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| Informational Guidance |

### IG5317.1 Multi-year Contracting

#### *October 2006*

This guide explains how to use Multi-year Contracting (MYC) to acquire supplies and services. It is primarily aimed at major weapon system acquisition, but the principles and methodologies presented here apply to all types of contracting.

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**EXECUTIVE SUMMARY**

(a) Multi-year Contracting (MYC) is a special contracting method that permits acquisition of known requirements for more than one year (but not more than five years) even though the total funds ultimately required to be obligated for subsequent years are not available at the time of contract award. MYC allows the contractor to conduct production and capitalization planning in a more efficient environment than that which characterizes the annual appropriations and acquisition cycle.

(b) Contractors are usually willing to become involved with MYC because the Government, in the event of contract cancellation, indemnifies them against the loss of costs, which would have been otherwise recouped over the full term of the contract. These unrecovered costs, which are reimbursed by the Government, are called cancellation charges and are limited to preaward negotiated (not-to-exceed) levels.

(c) This guide has three main purposes. First, it explains the benefits of MYC. Second, the guide enables an Integrated Product Team (IPT) to evaluate the potential use of MYC for its program. Lastly, if the use of MYC is selected by the IPT, the guide assists the IPT in structuring the correct MYC solicitation elements, in correctly verifying cost savings, and in properly awarding and administering a multi-year contract.

**LIST OF ACRONYMS**

|  |  |
| --- | --- |
| **Acronym** | **Description** |
| ADV | Advanced |
| AFFARS | Air Force Federal Acquisition Regulation Supplement |
| ASP | Acquisition Strategy Panel |
| ASD | Annual-Buy Source Document |
| BY | Budget Year |
| BES | Budget Estimate Submission |
| CLIN | Contract Line Item Number |
| CY | Calendar Year |
| DFARS | Defense Federal Acquisition Regulation Supplement |
| DoD | Department of Defense |
| EOQ | Economic Order Quantity |
| FAR | Federal Acquisition Regulation |
| FMR | Financial Management Regulation |
| FY | Fiscal Year |
| FYDP | Future Years Defense Plan |
| HCA | Head of Contracting Activity |
| IFB | Invitation for Bid |
| MJP | Multi-year Justification Package |
| MSD | Multi-year Source Document |
| MYC | Multi-year Contracting |
| MYP | Multi-year Procurement |
| Non-EOQ | Non-Economic Order Quantity |
| NR | Nonrecurring |
| OMB | Office of Management and Budget |
| OPR | Office of Primary Responsibility |
| PDP | Program Decision Package |
| PEO | Program Executive Officer |
| POM | Program Objective Memorandum |
| PPBS | Planning, Programming, and Budgeting System |
| PROC | Procurement |
| PV | Present Value |
| PY | Previous Year |
| QTY | Quantity |
| RDT&E | Research, Development, Test, and Evaluation |
| RFP | Request for Proposal |
| SCR | Special Contract Requirement |
| SPD | System Product Director |
| SSA | Source Selection Authority |
| TEC | Total Estimated Cost |
| TOA | Total Obligation Authority |
| UCL | Unfunded Contingent Liability |

**LIST OF FIGURES, EXHIBITS, AND EXAMPLES**

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**CHAPTER 1**

**MYC INTRODUCTION AND BACKGROUND**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) MYC INTRODUCTION**

**(b) STATUTORY AND REGULATORY BACKGROUND**

**(a) MYC INTRODUCTION**

(1) The use of MYC offers the potential for substantial cost savings over the life of a stable production program. Since MYC involves deviations to traditional program funding policies, consideration for MYC should be systematic and well documented to permit the IPT to maximize the benefits of this approach. This guide provides a path to allow an IPT to examine the concepts of MYC, to weigh the benefits of its use, and to efficiently structure a program strategy.

(2) Successful examination and use of MYC is a multi-functional effort. The Program Manager will orchestrate the efforts of IPT members: cost and price analysts, financial managers, manufacturing specialists, contracting specialists, and post award administrators.

**(b) STATUTORY AND REGULATORY BACKGROUND**

(1) The [United States Code (USC), Section 2306b of Title 10](http://www4.law.cornell.edu/uscode/10/2306b.html) (Armed Forces) authorizes the head of an agency to enter into multi-year contracts whenever the head of the agency finds (*Note*:*These conditions become the basis for determining whether a proposed acquisition qualifies as a candidate for MYC.* [*FAR 17.105-1(b)*](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) *cites the above PL 2306b statutory rules.)*:

(i) that the use of such a single multi-year contract will result in substantial savings of the total anticipated costs of carrying out the program through annual contracts;

(ii) that the minimum need for the property to be purchased is expected to remain substantially unchanged during the contemplated contract period in terms of production rate, procurement rate, and total quantities;

(iii) that there is a reasonable expectation that throughout the contemplated contract period, the head of the agency will request funding for the contract at the level required to avoid contract cancellation;

(iv) that there is a stable design for the property to be acquired and that the technical risks associated with such property are not excessive;

(v) that the estimates of both the cost of the contract and the anticipated cost avoidance through the use of a multi-year contract are realistic; and

(vi) in the case of a purchase by the Department of Defense, that the use of such a contract will promote the national security of the United States.

(2) [10 USC 2306b(k)](http://www4.law.cornell.edu/uscode/10/2306b.html) defines a multi-year contract as a contract for the purchase of property or services for more than one, but not more than five program years. Such a contract may provide that performance under the contract during the second and subsequent years of the contract is contingent upon the appropriation of funds and (if it does so provide) may provide for a cancellation payment to be made to the contractor if such appropriations are not made.

(3) [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html) also contains other specific requirements to review prior to evaluating an acquisition as a potential MYC candidate. Note that [Section 806 of Public Law (PL) 105-85](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ85.105.pdf) (National Defense Authorization Act for Fiscal Year 1998) made several changes to [10 USC Section 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html) including the codification of annual recurring requirements that have been included in annual defense appropriations acts (including [PL 105-56, DoD Appropriations Act, 1998, Section 8008(a)](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ56.105.pdf)).

(4) Also, Section 8008(b) of the aforementioned [PL 105-56](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ56.105.pdf) added the following requirement:

*"(b) None of the funds provided in this Act and hereafter may be used to submit to Congress (or to any committee of Congress) a request for authority to enter into a contract covered by those provisions of subsection (a) that precede the first proviso of that subsection unless--*

(1) such request is made as part of the submission of the President's Budget for the United States Government for any fiscal year and is set forth in the Appendix to that budget as part of proposed legislative language for appropriations bills for the next fiscal year; or

(2) such request is formally submitted by the President as a budget amendment; or

(3) the Secretary of Defense makes such request in writing to the congressional defense committees."

(5) Primary regulatory guidance is found at [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm), "Multi-year Contracting" (and associated supplements). [DoD 7000.14-R](http://www.defenselink.mil/comptroller/fmr/), [DFARS 217.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars217.htm#P108_2463) and [AFFARS 5317.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/5317.htm) provide implementing instructions.

**CHAPTER 2**

**UNDERSTANDING MYC**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) MYC: WHAT IT MEANS AND WHEN IT'S USED**

**(b) PREREQUISITES TO UNDERSTANDING MYC**

**(c) MYC APPROACH**

**(d) PRINCIPAL DIFFERENCES BETWEEN CONVENTIONAL AND MULTI-YEAR CONTRACTS**

**(e) TYPES OF MYC: NON-ECONOMIC ORDER QUANTITY (EOQ) AND EOQ**

**(a) MYC: WHAT IT MEANS AND WHEN IT’S USED**

(1) MYC is an acquisition strategy for committing the Government to buy more than one year’s requirements with a single (multi-year) contract award. The strategy applies to the acquisition of supplies and services, but it cannot be used for research and development. This commitment by the Government is intended to incentivize the contractor to conduct production and capitalization planning in a manner more consistent with commercial practices.

**(b) PREREQUISITES FOR UNDERSTANDING MYC**

(1) To understand MYC, you must first understand conventional (i.e., annual-buy) contracting practices and the meaning of “requirement.”

(i) Conventional **Contracting.** The conventional approach to contracting is strongly influenced by the Congressional authorization and appropriation processes. Ordinarily, Congress authorizes the Department to procure a specific number of units of a weapon system in a given year. Congress then appropriates funds for the purpose of buying that number of units. So while Congress may review the Department’s plans for procurement of the weapon system six years into the future (in the form of the Future Years Defense Plan), the Congress only makes a firm financial commitment regarding the first of those six years. Consequently, the manager of the acquisition program only gets a firm requirement and funding one year at a time, and has no assurance that the Congress will support the Department’s requirements for the out-years. Under this scenario, the contractor normally performs production planning and tooling estimates based on assurance of receiving only a single year’s requirement.

(A) A common method of dealing with annual appropriations is to award contracts that include options for the out-year requirements. The options do not commit the Government to purchase out-year quantities, but give it the unilateral right to do so under agreed upon terms and conditions. Thus, if an agency's planned requirements are eventually authorized and funded by Congress, the agency can exercise options rather than negotiate new contracts each year.

(ii) The **Meaning of Requirement.** An acquisition program that reaches the production phase should plan and budget for producing units (e.g., missiles, aircraft, satellites, radars) at a certain rate. While a contractor may view production rate in terms of a number of units produced per month, the Air Force program manager should always translate this into some quantity to be bought by the Government each year, since the federal Government budgets on an annual basis. The number of units to be bought in a given fiscal year is referred to as the program's "requirement" for that fiscal year.

***Example***

**The Meaning of Requirement**

The Department's budget request is for 100 units in FY 1, and the Congress authorized the Department to buy only 75 units in FY 1, the "FY 1 requirement" would be changed from 100 to 75 units. The Department takes the steps necessary to award a contract for 75 units. Because of the rules governing appropriated funds, the contract could be awarded after FY 1, but it would still be a contract for "FY 1 requirements.” The 75 units might not be delivered until three years after contract award because of production lead times, but they would still be considered the "FY 1 requirement.”

**(c) MYC APPROACH**

(1) When Congress approves a MYC strategy, it departs from its conventional way of doing business. The Congress formally acknowledges the planned procurement of units over a stated period (of up to five years), and “strongly influences” future Congresses to appropriate the funds needed to acquire those quantities. This takes the form of Congress authorizing the Department to award a multi-year contract for up to five years of requirements. The Congress does this knowing that if a future Congress does not appropriate adequate funds, the multi-year contract will have to be canceled and cancellation charges will have to be paid to the contractor to reimburse for unrecovered costs, which the contractor was unable to amortize in the canceled years. In other words, there is a price to pay if the Government does not follow through on its multi-year commitment.

**(d) PRINCIPAL DIFFERENCES BETWEEN CONVENTIONAL AND MULTI-YEAR CONTRACTS**

(1) Figure 2 outlines the principal differences between conventional (annual-buy) and multi-year contracts. The example uses a conventional contract with priced options. The use of options is sometimes referred to as “multiple year” contracting, which is distinctly different from “multi-year” contracting.

**Principal Differences Between Conventional (w/options) and Multi-year Contracts**

FY 1 FY 2 FY 3 FY 4 FY 5 TOTAL

Flying Saucer 20 20 20 20 20 100

ANNUAL-BUY MULTI-YEAR

Initial Contract One contract for the FY 1 One multi-year contract for

requirement of 20 flying saucers all 100 flying saucers

Congressional To FY 1 buy of 20 flying saucers To total buy of 100 flying

Commitment saucers from FY 1 through FY 5

Treatment of out- Option for each fiscal year’s Separate line item for each

year requirements requirements fiscal year’s requirements

in the initial contract

Required to “activate” 1) Same quantity authorization as Annual appropriation by contract commitment was provided for in FY 2 option Congress adequate to fund

to buy the next 2) Annual appropriation by FY 2 of the multi-year

year’s requirements\* Congress adequate to fund FY 2 contract

of the option

3) Contracting Officer determines that

exercising the option is the best method

of fulfilling the Government’s need,

price and other factors considered

Contractual action Contract modification to exercise Contract modification

required to “activate” FY 2 option obligating funds for

commitment to buy FY 2 requirements

the next year’s

requirements\*

\* Note that these differences are relevant to each of the out-years: FY 2, FY 3, FY 4, and FY 5

**Figure 2**

**(e) TYPES OF MYC: NON-ECONOMIC ORDER QUANTITY (EOQ) AND EOQ**

(1) There are two types of MYC: Non-EOQ and EOQ. (In much of the Air Force literature on multi-year since 1980, these forms of MYC have been termed “classic” and “expanded,” respectively. Throughout this guide, the more descriptive terms “non-EOQ” and “EOQ” are used.) The basic difference between the two types is that EOQ MYC involves the use of EOQ purchasing effort by the contractor for the purpose of obtaining lower prices (for typically recurring costs); non-EOQ MYC does not involve such costs to lower prices.

