone Decision Authority.

a. True

b. False

Correct!

Use of advance procurement must be included in the program acquisition strategy and approved by the Milestone Decision Authority.

Knowledge Review

The following Knowledge Review is a multiple choice question. Only one answer is correct; select the best answer and feedback will immediately appear.

The practice of funding the total cost of major procurement and construction projects in the fiscal year in which they will be initiated (that is, placed on contract), applies to which funding policy:

a. Annual funding policy

b. Incremental funding policy

c. Full funding policy

d. Forward financing exception to Incremental Funding Policy

Correct!

The full funding policy is the practice of funding the total cost of major procurement and construction projects in the fiscal year in which they will be initiated (that is, placed on contract).

Lesson Summary (1 of 2)

Congratulations! You have completed the Funding Policies Lesson, Part 2. The following topics were discussed in this lesson:

- Full Funding Policy:
    - The full funding policy is the practice of funding the total cost of major procurement efforts and construction projects in the fiscal year in which they are initiated.
    - The full funding policy requires that sufficient funding be budgeted each fiscal year to procure complete, usable end items. For procurement programs, this includes the initial spares for a new system. For MILCON projects, the structure(s) that comprise a project are considered to be end item(s). "Piecemeal" procurement is not permitted.
    - To prevent programs from tying up excessive amounts of procurement budget authority, the size of a budget year's "lot" of end items is restricted to the number of items that can be delivered within that lot's funded delivery period. This is a 12-month period that begins with the delivery of the first item in a production lot.
- Advance Procurement. This is the use of procurement funds to buy material, parts, or components that do not constitute complete, usable end items, making it an exception to the full funding policy. It is generally used to protect the production schedule or to maintain critical work force skills. Use of Advance Procurement must be included in the program's acquisition strategy and approved by the Milestone Decision Authority.

Lesson Summary (2 of 2)

The following topic was also presented in this lesson:

- Multiyear procurement (MYP). This is a strategy under which the government saves money by contracting for up to 5 years' worth of an acquisition program's procurement needs at one time. Under MYP, contractors can reduce costs by making economic order quantity (EOQ) purchases of materials, parts, or components and by investing in productivity enhancements. The funding of EOQ purchases makes multiyear procurement an exception to the full funding policy since such purchases are not of complete, usable end items.
    - MYP contracts are budgeted and funded in lots based on the value of the end items to be initiated or the services to be performed during each fiscal year.
    - Certain statutory requirements must be met prior to approval of an MYP contract. These include: substantial cost savings; stable requirements for the item; stable funding; stable design without excessive technical risks; realistic cost estimates; and enhancement of national security. DoD also requires that purchased items be technically mature.

- Most MYP contracts include a cancellation clause. If exercised, this clause will usually require that a cancellation charge be paid to the contractor to cover costs incurred that will not be recovered due to cancellation of the remaining contract quantities.

This page completes the lesson. Select a lesson from the Table of Contents to continue.