(i) EOQ is a form of procurement that should be funded with advance procurement dollars (generally production funds earmarked for advance procurement). EOQ procurement is not the same as long-lead time advance procurement as detailed in [Chapter 11](#ch11), Paragraph A.1. (iii). Although both should be funded with advance procurement dollars, EOQ procurement is undertaken for the purpose of achieving cost savings, whereas long-lead time advance procurement is pursued to obtain materials for meeting a planned production schedule.

(2) Non**-EOQ MYC.** Using non-EOQ MYC, the Air Force could recommend award of a multi-year contract for the entire fleet of 100 flying saucers (extending the example from Figure 2). The Air Force would request funds in FY 1 for 20 flying saucers plus authority to purchase the 80 out-year units. The remaining funds to complete production of the 80 additional units would be requested by the Air Force in FY 2 through FY 5. Congress would not be bound to appropriate the funds for FY 2, FY 3, FY 4, or FY 5, but if it did not, the Air Force would have to pay a cancellation charge to the contractor. (The maximum cancellation charge for each year of the contract, called the "cancellation ceiling,” is negotiated into the multi-year contract before award. It protects the contractor, since the contractor's sunk (nonrecurring) costs, amortized over the entire multi-year quantity, cannot be recovered as part of the price of out-year items if the contract is canceled and the out-year items are not purchased.)

(i) The advantage of the non-EOQ multi-year approach is that it can acquire the 100 flying saucers at a lower cost because it avoids annual start-up costs and provides a longer planning horizon for setting up production equipment and processes. It also enhances the stability of the program.

(3) EOQ **MYC.** Using EOQ MYC, the Air Force would recommend award of a multi-year contract for the entire fleet of 100 flying saucers. It would request funds in FY 1 for 20 saucers, authority to purchase the 80 out-year saucers, and advance procurement funds to initiate EOQ purchases and effort to benefit the out-year units. The remaining funds to complete production of the 80 out-year units would be requested in FY 2 through FY 5. Congressional prerogatives would be the same as in the non-EOQ multi-year situation. However, the cancellation ceiling would be higher due to the up-front investment being made in materials and labor through the EOQ purchases and commitments.

(i) The advantage of the EOQ multi-year approach is that greater economies of

scale can be achieved by combining the production requirements of all 100 flying saucers. If economically feasible, the contractor can fabricate and assemble 100 sets of parts in one continuous run. The contractor can place orders for quantities of 100 on material purchases from subcontractors instead of separate orders for 20 each year. This purchasing and fabrication arrangement normally results in significant quantity price breaks that are not possible under non-EOQ MYC.

**CHAPTER 3**

**THE MYC PROCESS AND KEY PLAYERS**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) WHAT IT TAKES TO USE A MULTI-YEAR CONTRACT**

**(b) THE MULTI-YEAR PROCESS: PLANNING AND ANALYSIS, ESTIMATING,**

**BUDGET, AND CONTRACTING**

**(c) PROCESS SUMMARY**

**(a) WHAT IT TAKES TO USE A MULTI-YEAR CONTRACT**

(1) It is helpful to have an overview of what is likely to be involved from the time you first contemplate using MYC until the time you award a multi-year contract. [DFARS 217.171](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars217.htm#P149_6443) through 174 cites specific regulations that apply to services, supplies, weapon systems, and EOQ procurements. Before entering into a multi-year contract you should have:

(i) Explicit approval from the Congress (major multi-year programs only);

(ii) Adequate production and advance procurement funds earmarked for the contract for the entire period of the multi-year contract; and

(iii) An established amount of validated savings (or cost avoidance) to be generated by using the MYC approach.

**(b) THE MULTI-YEAR PROCESS: PLANNING AND ANALYSIS, ESTIMATING, BUDGET, AND CONTRACTING**

(1) The use of MYC involves four interrelated, parallel processes: the planning and analysis process, the estimating process, the budgeting process, and the contracting process. Figure 3 shows how long these processes take and how they are integrated in a successful multi-year contract. This schedule is representative of an annual Planning, Programming, and Budgeting System (PPBS). Key elements of these processes are included in Figure 3.

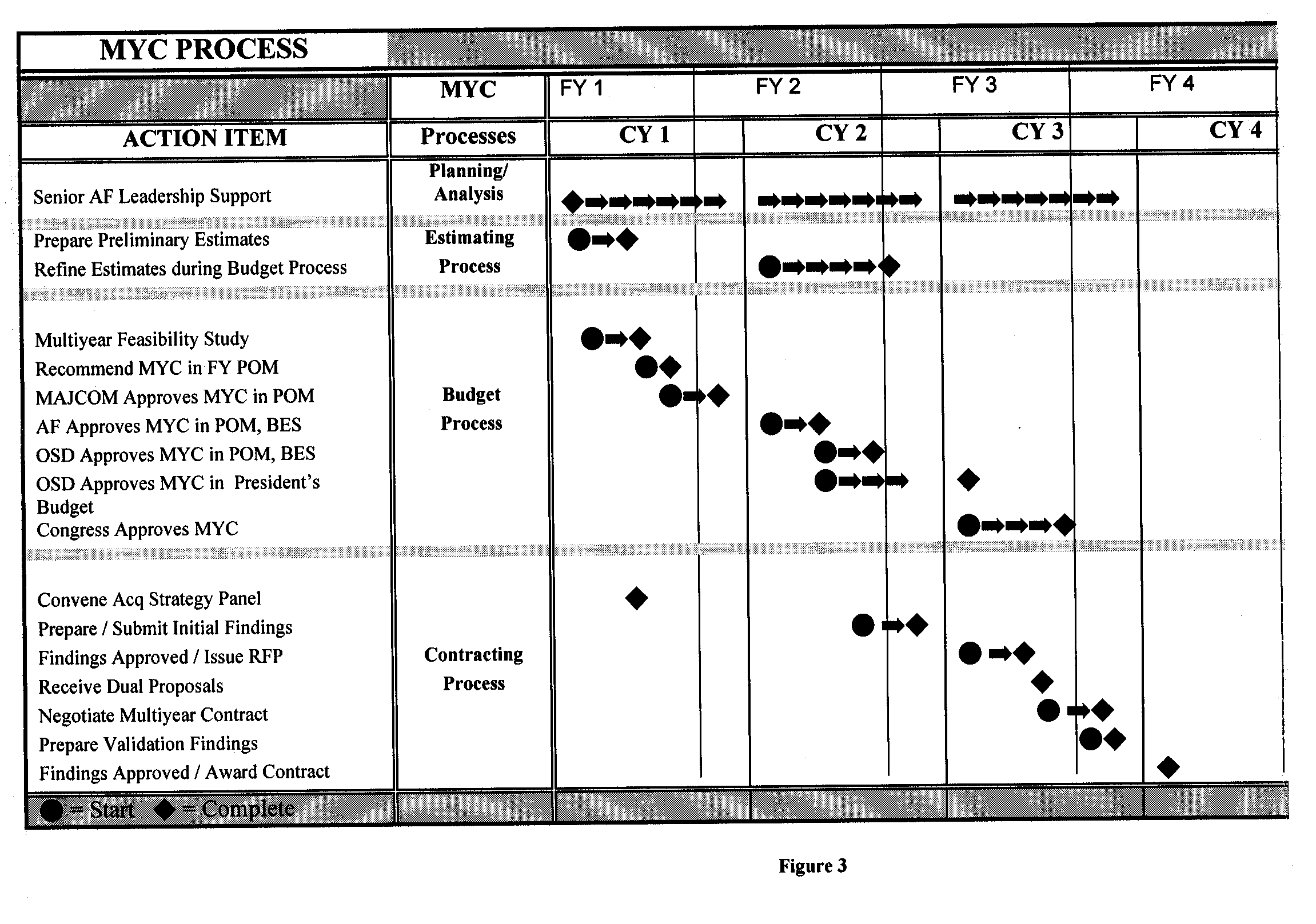
(2) A 1996 AF Multi-year Integrated Product Team (IPT) found a direct correlation between the number of approved multi-year contracts and budget factors. The IPT's overall finding was:

"Congressional approval of MYC is directly related to service commitment and budget availability - NOT estimated cost savings."

The IPT’s overall recommendation was for AF leadership to "support establishing MY as a long-range planning process conducted by Air Force acquisition leadership to identify MY candidates." This would:

(i) Ensure that, when there is budget availability, multi-year candidates are planned and implemented; and

(ii) Avoid wasted effort on feasibility studies and the subsequent approval process when there is no budget availability.



(3) The importance of initial planning and analysis of the acquisition and budget environment is critical. This is especially true of major multi-years. Upfront discussion and support of your multi-year contract by senior acquisition leadership is essential and should always precede expending critical resources on multi-year feasibility and execution.

(i) **Prepare Preliminary Estimates.** The first step in any multi-year effort is to prepare preliminary estimates for the feasibility study. This is to estimate the costs and savings of using a multi-year contract versus conventional annual-buy contracts. This estimating effort will run in parallel to the feasibility study and directly feed required data to it. The contractor is usually the best source of information for these kinds of estimates. The System Program Office financial analysts should work with the contracting officer to obtain information from the contractor(s) that will help the IPT develop sound budgetary estimates.

*Note: If the contemplated multi-year contract would result from a competitive procurement, your ability to obtain contractor input at this stage may be limited. It is essential that the contracting officer be involved, so any such exchanges are conducted in a way that does not compromise the eventual competition.*

(ii) **Conduct a Feasibility Study.** A feasibility study should be accomplished to see if MYC makes sense for your program. The main thrust of this step is to evaluate your program against the multi-year criteria outlined in [Chapter 1](#ch1). The study team should consist of representatives from financial management, contracting, and manufacturing and should be led by the program office's IPT leader. To the extent possible, the contractor(s) should also be involved.

*Note: Contractor input at this stage is voluntary and informal. This feasibility study occurs long before any formal solicitation is issued.*

The output of the study is a partial Multi-year Justification Package (MJP) that demonstrates whether the program meets the basic multi-year criteria. Given positive results, this initial feasibility determination will also serve as the basis for the formal MJP.

(iii) **Develop Acquisition Strategy.** If, based on the results of the feasibility study, the program manager decides that MYC makes sense for the program; a multi-year acquisition strategy must be developed. A review of the study's findings and the recommended MYC approach should be items covered by the ASP. The ASP should be scheduled as early as possible in order to have the panel's strategies input into the POM. The headquarters OPR for multi-year should be invited to attend field-level ASPs for programs that have multi-year potential. If the panel concurs, the program manager should recommend the use of MYC for the program in the POM submission.

(iv) **Recommend Multi-year Contract in the Program Objective Memorandum (POM).** If the feasibility study indicates that MYC will offer substantial savings and the ASP confirms this approach, the next step is to recommend in the POM that the program use a multi-year contract. Following POM-Call instructions, a budget document (called an “initiative,” which takes the form of a “delta Program Decision Package (PDP)”) will be submitted showing the funds needed to support the recommended multi-year contract. This “initiative” is a funding alternative to the normal annual-buy program. It will be supported by the MJP generated during the feasibility study. The multi-year funding profile will generally require more funds in the early years, but fewer funds in the long run.

(v) **Approval of the Recommended Multi-year Contract in the POM.** This step involves the normal budgeting process in which the MAJCOMs, the Air Force, and the Office of the Secretary of Defense (OSD) review the POM inputs and make decisions on funding levels.

(vi) **Refine the Estimates.** If your multi-year candidate survives POM reviews at the MAJCOM and/or Air Force levels, the cost and multi-year savings estimates will be a year old. You will probably need to revise them for the Budget Estimate Submission (BES) cycle to reflect changes in approved inflation rates and expenditure patterns. If there have been any substantial changes in the program or the assumptions underlying the original estimates, it is important for the MJP to reflect those changes.

(vii) **Approval of the Recommended Multi-year Contract in the BES.** This step involves the normal budgeting process in which the Air Force and OSD review the POM inputs and make decisions on funding levels in the BES.

(viii) **Prepare Initial Multi-year Findings.** If support for MYC exists at the Air Force level, the financial management and contracting offices should begin preparing a complete multi-year justification package. The "Initial Multi-year Findings" is a one-page document with the MJP attached. The findings basically certify that the program meets the statutory criteria for the use of MYC; in other words, that multi-year makes business sense for the program.

*Note: See* [*Chapter 10*](#ch10) *for detailed information on preparing initial findings.*

(ix) **Approval of the Recommended Multi-year Contract in the President's Budget.** This step involves the inclusion of the multi-year in the various iterations and final submitted/approved President's Budget.

(x) **Obtain Approval of Initial Multi-year Findings and Issue RFP.** It may take 60 days for the Initial Multi-year Findings package to get through the review cycle. Consequently, the letter requesting approval of the Initial Multi-year Findings should be submitted as soon as possible after the Air Force approves the program's multi-year candidacy. Timely submission of the request will prevent the initial findings procedure from delaying the issuance of the Request for Proposals.

*Note: See* [*Chapter 10*](#ch10) *for detailed information on review and approval cycle.*

(xi) **Receive Dual Proposals.** Once the RFP is issued, it may take several months to receive firm dual proposals from the offeror(s), depending on the complexity of the acquisition. Remember that each offeror is preparing two proposals, one of which (the multi-year proposal) the offeror may have little or no experience in preparing. Therefore, you may want to allow more than the normally allotted time for proposal preparation. Clear proposal preparation instructions in the RFP are absolutely necessary. In accordance with [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm), the requirement for dual proposals can be waived.

*Note: See* [*Chapter 14*](#ch14)*, Section B for detailed information on dual proposal concept.*

(xii) **Congressional Approval of the Recommended Multi-year Contract.** This step involves the inclusion of the multi-year in the annual Authorization Act/Appropriation Bill.

(xiii) Negotiate **a Multi-year Contract.** After receiving the dual proposals, you need to decide if multi-year still makes sense and, if so, proceed with negotiating and/or awarding the multi-year contract. Congressional hearings will be taking place during this time. This is a critical stage in the process when a final “go/no-go” decision is made. If the multi-year approach is disapproved, the annual-buy proposal can be negotiated and/or awarded instead. If applicable, request audits and/or field analyses on both proposals and conduct a separate factfinding/ analysis session focusing on the differences between the cost of the two proposals to validate whether the proposed multi-year savings appear reasonable (this is referred to elsewhere as a “preliminary savings validation based on evaluated proposals”). If the savings look reasonable and are in line with the savings estimate in your MJP (being considered by Congress), proceed with negotiating and/or awarding the multi-year proposal only. If the savings are less than the estimate in the multi-year justification package, you need to decide if the savings are still substantial enough to go on with MYC. In either case, if you negotiate and/or award a multi-year contract, multi-year savings should be validated.

(xiv) **Prepare Validation Findings.** Based on the final multi-year price, the financial management and contracting offices jointly prepare a multi-year savings validation package to support “Validation Findings.” The Validation Findings are approved by the authority set forth in the FAR supplements before you can award the multi-year contract.

*Note: See* [*Chapters 15*](#ch15) *and* [*16*](#ch16) *for detailed information on validation preparation and approval.*

(xv) **Award the Multi-year Contract.** After all contract details are finalized and multi-year savings are validated, normal procedures are followed for award.

**(c) PROCESS SUMMARY**

As you can see, the planning and analysis, estimating, budgeting, and contracting processes are highly interrelated and can be complex and lengthy. You should now have a general idea of what lies ahead if you are considering MYC for your program. With this understanding, you should be able to construct a "MYC Plan” with a milestone schedule similar to the one in Figure 3. The rest of this guide will assist you in carrying out that plan.

**CHAPTER 4**

**THE NEED FOR VALIDATING MULTI-YEAR SAVINGS**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) WHY YOU NEED TO VALIDATE MULTI-YEAR SAVINGS**

**(b) WHEN YOU NEED TO VALIDATE MULTI-YEAR SAVINGS**

**(a) WHY YOU NEED TO VALIDATE MULTI-YEAR SAVINGS**

(1) It **is a statutory requirement.** [10 USC 2306b(a)](http://www4.law.cornell.edu/uscode/10/2306b.html) says the head of an agency may enter into multi-year contracts whenever "the use of such a contract will result in substantial savings of the total anticipated costs of carrying out the program through annual contracts” and "the estimates of both the cost of the contract and the anticipated cost avoidance through the use of a multi-year contract are realistic.”

(2) It **is a regulatory requirement.** This requirement has been implemented in the FAR and DFARS. The FAR and DFARS require that "a multi-year contract may not be executed until" the agency head makes a written determination that the multi-year criteria have been met. The FAR and DFARS do not tie this requirement to a specific milestone in the acquisition process. AFFARS cites that before entering into any multi-year contract, the contracting officer shall review current statute and other Congressional language for potential restrictions.

**(b) WHEN YOU NEED TO VALIDATE MULTI-YEAR SAVINGS**

(1) As mentioned in (a)(1) above, validation findings are accomplished not once, but twice. This occurs before solicitations are issued and prior to the award of a multi-year contract.

(i) **Before solicitation issue.** The Air Force refers to this determination as "Initial Multi-year Findings” and requires that it take the form of a one-page findings supported by a multi-year exhibit package. You can comply with this first regulatory requirement for validation findings by using the guidance in [Chapter 10](#ch10) of this guide.

(ii) **Prior to multi-year contract award.** Prior to award of a multi-year contract, the contracting officer is to verify that the original determination (i.e., the Initial Findings) remains valid. Validation Findings are made prior to initiation of the multi-year contract effort whether this is done on a negotiated price or an undefinitized basis and that the Validation Findings take the form of a one page findings supported by an “updated” set of exhibits reflecting "validated” multi-year savings. You can comply with this second regulatory requirement for validation findings by using the guidance in [Chapter 15](#ch15) of this guide.

**CHAPTER 5**

**CONTRACT CANCELLATION**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) CANCELLATION: WHAT IT MEANS**

**(b) WHY MULTI-YEAR CONTRACTS PROVIDE FOR CANCELLATION**

**(c) HOW CANCELLATION DIFFERS FROM TERMINATION FOR CONVENIENCE**

**(d) HOW TO PLAN FOR THE POSSIBILITY OF CONTRACT CANCELLATION**

**(a) CANCELLATION: WHAT IT MEANS**

(1) "Cancellation" means canceling the total requirements of all remaining years of a multi-year contract.

***Example***

**Cancellation**

You have a multi-year contract to buy 20 flying saucers a year for five years. At the time of contract award, you obligated funds sufficient to fully fund the FY 1 requirement of 20 flying saucers. To permit the contractor to begin production of the 20 FY 2 flying saucers, all you need is an adequate appropriation from Congress. Then you will execute a contract modification to fully fund the FY 2 requirement.

If Congress does not appropriate funds for FY 2, you must cancel the FY 2 through FY 5 requirements because funds are not available to satisfy those requirements. The contractor's work on the FY 1 requirements is unaffected. It is expected that the contractor will complete and the Government will take delivery of the FY 1 end items*.*

**(b) WHY MULTI-YEAR CONTRACTS PROVIDE FOR CANCELLATION**

(1) Multi-year contracts provide for cancellation in situations where a multi-year contract that depends on future appropriations is awarded, and one of those appropriations is not made.

(2) Cancellation clauses provide an agreed-upon method for ending the contract in circumstances where future appropriations are not made.

(3) Because of the way in which they are funded, multi-year contracts depend on future appropriations. Consequently, they must provide that performance during the second and subsequent years of the contract is contingent upon the appropriation of funds. This means, simply, that all contract years except the first are subject to cancellation. The contract must contain procedures for dealing with a cancellation should it occur.All multi-year contracts do not have to contain cancellation provisions. [10 USC 2306b(c)](http://www4.law.cornell.edu/uscode/10/2306b.html) allows for cancellation clauses to be included in multi-year contracts "to the extent that such provisions are necessary and in the best interests of the United States.” As a general rule, however, cancellation clauses are necessary and in the best interests of the United States, for the reasons stated above.

**(c) HOW CANCELLATION DIFFERS FROM TERMINATION FOR CONVENIENCE**

(1) Cancellation seems similar to termination for the convenience of the Government. It is a unilateral action taken by the contracting officer when the Government needs to end a contract before it is completed. When a multi-year contract is canceled, the sequence of events is very similar to that following a termination for convenience. This is shown in Figure 5.A. There are significant differences, however, between cancellation and termination for convenience. These differences are included as part of the reason for cancellation or termination and are summarized in Figure 5.B.

**Sequence of Events**

TERMINATION FOR CONVENIENCE CANCELLATION

Award Contract

Contracting Officer sends written Notice of Termination

Award Contract

Performance underway

Performance underway

Contracting Officer either:

(1) Notifies the contractor that funds are not available for contract performance for any subsequent year; or

(2) Fails to notify the contractor that funds are available for performance of the succeeding year’s requirement.

The Contractor: The Contractor:

Continues performance to complete end items previously funded

Does not proceed with work on out-year end items

Performs continued portion of contract

Stops work on terminated portion of contract

Submits settlement proposal on terminated portion of contract

Submits cancellation claim with cancellation ceiling NTE acting as financial liability “CAP”

Requests equitable adjustment of price for continued portion

Contractor submits invoice for amount agreed upon (less any portion previously paid)

Contractor submits invoice for amount of cancellation charge

Disbursing Office pays

Disbursing Office pays

Negotiate cancellation charge

Negotiate settlement agreement

**Figure 5.A**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Differences Between**  **Termination for Convenience and Cancellation** | | |
|  |  |  |
|  | **Termination for Convenience** | **Cancellation** |
|  |  |  |
| **May Apply to:** |  |  |
|  |  |  |
| Conventional Annual | Yes | No |
| Buy Contracts |  |  |
|  |  |  |
| Multi-year Contracts | Yes | Yes |
|  |  |  |
| When the Action May Be Taken | Anytime during the life  of the contract | Anytime, but usually at the  start of a fiscal year |
|  |  |  |
| What the Action Affects | Either the total contract quantity or a portion of it, as indicated in the termination notice | All subsequent fiscal years' quantities |
|  |  |  |
| Reason the Action Is Taken | The Contracting Officer determines a termination is in the Government’s interest | Funds are not available for contract performance for the succeeding fiscal year |
|  |  |  |
| Authority for the Action | “Termination for Convenience of  the Government” (Fixed Price) clause at [FAR 52.249-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_246.htm) | "Cancellation Under Multi-year Contracts" clause  at [FAR 52.217-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm) |
|  |  |  |
| Termination Liability | As negotiated | As negotiated but NTE cancellation ceiling “CAP” |

Figure 5.B

(2) As indicated in Figure 5.B, the contracting officer may terminate a contract for convenience at any time during the life of the contract. On the other hand, a multi-year contract may be canceled anytime but usually at the beginning of a fiscal year (i.e., during the time period in which the contracting officer would otherwise obligate funds for the fiscal year's requirement) when appropriations are not received.

(3) Cancellation clauses are discussed in detail in [Chapter 12](#ch12). It is important to note here, however, that the FAR multi-year clause ([FAR 52.217-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm)) recognizes that multi-year contracts can be terminated for default, terminated for convenience, or canceled. Default terminations are based on contractor failure to perform as required. When other circumstances necessitate the early ending of the contract, the contracting officer should use one of the other two tools. Figure 5.B presents the differences between termination for convenience and cancellation. But there can be situations in which it is not absolutely clear which of the two actions should be taken. One example follows. It illustrates the subtleties that can influence a contracting officer's decision to use one tool or the other.

***Example***

**Termination and Cancellation Subtleties**

You have a multi-year contract for 100 flying saucers. You are in FY 3 of the contract, and have fully funded the FY 1, FY 2, and FY 3 requirements. Based on new intelligence, the Air Force recognizes that its flying saucers need to withstand a previously unknown threat. Without significant structural modifications, the flying saucers being acquired under the multi-year contract will not meet user needs. Substantial design and development work will be required before revised specifications will be available.

The program manager has three problems:

1. How to modify the saucers already delivered and in use;

2. How to modify the saucers now on the production line; and

3. How to ensure that saucers procured in the future are built to survive the new threat.

This discussion will focus on the third problem.

The program manager decides to delay acquisition of the FY 4 and FY 5 saucers until the revised specifications are available. The contracting officer must end the multi-year contract in such a way that the FY 3 saucers are delivered, but the FY 4 and FY 5 saucers are not produced.

QUESTION: Should the contract be terminated for convenience or canceled?

ALTERNATIVE #1: Terminate for convenience. Requirements have changed and it is in the Government's interest to terminate the portion of the contract identified as the FY 4 and FY 5 requirements.

ALTERNATIVE #2: Cancel the contract (this would have to be done during the "window of opportunity" between FY 3 and FY 4) since the Air Force decision to not fund FY 4 and FY 5 requirements means that funds are not available for contract performance for the succeeding fiscal year.

*(Note that the lack of funds is due to an Air Force decision rather than failure of the Congress to appropriate needed funds.)*

PREFERRED ANSWER: Alternative #1, because it is consistent with statutory and regulatory intent. Cancellation was not intended to be a mechanism for terminating contracts when design changes are needed; it was intended to deal with the situation in which Congress does not appropriate the funds needed to continue the multi-year contract.

*(Note it is not the "right" answer. The laws and regulations that apply to cancellation are not definitive enough to support the contention that Alternative #2 is wrong.)*

**(d) HOW TO PLAN FOR THE POSSIBILITY OF CONTRACT CANCELLATION**

(1) It is possible that your contemplated multi-year contract will be canceled. You must ensure that the estimating, budgeting, and contracting processes provide for this contingency. To do this, you should:

(i) Estimate each year's cancellation ceiling.

(ii) Decide early whether you will fund the cancellation ceiling or request authority to treat it as an unfunded contingent liability.

(iii) Ensure that the Total Obligation Authority amounts shown in the Multi-year Exhibits include an appropriate amount to fund each year's cancellation ceiling.

(iv) Draft cancellation clauses tailored to your specific situation and include them in the Request for Proposals and Model Contract.

(v) Carefully negotiate the cancellation clauses (which will include each year's cancellation ceiling and the way in which it will be funded) to ensure that there is an agreement on all aspects of this contractual language.

**CHAPTER 6**

**CANCELLATION CEILINGS**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) WHAT IS A CANCELLATION CEILING**

**(b) HOW THE CANCELLATION CEILINGS ARE REFLECTED IN THE REQUEST**

**FOR PROPOSALS AND THE RESULTING MULTI-YEAR CONTRACT**

**(c) HOW TO BUILD A CANCELLATION CEILING ESTIMATE**

**(a) WHAT IS A CANCELLATION CEILING**

(1) "Cancellation ceiling" means the maximum cancellation charge that the contractor can receive in the event of cancellation. “Cancellation charge” means the amount of unrecovered costs, which would have been recouped through amortization over the full term of the contract, including the term canceled ([FAR 17.103](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm)).

(2) A multi-year contract has a unique cancellation ceiling for each point in time when the contract could be canceled.

***Example***

**Cancellation Ceiling**

Assume you have a multi-year contract for 20 flying saucers a year for five years, for a total procurement of 100 flying saucers. If the contract is canceled at the end of FY 1, the cancellation ceiling must cover incurred costs associated with FY 2 through FY 5 end items, i.e., 80 flying saucers. If you cancel the contract at the end of FY 2, the cancellation ceiling must cover incurred costs associated with FY 3 through FY 5 end items, i.e., 60 flying saucers.

(3) If a multi-year contract is canceled, the contractor should be compensated fairly for the work done and the preparations made for the canceled portion of the contract. The specific dollar amount that is "fair compensation" is only determined if the contract is actually canceled. The contractor submits a cancellation claim, the contracting officer evaluates it, and the parties negotiate the “fair compensation", called the cancellation charge, which the Government will pay to the contractor.

(4) None of this can be done in a vacuum, however. It must be done within ground rules established at the time of contract award. Those ground rules include things such as procedures the contracting officer should follow to cancel the contract, what types of costs can be included in the cancellation claim and cancellation charge, and the maximum cancellation charge the Government will pay. That maximum cancellation charge is the cancellation ceiling.

**(b) HOW THE CANCELLATION CEILINGS ARE REFLECTED IN THE REQUEST FOR PROPOSALS AND RESULTING MULTI-YEAR CONTRACT**

(1) The Request for Proposals (RFP) should contain language or a special clause (see [Chapter 12](#ch12) for sample clause language) that sets forth the cancellation ceiling for each year. Depending on the circumstances of the particular procurement, the contracting officer may choose to include the cancellation ceiling estimates in the clause or to "leave blanks" and require each offeror to enter a proposed cancellation ceiling for each year.

(2) In the resulting multi-year contract, the special clause contains the cancellation ceilings agreed to during negotiations.

**(c) HOW TO BUILD A CANCELLATION CEILING ESTIMATE**

(1) The time to build estimates of cancellation ceilings is when you are estimating the cost of the contemplated multi-year contract. Part of that cost estimating process is estimating the cancellation ceiling applicable to each year of the multi-year contract. If possible, the contractor should furnish data points that the cost analyst can use in developing the cancellation-ceiling estimate. This estimate is a Government task, which will require contractor input.

*Note: The cancellation ceilings will not be finally established until the multi-year contract is negotiated.*

(2) This subsection will take you through eleven (11) steps to develop sound cancellation ceiling estimates.

(i) Step **One: Decide What Costs Can Be Included In the Cancellation Charge.** The first step in estimating a cancellation ceiling is to decide what costs can be included in the cancellation charge. The cancellation charge is the amount that the Government will actually pay the contractor if the contract is canceled. These amounts will eventually be reflected in the “Cancellation Ceiling” clause in Section I of the contract.

(ii) **Step Two: Establish the Points in Time When the Contract Could be Canceled.** Draw yourself a timeline beginning with the date you expect the multi-year contract to be awarded. Mark on the time line the points at which the contract could be canceled. You should estimate the cancellation ceiling associated with each potential cancellation on your time line.

*Note: Follow steps three through eleven to estimate the cancellation ceiling for the cancellation that could occur at the end of the first year of the multi-year contract. Follow the steps again to estimate the cancellation ceiling for the cancellation that could occur at the end of the second year of the multi-year contract. Repeat the procedure for each year of potential cancellation.*

(iii) **Step Three: Evaluate the Task of Estimating a Cancellation Ceiling.** As indicated in Figure 6.A (next page), a cancellation ceiling estimate is based on several separate estimates or "building blocks.” You should develop each of the "building blocks" listed in Figure 6.A, and estimate the offsets listed to arrive at a cancellation ceiling. Each estimate is based on the point in time when cancellation could occur. Steps Four through Ten provide guidance on developing each of these estimates. As you complete each step, enter the result in Figure 6.A. Then do the arithmetic to compute the cancellation ceiling.

**Cancellation Ceiling Estimate**

**For a Cancellation Occurring at the End**

**Of Year \_\_\_\_\_ of the Multi-year Contract**

BUILDING BLOCKS ESTIMATE RESULTING FROM STEP

Nonrecurring Costs incurred but $ Four

not yet recovered

Nonrecurring Costs the contractor + Five

is committed to incur

Recurring Costs incurred for the + Six

canceled end items

Recurring costs the contractor + Seven

is committed to incur for the

canceled end items

The impact of the cancellation + Eight

on the cost of the end items

already purchased (i.e., those

not canceled) \_\_\_\_\_\_\_\_\_\_\_\_

SUBTOTAL >>>> $

OFFSETS

Work in process on the canceled less Nine

end items that can either be

delivered to the Government

or sold \_\_\_\_\_\_\_\_\_\_\_\_

SUBTOTAL >>>> $

Commitments the contractor less Ten

has made that can be canceled

in whole or in part \_\_\_\_\_\_\_\_\_\_\_\_

TOTAL >>>> $ Eleven

**Figure 6.A**

(iv) Step **Four: Estimate the nonrecurring costs incurred but not recovered.**

(A) Your objective is to make this estimate represent the contractor's situation as of the specific time at which the contract would be canceled. Consequently, you should:

(*1*) Estimate the nonrecurring costs the contractor will have incurred by that point in time;

(*2*) Estimate the portion of those nonrecurring costs that will be recovered by the price being paid for the end items that will not be canceled; and

(*3*) Subtract (2) from (1).

(B) Steps Four A through Four E, below, explain how to do this.

(*1*) Step Four A: Review the definition of “nonrecurring costs.” "Nonrecurring costs” means those costs, which are generally incurred on a one-time basis and include such costs as plant or equipment relocation, plant rearrangement, special tooling and special test equipment, preproduction engineering, initial spoilage and rework, and specialized work force training. (This definition is from [FAR 17.103](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm).)

(*2*) Step Four B: Itemize the nonrecurring costs you expect the contractor to incur in performing the multi-year contract. Prepare a worksheet like the one in Figure 6.B. Complete the first four columns to accomplish this Step Four B.

(*i*) In Column 1, list all activities you expect the contractor to undertake that will generate nonrecurring costs. Each multi-year contract will involve a unique list of such activities. Examples: Acquiring Special Test Equipment for testing engine thrust; Rearranging Production Area B; Installing Special Test Equipment; Training Team A in special welding technique.

(*ii*) In Column 2, enter the total estimated cost of each activity listed.

(*iii*) In Column 3, enter the month and year you expect the contractor to initiate the activity. "Initiate" means issuing the purchase order to buy the equipment or contract for its installation; actually beginning in-house efforts such as conducting training; and so on. When the activity is "initiated,” the contractor has made a commitment to buy or do something such that some cost will be incurred, even if the purchase is canceled or the activity is not completed.

(i*v*) In Column 4, enter the month and year you expect the contractor to complete the activity. For this purpose, "completed,” means taking delivery of the purchased equipment; finishing installation; verifying that all employees trained can perform the required technique satisfactorily; and so on. When the activity is “completed,” the contractor will have either incurred or will be committed to incur the total estimated cost of that activity.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **ANTICIPATED NONRECURRING COSTS** | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | (1) | (2) | (3) | (4) |  | (5) | (6) | (7) | (8) | (9) |  | (10) | (11) | (12) | (13) | (14) |
|  | Activity | Total  Estimated  Cost  (TEC) | Date  to be  Initiated | Date  to be  Completed |  | Portion of TEC Likely  to be Incurred by End of Year | | | | |  | Portion of TEC Likely  to be Recovered by End of Year | | | | |
|  |  |  |
|  |  |  |
|  |  | One | Two | Three | Four | Five |  | One | Two | Three | Four | Five |
| **1.** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **2.** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **3.** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **N.** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Figure 6.B

(*3*) Step Four C: Estimate the portion of the nonrecurring costs that the contractor will have incurred prior to contract cancellation.

(*i*) Your estimate(s) should be based on the other information in your worksheet, as well as any insight you have into how the activity will be accomplished. For example, in some cases you may expect costs to be incurred at a steady rate between the initiation and completion of the activity. In other cases, a particularly costly effort may occur shortly after initiation of the activity, which could mean that a significant portion of the total estimated cost would be incurred early.

(*ii*) Enter your estimate(s) in Column 5 through Column 9, as necessary. (For example, if you are estimating the cancellation ceiling for the cancellation that could occur at the end of Year 3 of the multi-year contract, you will have entries in Columns 5, 6, and 7 and leave Columns 8 and 9 blank.)

(*4*) Step Four D: Describe how you expect the contractor to recover these nonrecurring costs.

(*i*) The Total Estimated Cost of the activities on your worksheet may be recovered in a variety of ways. Some activities may be separately priced and paid for. However, the cost of most of the activities on your worksheet will probably be amortized over the entire multi-year quantity of end items, so that the unit price of each end item bears a portion of the nonrecurring cost. In these cases, the contractor will recover the nonrecurring costs as the Government pays for end items.

(*ii*) You should combine available data and rational assumptions to estimate how much of the nonrecurring costs the contractor will recover prior to contract cancellation. Document these estimates in Column 10 through Column 14, as necessary.

*(5)* Step Four E: Compute the amount of nonrecurring costs that you estimate will be incurred but not recovered.

(*i*) Using the entries on your worksheet, perform the following calculation:

Portion of Total Estimated Cost Likely to be Incurred by the End of the Year

Portion of Total Estimated Cost Likely to be Recovered by the End of the Year

less

(*ii*) The result of this subtraction is the amount of nonrecurring costs that you estimate will be incurred but not recovered by the time cancellation would occur. This dollar amount represents your best estimate of what the contractor would have to include in its cancellation claim in order to cover all incurred nonrecurring costs. Enter this estimate in Figure 6.A. This is the first building block of the cancellation-ceiling estimate.

(v) **Step Five: Estimate the nonrecurring costs the contractor is**

**committed to incur.**

(A) The contractor may be committed to incur nonrecurring costs that its accounting system will not identify as "incurred" as of the time the contract is canceled. This Step Five is intended to make sure you recognize any additional nonrecurring costs the contractor may be committed to incur.

(B) Because a cancellation cannot happen until the multi-year contract has been in force for at least a year, the contractor's activities (that generate nonrecurring costs) are likely to be well underway. The subcontractors and vendors will charge the prime contractor for the work they have done up to the time of cancellation. To the extent the prime contractor has not already paid them for that effort through partial or progress payments, the prime contractor has a commitment to pay.

(C) Review your Step Four worksheet. Did you already take such commitments into consideration? If so, go to Step Six. If not, estimate the dollar amount of nonrecurring costs the contractor will be committed to incur at the time of the cancellation. Enter this estimate in Figure 6.A. This is the second building block of the cancellation-ceiling estimate.

(vi) **Step Six: Estimate the Recurring Costs Incurred for the Canceled End Items**.

*Note: Skip this step if you are using Non-EOQ multi-year procurement. Take this step only if you intend to obtain approval to include recurring costs in the cancellation ceiling*.

(A) In EOQ multi-year procurements, the contractor makes EOQ purchases and undertakes EOQ efforts to maximize efficiency and cost avoidance. EOQ purchases and efforts involve material and labor; in other words, recurring costs. By the time the cancellation would occur, the contractor will have probably bought or made some components for the out-year end items you are canceling. In this Step Six, you will estimate the amount actually incurred for these purposes.

(B) Before beginning the estimating process, you should become familiar with or remind yourself of the way EOQ purchases and efforts contribute to the production of end items. Figures 6.C and 6.D will assist you with this.

(*1*) Step Six A: Review the definition of recurring costs. "Recurring costs" means costs that vary with the quantity being produced, such as labor and materials. (This definition is from [FAR 17.103](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm))

(*2*) Step Six B: Itemize the recurring costs you expect the contractor will have incurred for the out‑yearend items. Prepare a worksheet like the one in Figure 6.E, following Steps Six C through Six H.

(*3*) Step Six C: Complete Column 1 of the Worksheet Activity.

(*i*) In Column 1, list all EOQ Purchases, EOQ Efforts, and Long Lead Purchases. Add Long Lead Efforts that you expect to be on‑going during the year just preceding the potential cancellation. (For example, if you are estimating the cancellation ceiling for the cancellation that could occur at the end of Year 3, then Column 1 should include all activities you expect to be on­going during Year 3.) If you can work with the contractor(s) while you are developing this cancellation ceiling estimate, you may want to ask the contractor to complete Column 1, indicating what it would intend to do on an EOQ and Long Lead basis.

(*ii*) All "activities" listed in Column 1 would involve "advance procurement.” The EOQ activities would be undertaken for the purpose of saving money and the long lead activities would be undertaken for the purpose of meeting the production schedule. All these activities would contribute to the production of out-year end items, which would not be procured in the event of cancellation.

**How EOQ Activity Contributes to the Production of End Items**

20 ship sets FY 1 END ITEMS The price the Government pays

become part of (20 Flying Saucers) for the FY 1 flying saucers will

cover the cost of these 20 ship sets.

20 ship sets FY 2 END ITEMS If the contract is not canceled at become part of (20 Flying Saucers) the end of FY 1, the Government

EOQ Activity will fully fund the FY 2 end items Purchase of 100 at the beginning of FY 2. The

Ship Sets of price the Government pays for

Titanium Parts FY 2 flying saucers will cover the

(Contractor issues FY 2 cost of these 20 early in FY 1

purchase order ship sets.

multi-year contract.)

20 ship sets FY 3 END ITEMS If the contract is not canceled at

become part of (20 Flying Saucers) the end of FY 2, the Government

will fully fund the FY 3 end items

at the beginning of FY 3. The price

the Government pays for the FY 3

flying saucers will cover the FY 3

cost of these 20 early in FY 2 ship

sets.

20 ship sets FY 4 END ITEMS And so on.

become part of (20 Flying Saucers)

20 ship sets FY 5 END ITEMS And so on.

become part of (20 Flying Saucers)

**Figure 6.C**

**How the Life of an EOQ Item Affects Your Cancellation Ceiling Estimate**

EOQ Activity: Purchase of 100 Ship Sets of Titanium Parts (from Figure 6.D)

EOQ Item: One of the Ship Sets to be built into a FY 3 End Item

Method of Payment: Unit Price paid upon delivery; no progress payments or partial payments involved.

Significant Milestones in the Life Prime Contractor’s Situation at Each Milestone:

of the EOQ Item:

1. Ordered by Prime Contractor 1. Committed to cover costs vendor incurs to produce the items

2. Produced by Vendor 2. Committed to cover the vendor’s full cost of producing the EOQ Item

3. Finished Product in Vendor’s Inventory 3. Committed to cover total cost of the EOQ Item

4. Delivered to Prime Contractor 4. By paying the vendor the agreed-upon price for the EOQ Item, the prime contractor incurs recurring cost

5. Held in Prime Contractor’s Inventory 5. Contractor is carrying the incurred cost

6. Used in Production of End Item 6. Full-up production support is underway and because it is part of a FY requirement “turned on” and fully funded by the Government, Contractor will recover cost of EOQ item in the price the Government eventually pays for the end item

7. Delivered (as part of an end item) to 7. Receives payment from the Government, which covers the cost

the Government incurred for the EOQ item

Identify each of these milestones on the time line of your multi-year contract:

1 2-3 4-5 6 7

I I I I I I

FY 1 FY 2 FY 3 FY 4 FY 5

For a cancellation at the end of FY 1, something less than the full cost of the EOQ Item will have to be included in the cancellation ceiling. For a cancellation at the end of FY 2, the full cost (to the contractor) of the EOQ Item would have to be included in the cancellation ceiling. For a cancellation at the end of FY 3, no part of the EOQ Item’s cost would have to be included in the cancellation ceiling.

**Figure 6.D**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | |
| **EOQ Calculation Worksheet** | | | | | |
|  |  |  |  |  |  | |
| (1) | (2) | (3) | (4) | (5) | (6) | |
| Activity | Total  Estimated  Cost  (TEC)  $ | Date  to be  Initiated | Date  to be  Completed | Portion of TEC Likely  Built into Previous-Year  and Current-Year  End Items  $ | Portion of TEC  Likely to be Incurred  on Out-Year End Items  By End of Current Year  $ | |
| 1. EOQ Purchases |  |  |  |  |  | |
| a. Material |  |  |  |  |  | |
| (1) ... |  |  |  |  |  | |
| (n) |  |  |  |  |  | |
| b. Parts |  |  |  |  |  | |
| (1) ... |  |  |  |  |  | |
| (n) |  |  |  |  |  | |
| c. Subassemblies |  |  |  |  |  | |
| (1) ... |  |  |  |  |  | |
| (n) |  |  |  |  |  | |
| d. Components |  |  |  |  |  | |
| (1) ... |  |  |  |  |  | |
| (n) |  |  |  |  |  | |
| e. Other |  |  |  |  |  | |
| 2. EOQ Effort |  |  |  |  |  | |
| a. Fabrication of Parts |  |  |  |  |  | |
| (1) ... |  |  |  |  |  | |
| (n) |  |  |  |  |  | |
| b. Manufacture of Subassemblies |  |  |  |  |  | |
| (1) ... |  |  |  |  |  | |
| (n) |  |  |  |  |  | |
| c. Other |  |  |  |  |  | |
| 3. Long Lead Purchases |  |  |  |  |  | |
| a. Material |  |  |  |  |  | |
| b. Parts |  |  |  |  |  | |
| c. Other |  |  |  |  |  | |
| 4. Long Lead Efforts |  |  |  |  |  | |
| a. Fabrication of Parts |  |  |  |  |  | |
| b. Manufacture of Subassemblies |  |  |  |  |  | |
| c. Other |  |  |  |  |  | |
| **Total** |  |  |  |  |  | |
|  |  |  |  |  |  | |

**Figure 6.E**

(*4*) **Step** Six D: Complete Column 2 of the Worksheet: Total Estimated Cost (TEC). For each entry in Column 1, enter your estimate of the total cost to the Government of that purchase or effort.

(*5*) Step Six E: Complete Column 3 of the Worksheet: Date Activity to be Initiated.

(*i*) Enter in Column 3 the month and year in which you expect the contractor to initiate each activity listed in Column 1. For this purpose, "initiate" means either to issue the purchase order or to “turn on" the in‑house effort.

(*ii*) For example, if the contractor will produce 20 flying saucers a year for five years under the multi-year contract, an EOQ purchase might be 100 ship sets of titanium parts. The contractor would issue the purchase order for the 100 ship sets in the first year, but might not require delivery of the 100th ship set until the fourth year. Your worksheet for the first year of the multi-year contract would show "100 titanium ship sets" in Column 1 under "EOQ Purchases - Parts.” The date in Column 3 would be the date the Contractor issued the purchase order.

(*iii*) For any Column 1 activity appearing on the worksheet you prepare for the second or a subsequent year of the multi-year contract, the Column 3 entry would be identical to that on your worksheet for the first year of the contract.

(*6*) Step Six F: Complete Column 4 on the Worksheet: Date Activity to be Completed. Enter in Column 4 the date by which each activity is expected to be completed (i.e., the date by which the last item would be delivered under a purchase order, or the date by which the last item would be completed in an in-house production effort).

(*7*) Step Six G: Complete Column 5 on the worksheet: Portion of TEC Built into Previous Year and Current Year End Items.

(*i*) If you are estimating the cancellation ceiling for the cancellation that could occur at the end of the first year of the multi-year contract, then:

(*a*) Enter "zero" if the first year involves only advance procurement (i.e., no end items are being acquired); or

(*b*) If end items are being acquired, estimate how much of the TEC of the activity will be built into the current (i.e., first) year's end items. Put another way, how much of the TEC will be covered by the unit prices the Government will pay for the first year's end items? Enter your estimate in Column 5.

(*ii*) If you are estimating the cancellation ceiling for any year after the first fiscal year in which end items are acquired, some of the TEC will have been built into previous year-end items and some will be built into current year items. Quantify these amounts and enter your estimate in Column 5.

(*8*) Step Six H: Complete Column 6 on the Worksheet: Portion of TEC to be Incurred on Out-Year End Items by End of Current Year.

(*i*) Column 6 is the place for you to enter your estimate of how much of each activity's total estimated cost will have been incurred, as of the time cancellation would occur, to support production of the out-year end items.

(*ii*) Review what you know at this point:

|  |
| --- |
|  |
| From Column 1 The activities going on in the current year (i.e., the one for which you are estimating the cancellation ceiling) that will generate recurring costs that contribute to the production of out-year end items. |
|  |
| From Column 2 The total estimated cost to the Government of each of those activities. |
|  |
| From Column 3 When each activity is expected to begin (and begin generating costs). |
|  |
| From Column 4 When each activity is expected to be completed (enabling final billing  and payment for the activity). |
|  |
| From Column 5 How much of the total estimated cost of each activity will be covered by  the price paid for non-canceled end items. |

(*iii*) Consider the information in Columns 1 through 5 as well as:

* The rate at which the EOQ or long lead items will be produced (i.e., how many will be done and how many will be in process at the time of cancellation?)
* The delivery schedule for purchased items. How many will have been delivered to the contractor at the time of cancellation?
* For EOQ and Long Lead Purchases, the terms and conditions of the subcontract or purchase order involved. Will it provide for the contractor to make progress payments, partial payments, or one lump sum payment upon delivery of the entire order? Knowing when the contractor is likely to make payments will help you know when the contractor is likely to incur costs.

(*iv*) If you are estimating the cancellation ceiling in conjunction with doing a multi-year feasibility study, neither you nor the contractor(s) will have specific information on these points. In these cases, use the best available information (e.g., standard industry practice as regards terms and conditions of purchase orders for such items; historical production data; cost or pricing data from existing or past contracts involving the same types of purchases or efforts).

(*v*) The maximum amount you can enter in Column 6 is the difference between the total estimated cost of the activity (in Column 2) and the cost covered by the prices paid or to be paid for non-canceled end items (in Column 5). This maximum entry would only be appropriate in the last year for which the contract will need a cancellation ceiling. In all other cases:

Amount in Column 6 < (Amount in Column 2 less Amount in Column 5)

(*9*) Step Six I: Sum up all entries in Column 6.

The total of all Column 6 entries is your estimate of the recurring costs incurred for the canceled end items. Enter this estimate in Figure 6.A. This is the third building block of your cancellation-ceiling estimate.

(vii) Step **Seven: Estimate the Recurring Costs the Contractor is Committed to Incur for the Canceled End Items.**

*Note: Skip this step if you are using Non-EOQ MYC. Take this step only if you intend to obtain approval to include recurring costs in the cancellation ceiling.*

(A) This Step Seven is intended to make sure you recognize any additional recurring costs not booked as ''incurred” in the contractor's accounting system at the time of cancellation that the contractor may be committed to incur.

(B) Because a cancellation cannot happen until the multi-year contract has been in force for at least a year, the contractor's multi-year subcontracts and purchase orders are likely to be well underway. The subcontractors and vendors will charge the prime contractor for the work they have done up to the time of cancellation. To the extent the prime contractor has not already paid them for that effort through partial or progress payments, the prime contractor has a commitment to pay.

(C) Review your Step Six worksheet. Did you already take such commitments into consideration? If so, go on to Step Eight. If not, estimate the dollar amount of recurring costs the contractor is, at the time of the cancellation, committed to incur. Enter your estimate in Figure 6.A. This is the fourth building block of your cancellation-ceiling estimate.

(viii) Step **Eight: Assess the Impact Cancellation Could Have on the Cost of End Items Already Purchased.**

(A) Cancellation of a multi-year contract can affect the cost of non-canceled end items. For example, assume the contemplated multi-year contract is for missiles, as follows:

FY 1 FY 2 FY 3 FY 4 FY 5 TOTAL

Quantity 3,000 3,000 3,000 3,000 3,000 15,000

(B) The cost of each missile depends in part on allocating overhead to 15,000 missiles. If the contract is canceled after FY 2, the contractor's business base shrinks by 9,000 missiles, or 60 percent. The overhead allocated to the 6,000 missiles that were sold to the Government may not be sufficient, given the cancellation, to cover the true cost of those end items.

(C) This cost impact may be considerable. You should estimate this impact, but you should not automatically include the entire amount in your cancellation-ceiling estimate. For example, a component of overhead is the nonrecurring costs you have already provided for in Steps Four and Five. You should not provide for those costs twice. Most of the recurring costs you provided for in Steps Six and Seven are probably direct costs, but if any of those costs are treated by the contractor as indirect, then they too are a component of overhead. You should not provide for those costs twice, either.

(D) This is a complex estimating task. The degree of complexity depends on the contractor's accounting system, and how well it lends itself to segregating costs in this way. If the contemplated multi-year procurement will be competitive and you cannot gear this “impact” estimate to a particular accounting system, you must base your estimate on assumptions. Be sure to document the assumptions for future reference.

(E) Enter your estimate in Figure 6.A. This is the fifth and last building block of your cancellation ceiling estimate prior to offsets.

(ix) **Step Nine: Consider the Offset Potential of the Work in Process on the Canceled End Items.**

(A) At the time of cancellation, part of the investment made by the contractor, its subcontractors, and vendors in the canceled end items will be represented by work in process. It will consist of:

*(1)* Fabricated or unfabricated parts, work in process, completed work, supplies, and other material produced or acquired for the canceled end items; and

(*2*) The completed or partially completed plans, drawings, information, and other property that, if the contract has been completed, would be required to be furnished to the Government.

(B) With authority from the Contracting Officer, the contractor can do two things with such property to minimize the amount of its cancellation claim: transfer title and deliver it to the Government; or sell or otherwise dispose of it, applying any proceeds to reduce the cancellation claim.

(C) Do you know if, at the time of cancellation, significant work in process will exist that the contracting officer would require the contractor to either deliver to the Government or sell so as to significantly reduce the contractor's cancellation claim?

(*1*) If so, estimate the worth of this work in process and treat it as an offset to the cancellation ceiling estimate. Enter your estimate in Figure 6.A.

(*2*) If not, assume there is no significant offset potential, enter a zero in Figure 6.A, and go on to Step Ten.

(x) Step **Ten: Consider the Offset Potential of Cancelable Commitments.** In Steps Five and Seven, you estimated the costs the contractor will be committed to incur when cancellation occurs. Could the contractor cancel any of those commitments?

(A) If a significant portion of the commitments would be cancelable and you can quantify it, treat it as an offset to the cancellation ceiling. Enter your estimate in Figure 6.A.

(B) If, on the other hand, you do not know whether a significant portion of the commitments would be cancelable, assume there is no significant offset potential, enter a zero in Figure 6.A, and move on to Step Eleven.

(xi) **Step Eleven: Sum up the Results of Steps Four through Ten.** Look at Figure 6.A, in which you have entered the estimates resulting from Steps Four through Ten. Add the five building block estimates and enter the sum as the first subtotal. Subtract the first offset and then the second to arrive at your "TOTAL" cancellation ceiling estimate.

**CHAPTER 7**

**FUNDING MULTI-YEAR CONTRACTS**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) WHAT IS CONTRACT FUNDING?**

**(b) THE RULES GOVERNING THE FUNDING OF MULTI-YEAR CONTRACTS**

**(c) HOW TO APPLY THE FUNDING RULES TO A MULTI-YEAR CONTRACT**

**(d) HOW TO FUND A CANCELLATION CEILING**

**(e) MULTI-YEAR CONTRACT FUNDING CLAUSES**

**(f) EXCEPTIONS TO THE FUNDING RULES**

**(g) REQUESTING NEEDED FUNDING IN THE BUDGET PROCESS**

**(a) WHAT IS CONTRACT FUNDING?**

(1) "Contract funding,” for the purpose of this Guide, means committing available funds to be used for a specific program under a specific contract.

(2) "Committing funds" means administratively reserving currently available funds based on a firm procurement request. A commitment authorizes the incurrence of an obligation without further approval by or recourse to the funds certifying official.

(3) "Contract funding process,” for the purpose of this Guide, means the steps taken to make funds available for contract performance, culminating in the obligation of funds under a contract.

(4) Contract financing is not the same thing as contract funding. The purpose of contract financing is to balance two needs: (a) to provide the contractor with the working capital and cash flow needed to perform as expected; and (b) to disburse Government funds as gradually as possible so as to, at least theoretically, keep as much as possible in the treasury earning interest. The function of contract financing is to synchronize the funding and payment ground rules for any given contract.

**(b) THE RULES GOVERNING THE FUNDING OF MULTI-YEAR CONTRACTS**

(1) Multi-year contracts are funded one year at a time with annual appropriations.

(2) The general rules, for each year of the multi-year contract, are:

(i) Fully fund the end items being procured.

(ii) Fund the estimated termination liability of the advance (i.e., EOQ and Long Lead) procurement.

(iii) Fund at least the recurring cost portion of the cancellation ceiling.

(iv) Estimates should be based on prior cost history for the same or similar items or proven cost estimating techniques. Normally, production assets should have been delivered in order to obtain actual costs for the comparisons (exceptions include satellites and ships).

(v) With the exception of funding for EOQ procurement and advance procurement for long lead-time items as defined in [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/index.html), section 010202, multi-year procurement contracts should comply with full funding. *The full funding policy applies to each individual year of the multi-year contract. Multi-year contracts should not be used as a vehicle for incrementally funding the items across the fiscal years covered by the contract. The production lots on the contract should be the same as those described in the budget and advance procurement should not be used to achieve a higher production rate for the end item. Funds should not be “borrowed” from the amounts budgeted for items in the early fiscal years of a multi-year contract to begin work on items not budgeted until later fiscal years of the contract.*

(vi) The inclusion of recurring costs in cancellation ceilings is an exception to normal contract financing arrangements and requires approval by the Agency Head ([FAR 17.106-3(e)](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm)) and the USD Comptroller*.*

(vii) An exception, to be approved by the USD Comptroller, is needed to structure a contract with an unfunded cancellation ceiling. Justification explaining why an unfunded cancellation ceiling is the chosen acquisition strategy should be provided. This justification should specify what costs comprise the unfunded cancellation ceiling and why these costs are not funded under the full funding policy.

(viii) In keeping with the DoD policy of not relying upon industry to finance the cost of Defense programs, even on a temporary basis, the use of unfunded cancellation ceilings on multi-year contracts should be rare and limited to no more than 20 percent of the value of the budget for each fiscal year covered by the contract.

(ix) Funds obligated for multi-year contracts need to be sufficient to cover any potential termination costs. The costs of cancellation or termination may be paid from (1) appropriations originally available for the performance of the contract concerned; (2) appropriations currently available for procurement of the type of property concerned, and not otherwise obligated; or (3) funds appropriated for those payments.

(x) Contingent liabilities for multi-year contracts that provide for cancellation charges, when it is necessary for the government to cancel the contract for reasons other than contractor liability, are not recorded as commitments. Any such cancellation charge should be recorded as an obligation when it becomes necessary to cancel the contract and the contractor is so notified.

(3) The basis for each of these general rules is in one or more of the following:

(i) [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html)

(ii) [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) and [DoD 7000.14-R, Volume 3, Chapter 8](http://www.defenselink.mil/comptroller/fmr/03/03_08.pdf).

(iii) [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) and supplements

(iv) [FAR 32.7](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/32.htm) and supplements

(v) Section 8008 of the Defense Appropriations Act for FY 2005

(vi) Section 814 of the National Defense Authorization Act for FY 2005

**(c) HOW TO APPLY THE FUNDING RULES TO A MULTI-YEAR CONTRACT**

(1) A multi-year contract has two funding components:

(i) The end items being acquired in each year; and

(ii) The cancellation ceiling for each year, consisting of

(A) The termination liability created by advance procurement, and

(B) The nonrecurring costs the contractor plans to recover in the price of out-year end items.

(2) This section will address each of these components, in turn. For purposes of this discussion, consider the example below:

***Example***

**Funding Requirement: XYZ Satellite Production**

FY 97 FY 98 FY 99 FY 00 FY 01 TOTAL

Quantity 1 2 1 1 5

The program office planned to award the multi-year contract in FY 97 in order to initiate advance procurement of long lead and EOQ effort.

(i) You can think of funding this multi-year contract in the following way:

***Example***

**Funding Application: XYZ Satellite Production**

Funding Applied In This Year FY 97 FY 98 FY 99 FY 00 FY 01

Will Go Toward FY 98 L & E P

the Ultimate

Production of FY 99 E L & E P

the End Items

to be Acquired FY 00 E E L & E P

in These Years

FY 01 E E E L & E P

L = Advance procurement funds for long lead items and effort

E = Advance procurement funds for EOQ items and effort

P = Procurement funds for procurement of end items

(3) Funding the End Items Being Acquired in Each Year

(i) The Department of Defense has a long-standing “full funding" policy. That policy is to "fund fully procurements that are covered within the procurement title of the annual DoD Appropriations Act.” ([DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf), paragraph 010202A, "Full Funding of Procurement Programs.”) The objective of the policy is to provide funds at the outset for the total estimated cost of a given item so that the Congress and the public can be fully aware of the dimensions and cost when it is first presented in the budget.

(ii) It would be logical to assume that to comply with the full funding policy, you would have to fund in FY 97 (at the time of award) the total estimated cost to the Government of all five XYZ Satellites being acquired in the example multi-year procurement. But, neither the Congress nor the DoD requires this. For funding purposes, you deal with each fiscal year's requirement, rather than with the total quantity of end items represented by the multi-year contract. Paragraph 010203A of [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) states, “Multi-year procurements are budgeted and funded annually.”

(iii) In the XYZ Satellite example, one end item is being acquired in FY 98. It must be fully funded in FY 98. This means you should obligate the amount that results from the following calculation:

Total Estimated Cost (TEC) to the Government of the End Item

**-** Portion of TEC Previously Obligated for Advance Procurement

**=** Amount Needed in FY 98 to Fully Fund the End Item

In the same example, two end items are being acquired in FY 99. They should be fully funded in FY 99. This is how the "full funding policy" is applied to a multi-year contract. This same principle applies to the remainder of the contract quantities.

(4) Funding the Cancellation Ceiling for Each Year

(i) According to [10 USC 2306b(c)](http://www4.law.cornell.edu/uscode/10/2306b.html), you can either fund the cancellation ceiling or treat it as an unfunded contingent liability; except that [10 USC 2306b(1)](http://www4.law.cornell.edu/uscode/10/2306b.html) prohibits unfunded cancellation ceilings for EOQ procurements and [FAR 17.104(c)](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) states "..the funds obligated for multi-year contracts must be sufficient to cover any potential cancellation and/or termination costs...". For a complete perspective of funding guidelines and limitations, review the current policy in [OMB Circular A-11](http://www.whitehouse.gov/omb/circulars/a11/current_year/a_11_2003.pdf) and [OMB Circular A-11, Part 4](http://www.whitehouse.gov/omb/circulars/a11/current_year/a_11_2003.pdf#page=371), along with the current FAR and supplements.

1. Pertinent Law

"Section 814 of the National Defense Authorization Act for FY 2005 requires the Department of Defense to provide notice and supporting rationale to Congress before awarding a multiyear contract containing a cancellation ceiling exceeding $100 million that is not fully funded.

(iii) Pertinent Law - General

[10 USC 2306b(f)](http://www4.law.cornell.edu/uscode/10/2306b.html) provides that if a multi-year contract is canceled or terminated, the costs of cancellation or termination may be paid from--

"(A) appropriations originally available for the performance of the contract concerned;

(B) appropriations currently available for procurement of the type of property concerned, and not otherwise obligated; or

(C) funds appropriated for those payments.''

(iv) Pertinent Law - Liability Associated with Advance Procurement

(A) [10 USC 2306b(h)(2)](http://www4.law.cornell.edu/uscode/10/2306b.html) authorizes multi-year contracts to be used for "advance procurement of components, parts, and materials necessary to the manufacture of a weapon system" (i.e., long lead procurement) and for "advance procurement ... in order to achieve economic lot purchases and more efficient production rates" (i.e., EOQ procurement).

(B) A cancellation ceiling may consist of two kinds of costs: nonrecurring costs and recurring costs. Any recurring costs are attributable to the advance procurement (i.e., long lead and/or EOQ) being done under the multi-year contract. The EOQ procurement must be funded with advance procurement dollars. This is illustrated as follows:

**Cancellation Ceiling Cost Makeup**

May require funding by Appropriations Act

Recurring Costs

Total Cancellation Ceiling

Not subject to Appropriation Act requirement re: EOQ advance procurement

Not required to be funded with advance procurement dollars

Nonrecurring Costs

Must be funded with advance procurement dollars

Attributable to EOQ procurement

Not attributable to EOQ procurement

Figure 7

(v) DoD Policy.

(A) [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) recognizes both “advance procurement (long leadtime items)” and "advance EOQ procurement (multi-year procurement)” as general exceptions to the full funding policy. [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) also states that "It is the general policy of the Department of Defense not to create unfunded contract liabilities for EOQ procurements.” It goes on to require that budgets for EOQ procurement cover at least the termination liability of the EOQ procurement. This means that the DoD’s policy is to fund the recurring cost portion of cancellation ceilings.

*Note: Those who believe in funding cancellation ceilings are committed to a policy of "pay as you go.” This means you quantify the Government's worst-case liability and hold that amount in reserve. Then, in the event of contract termination or cancellation, funds are available to cover associated costs. Those who advocate unfunded cancellation ceilings (i.e., carrying an unfunded contingent liability) argue that the risk of a multi-year contract being terminated or canceled is too low to warrant tying up large amounts of Total Obligation Authority. This position relies on the logic that any program meeting the statutory multi-year criteria is very unlikely to be terminated or canceled. This position also (in the opinion of many financial experts) puts the program in a potential Anti-deficiency Act (ADA) violation situation if cancellation costs cannot be fully covered.*

(B) [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) prescribes the following procedures for dealing with each of these exceptions:

*(1)* Long Leadtime Items. Fund them at least to termination liability.

*(2)* EOQ Procurement. Fund it to the estimated termination liability unless it would be more effective to fully fund the EOQ.

To fully fund the advance procurement, you should fund the amount needed to cover the total estimated cost to the Government of the items and effort being bought in advance. To fund the advance procurement to termination liability, you should fund the recurring cost portion of the cancellation ceiling, as explained below.

**(d) HOW TO FUND A CANCELLATION CEILING**

(1) To fund the cancellation ceiling, you should budget, program, and have available funds in the necessary amount. Funds obligated for multi-year contracts should be sufficient to cover any potential termination costs. The costs of cancellation or termination may be paid from (1) appropriations originally available for the performance of the contract concerned; (2) appropriations currently available for procurement of the type of property concerned, and not otherwise obligated; or (3) funds appropriated for those payments. If authorized and appropriated funding for approved multi-year programs is insufficient, DoD should submit a reprogramming request to cover the difference.

(2) This section will take you through the following steps to appropriately fund a cancellation ceiling:

* Step One: Decide How Much of the Cancellation Ceiling to Fund
* Step Two: Fund the Recurring Cost Portion (if you decided to in Step One D)
* Step Three: Fund the Nonrecurring Cost Portion (if you decided to in Step One E)
* Step Four: Document any Unfunded Portion

(i) **Step One: Decide How Much of the Cancellation Ceiling to Fund.**

(A) Step One A: Determine How Much of the Cancellation Ceiling is based on Recurring Costs. In [Chapter 6](#ch6), you estimated the cancellation ceiling based on nonrecurring and recurring costs. Refer to your working papers to obtain this dollar amount.

(B) Step One B: Determine How Much of the Cancellation Ceiling is based on Nonrecurring Costs. Obtain this dollar amount from the same working papers you referred to in Step One A. The sum of the numbers you derive in Steps One A and One B will equal the total amount of the cancellation ceiling.

(C) Step One C: Check the Governing Appropriations Act and Regulations. Do they require you to fund the EOQ advance procurement to the limits of the Government's liability? If so, you must fund the recurring cost portion of the cancellation ceiling. If not, you can choose whether to fund it. To make this decision, follow Step One D. You probably have the flexibility to decide whether to fund the nonrecurring cost portion of the cancellation ceiling. Verify this by reviewing the pertinent legislation and funding directives. If the choice is yours, Step One E will help you make the decision.

(D) Step One D: Decide Whether to Fund the Recurring Cost Portion. In making this decision, consider the following:

*(1)* The results of Step One C. If Congress mandates that this amount be funded, you must fund it. To do otherwise, you must obtain permission from the Congress in the Appropriations Act for the year in which your multi-year contract will be initiated. If [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) requires that this amount be funded, you must fund it unless you obtain a waiver to the policy, as prescribed by the directive. (If Congress requires this amount to be funded, the waiver to the DoD Regulation will be in addition to the special Appropriations Act language.)

(*2*) The mechanics of funding this amount (described in Step Two, below). Whether the amount of funding you expect to request and/or have for the contemplated multi-year procurement will be adequate to meet other funding requirements as well as this one.

(E) Step One E: Decide Whether to Fund the Nonrecurring Cost Portion of the Cancellation Ceiling. In making this decision, consider the following:

(*1*) The results of Step One C.

(*2*) The mechanics of funding this amount (described in Step Three, below).

(*3*) Whether the amount of funding you expect to request and/or have for the contemplated multi-year procurement will be adequate to meet other funding requirements as well as this one.

(ii) Step **Two: Fund the Recurring Cost Portion.** (if you decided to in Step One D)

(A) Step Two A: Fund the FirstYear Cancellation Ceiling. If the cancellation ceiling is for a cancellation occurring at the end of year one of a multi-year contract, you should:

*(1)* Include the recurring cost portion of the cancellation ceiling in the Advanced Funding Total on Exhibit MYP-4, Present Value Analysis, for year one of the multi-year contract, and

(*2*) Include this amount in the Advance Procurement funds requested for year one in your budget submission.

This means that you intend to have these funds appropriated for year one and ultimately committed, at the product division level, for their intended purpose.

(B) Step Two B: Fund the Second Year Cancellation Ceiling.

If the cancellation ceiling is for a cancellation occurring at the end of year two of a multi-year contract, you should fund this amount with the advance procurement dollars reserved the previous year to fund the recurring cost portion of the first cancellation ceiling. Because multi-year contracts are treated in their "entirety;" the *bona fide need* of the cancellation costs, if any, remains in the same year as the need for the product the contract was awarded to deliver. Therefore, reserve funds for this contingent liability as long as there is a potential cancellation charge.

*(1)* If the amount reserved in the first year was greater than the amount needed in this (the second) year, then it will completely fund the recurring cost portion of this year's cancellation ceiling. Any funds, which were reserved, but are no longer needed to cover potential cancellation costs, may be used for any purpose allowed by the appropriation, which provided the funding.

*(2)* If the amount reserved in the first year was less than the amount needed in this (the second) year (a highly unusual occurrence), then it will only partially fund the recurring cost portion of this year's cancellation ceiling, and the difference between the amount you need and the amount available from the year must be included in (i) the Advanced Funding on Exhibit MYP 4, Present Value Analysis, for year two of the multi-year contract, and (ii) the Advance Procurement funds requested for year two in your budget submission.

(C) Step Two C: Fund Subsequent Year Cancellation Ceilings.

For a cancellation ceiling that applies to a cancellation occurring at the end of the third or a subsequent year of the multi-year contract, follow the guidance in Step Two B. If you have a cancellation ceiling in the fourth year, consult with your supporting financial management office to ensure that funds previously reserved are still available for obligation.

(iii) Step **Three: Fund The Nonrecurring Cost Portion.** (if you decided to in Step One E)

(A) Step Three A: Fund the First Year Cancellation Ceiling.

For the cancellation ceiling that applies to a cancellation occurring at the end of year one of a multi-year contract, you should:

*(1)* Consult with your funding experts to determine whether to fund this with advance procurement or regular procurement dollars.

*(i)* If you decide to fund it with advance procurement dollars, include this amount in the Advanced Funding on Exhibit MYP-4, Present Value Analysis, for year one of the multi-year contract, and include this amount in the Advance Procurement funds requested for year one in your budget submission.

(*ii*) If you decide to fund it with regular procurement dollars, include this amount in the “Multi-year Proposal Gross" row in the first column of Exhibit MYP-4, Present Value Analysis, and include this amount in the regular Procurement funds requested for year one in your budget submission.

(*2*) Commit the funds for their intended purpose, once they are appropriated and have flowed down to the product division.

(B) Step Three B: Fund the Second Year Cancellation Ceiling.

For a cancellation ceiling that applies to a cancellation occurring at the end of the second year of the multi-year contract, you should:

*(1)* Use the same type of funds used in the previous year to fund this portion of the cancellation ceiling (i.e., either advance procurement or regular procurement dollars).

*(2)* If you are using advance procurement dollars, you may fund this amount with the advance procurement dollars reserved to fund the nonrecurring cost portion of the previous year's cancellation ceiling. The process applied in Step Two B applies here as well.

If you are using regular procurement dollars, you should include the nonrecurring cost portion of the cancellation ceiling in the "Multi-year Proposal Gross" row of the second column of Exhibit MYP-4, Present Value Analysis; and include this amount in the procurement funds requested for year two in your budget submission.

*Note: The regular procurement dollars reserved to fund the nonrecurring cost portion of the previous year's cancellation ceiling* *may fund subsequent year's ceilings as long as the bona fide need relates to the year of the appropriation. Once the reserved funds are no longer needed to fund potential cancellation charges they may be used for other purposes consistent with the law under which they were appropriated. If previous year's appropriation(s) are no longer available to fund cancellation ceilings, and a potential cancellation charge continues to exist, additional funds must be budgeted in a current appropriation so they may be reserved to cover the contingent liability.*

(C) Step Three C: Fund Subsequent Year Cancellation Ceilings.

For a cancellation ceiling that applies to a cancellation occurring at the end of the third or a subsequent year of the multi-year contract, follow the guidance in Step Three B.

(iv) Step **Four: Document Any Unfunded Portion.**

If you do not fund all or any portion of a cancellation ceiling, you should:

(A) Be aware that by not requesting the amount in your budget submission (and not including it in Exhibit MYP-4, Present Value Analysis), you are creating an unfunded contingent liability for the amount.

(B) Show the amount of the unfunded portion in the “Cancellation Ceiling" row on Exhibit MYP-2, Total Program Funding Plan. (This will be the unfunded portion of the first cancellation ceiling. If subsequent cancellation ceilings will also be totally or partially unfunded, put an asterisk beside your entry in the "Cancellation Ceiling” row and show in a footnote the unfunded amount associated with each subsequent year.)

(C) Obtain any required approvals, consistent with what you learned in Step One C.

**(e) MULTI-YEAR CONTRACT FUNDING CLAUSES.**

(1) Once it has been determined how to fund the contemplated multi-year contract, you should explain the funding approach in contract language that will become the parties' agreement regarding contract funding. Procedural details that are strictly of in-house (Government) interest need not be included in contract clauses. But the timing and amount of obligations are of prime interest to potential offerors and the contractor, as well as to the Government. The contract language regarding funding should take the form of two clauses. The first establishes the basic, statute-based approach to funding multi-year contracts. The second clause should provide the details of how much will be obligated at what times during the period of performance of the contract. The drafting of these clauses is covered in detail in [Chapter 12](#ch12) of this guide.

**(f) EXCEPTIONS TO THE FUNDING RULES.**

(1) The previous sections explained the general rules for funding multi-year contracts. But, as with most rules, exceptions can be made. Since the DoD Comptroller and the Congress review multi-year candidates and their funding requirements, it is possible to have them provide waivers or exceptions you may need to their policies and laws.

(2) [FAR 1.403](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/01.htm) authorizes agencies to grant one-time deviations to FAR policies, procedures, or clauses if it makes good business sense to tailor them to your situation; however, you will need Congressional approval for deviations to MYC funding requirements. The Congress can consider such requests either in conjunction with its evaluation of your multi-year candidate or after it has approved your multi-year candidate.

***Example***

**Congressional Exception**

One example is the Air Defense Aircraft, which was a potential FY 87 multi-year candidate. Section 108 of the FY 87 Authorization Act authorized the Secretary of the Air Force to award a multi-year contract for the purchase of Air Defense Aircraft, and included the following provision:

"(b) CANCELLATION CEILING. Subject to provisions of Appropriations Acts, the cancellation ceiling associated with the first year of a multi-year contract under subsection (a) may be carried as an unfunded contingent liability subject to section 2306c(d)(1) of title 10, United States Code.”

This language was included because the Air Force had let Congress know that the funding level expected for FY 87 would not be adequate to fund the cancellation ceiling for the first year of the multi-year contract.

**(g) REQUESTING NEEDED FUNDING IN THE BUDGET PROCESS**

(1) Once you have decided how much funding you need for each of the components of the multi-year contract, you can put them together in the form of Exhibit MYP-1 through MYP-4, which will support your budget request. Then you should provide for those funding levels in your budget submissions. You should follow the guidance in [DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf).

(2) During each budget cycle Air Staff provides instructions for submitting budget requests (e.g., “POM-Call Instructions”), which include instructions for indicating the funds you will need to execute a recommended multi-year procurement. Follow these instructions, and be sure that the numbers in the budget documentation are consistent with the numbers in your multi-year exhibits.

**CHAPTER 8**

**FEASIBILITY STUDY**

**THIS CHAPTER COVERS:**

**(a) CONDUCTING A MYC FEASIBILITY STUDY**

**(a) CONDUCTING A MYC FEASIBILITY STUDY**

(1) As mentioned in [Chapter 3](#ch3), paragraphs B.2 and B.3, the first step for any IPT that is contemplating the use of MYC is to conduct a feasibility study. The primary purpose of the feasibility study is to examine the elements of your program to determine if it satisfies all six criteria called out in [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html). [Chapter 1](#ch1), paragraph B.1 lists the criteria in detail, but they are summarized in the following questions:

(i) Will the use of MYC offer substantial savings not otherwise attainable with annual contracts?

(ii) Are the known requirements firm?

(iii) Is there a reasonable expectation of funding stability?

(iv) Is the design stable and are the technical risks low?

(v) Are the cost estimates and cost avoidance projections realistic?

(vi) Will the use of MYC promote the national security interests of the US?

(2) This feasibility study constitutes an important part of the acquisition planning for your program. It becomes the go/no-go decision point on making a significant time and manpower commitment to the multi-year process. The results should be well documented and, if appropriate, become part of the ASP presentation. If your program appears to be a strong candidate for MYC, the next step is to develop a formal MYC Justification Package. The next chapter provides guidance on how to prepare the package.

**CHAPTER 9**

**PREPARING A MULTI-YEAR JUSTIFICATION PACKAGE (MJP)**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) WHY YOU MUST JUSTIFY USING MYC ON YOUR PROGRAM**

**(b) HOW TO PREPARE A MULTI-YEAR JUSTIFICATION PACKAGE**

**(a) WHY YOU MUST JUSTIFY USING MYC ON YOUR PROGRAM**

(1) If your IPT has decided to propose the use of MYC based on the results of the feasibility study, an investment decision will be made. In the case of major multi-year contracts, the final decision maker is Congress. The investment involves appropriating additional millions of budget year dollars necessary to execute the recommended multi-year contract in the first year, and strongly influencing future Congresses to authorize and appropriate the amounts needed in each subsequent year of the multi-year contract.

(2) The decision maker requires certain information upon which to base this investment decision. Consequently, the IPT lead should prepare a MJP to provide that information. A package should be prepared that will convince the decision maker that investing in the recommended multi-year strategy will yield a sufficient return-on-investment.

(3) [[DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf)](http://www.defenselink.mil/comptroller/fmr/02b/Chapter04.pdf), prescribes MYC budget exhibits that will support a recommendation to use a multi-year contract to acquire a major weapon system. These same exhibits are also usually used to support other than major multi-year recommendations since they provide the basis for a sound business decision.

(4) A complete set of "MYC exhibits" constitutes a MJP. For major multi-year contracts, DoD sends the MJP to Congress in a budget support book that accompanies the President’s Budget for the year in which the recommended multi-year contract would start. In this way, the Congress is equipped to consider the recommended multi-year contract in conjunction with its deliberations on the overall DoD budget. Although not all multi-year contracts require direct Congressional approval, the fact that they are identified in the President’s Budget provides awareness to Congress of all recommended multi-year contracts.

**(b) HOW TO PREPARE A MULTI-YEAR JUSTIFICATION PACKAGE**

(1) See [DoD 7000.14-R, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf) and [DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf). Set forth below are excerpts from the referenced FMR.

(i) All multi-year procurements, regardless of cost, require the use of a Present Value Analysis (MYP-4) to determine lowest cost compared to an annual procurement. Exhibits MYP-1 through MYP-4 will be included for all MYP candidate systems in the program and budget review submission. The President’s budget request will include P-5a MYP-annotated entries for those multi-year programs not requiring congressional authority and Exhibits MYP-1 through MYP-4 for all multi-year candidate systems for which any of the following is true:

(A) The anticipated multi-year procurement contract is $500 million or greater.

(B) There are EOQ procurements in excess of $20 million in any one year.

(C) There are EOQ procurements in advance of an MYP contract in excess of $20 million in any one year.

(D) There will be an unfunded contingent liability in excess of $20 million in any one year.

(E) The procurement quantities of a previously approved MYP have been adjusted.

(2) If a system proposed for a multi-year contract includes more than one P-1 line item, prepare combined MYP-1 and MYP-2 exhibits. Prepare separate exhibits for the remaining MYP exhibit formats. All the exhibits associated with this system should be combined in one package, and submitted in numerical order, i.e., MYP-1, MYP-2, MYP-31, MYP-32, etc.

(3) If multiple MYPs are proposed for components of the same P-1 line item, prepare a separate set of exhibits for each. Note that the MYP-3 will be the same in each package.

(4) If a joint Service program is proposed for multi-year procurement, the executive Service is responsible for submission of all multi-year exhibits.

(5) Exhibits are to display actual fiscal years rather than the template years.

(6) Exhibits will be submitted in landscape format.

(7) See [DoD 7000.14, Volume 2A, Chapter 1](http://www.defenselink.mil/comptroller/fmr/02a/02a_01.pdf), Section 0102 for additional multi-year procurement guidance.

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Exhibit MYP-1, Multi-year Procurement Criteria (**[[DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf)](http://www.defenselink.mil/comptroller/fmr/02b/Chapter04.pdf)**)**

**Program**: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. **Multi-year Procurement Description**.

2. **Benefit to the Government.**

a. Substantial Savings

b. Stability of Requirement

c. Stability of Funding

d. Stable Configuration

e. Realistic Cost Estimates

f. National Security

3. **Source of Savings** $ in Millions

Inflation

Vendor Procurement

Manufacturing

Design/Engineering

Tool Design

Support Equipment

Other

Total

4. **Advantages of the MYP**

5. **Impact on Defense Industrial Base**

6. **Multi-year Procurement Summary** Annual Contracts Multi-year Contract

Quantity

Total Contract Price

Cancellation Ceiling (highest point)

Funded

Unfunded

$ Cost Avoidance Over Annual

% Cost Avoidance Over Annual

**Instructions - MYP-1, Multi-year Procurement Criteria**

Block 1. Multi-year Procurement Description. Provide a brief statement describing the multi-year procurement, i.e., this multi-year procurement will procure "x" number of units over "x" number of fiscal years by using one (or more) multi-year contract.

Block 2. Benefit to the Government. The process of deciding to use or not to use a multi-year procurement (MYP) for production programs, as well as how best to tailor and structure MYP requires management judgment. A multi-year procurement should yield substantial cost avoidance or other benefits when compared to conventional annual contracting methods. MYP structures with greater risk to the government should demonstrate increased cost avoidance or other benefits over those with lower risk. Savings can be defined as significant either in terms of dollars or percentage of total cost. This paragraph must include as a minimum the following narrative justification and data:

a. Substantial Savings. The use of a multi-year contract will result in substantial savings of the total anticipated costs of carrying out the program through annual contracts.

b. Stability of Requirement. The minimum need for the property to be purchased is expected to remain substantially unchanged during the contemplated contract period in terms of production rate, procurement rate, and total quantities. The item should be technically mature, have completed RDT&E (including development testing, or equivalent) and Initial Operational, Test and Evaluation (IOT&E), with relatively few changes in item design anticipated. Deliveries of production items will indicate that the underlying technology is stable. This does not mean that changes will not occur but that the estimated cost of such changes is not anticipated to drive total costs beyond the proposed funding profile.

c. Stability of Funding. There is a reasonable expectation that throughout the contemplated contract period, the head of the agency will request funding for the contract at the level required to avoid contract cancellation.

d. Stable Design. There is a stable design for the property to be acquired and the technical risks associated with such property are not excessive.

e. Realistic Cost Estimates. The estimates of the cost of the contract and the anticipated cost avoidance through the use of a multi-year contract are realistic. Estimates should be based on prior cost history for the same or similar items or proven cost estimating techniques. Normally, production assets should have been delivered in order to obtain actual costs for the comparisons (exceptions include satellites and ships).

f. National Security. Use of a multi-year contract will promote the national security of the United States.

Block 3. Source of Savings. Identify the detailed sources of savings, to include, as appropriate, inflation, vendor procurement, manufacturing, design/engineering, tool design, and support equipment. Each identified source of savings must include a narrative description of the specific savings, an estimate for that specific source and how the estimate was derived. The sum of the detailed sources of savings should equal the total savings.

Block 4. Advantages of the MYP. Identify the advantages the MYP will achieve and how they will achieve them. These advantages could include: production of items in EOQs, thereby resulting in lower costs; enhancement of standardization; reduction of administrative burden in the placement and administration of contracts; substantial continuity of production or performance, thus avoiding annual startup costs, pre-production testing costs, make-ready expenses, and phase-out costs; stabilization of contractor and subcontractor work forces; avoiding the need to establish quality control techniques and procedures for a new contractor each year; broadening the competitive base with opportunity for participation by firms not otherwise willing or able to compete for lesser quantities, particularly in cases involving high startup costs; providing incentives to contractors to improve productivity through investment in capital facilities, equipment, and advanced technology; enhancing partnering efforts between contractors/government and prime contractor/subcontractor; providing stable environment; and enhancing best commercial practices.

Block 5. Impact on Defense Industrial Base. The MYP justification should include a narrative that addresses the impact of the MYP on the industrial base in terms of both the prime contractor and the vendors/subcontractors, to include the, improvement in vendor skills, training programs, use of multi-year contractors (vendors), and increased production capacity.

Block 6. Multi-year Procurement Summary. List all comparisons from the MYP exhibits. The Department's policy is to not have unfunded cancellation ceilings; however, if a program is structured with an unfunded cancellation, reflect those costs on this exhibit and explain fully why the program must be structured with one.

|  |  |
| --- | --- |
| Exhibit MYP-2, Total Program Funding Plan | Date |
| Appropriation (Treasury) Code/CC/BA/BSA/Item Control No | P-1 Line Item Nomenclature |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | BY 1 | BY 2 | BY 2+1 | BY 2+2 | BY 2+3 | BY 2+4 | BY 2+5 | BY 2+6 | BY 2+7 | Total |
| **Procurement Quantity** |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Annual Procurement** |  |  |  |  |  |  |  |  |  |  |
| Gross Cost |  |  |  |  |  |  |  |  |  |  |
| Less PY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Net Procurement (=P-1) |  |  |  |  |  |  |  |  |  |  |
| Plus CY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Weapon System Cost |  |  |  |  |  |  |  |  |  |  |
| **Multi-year Procurement** |  |  |  |  |  |  |  |  |  |  |
| Gross Cost (P-1) |  |  |  |  |  |  |  |  |  |  |
| Less PY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Net Procurement (=P-1) |  |  |  |  |  |  |  |  |  |  |
| Advance Procurement |  |  |  |  |  |  |  |  |  |  |
| For BY 1 |  |  |  |  |  |  |  |  |  |  |
| For BY 2 |  |  |  |  |  |  |  |  |  |  |
| For BY 2+1 |  |  |  |  |  |  |  |  |  |  |
| For BY 2+2 |  |  |  |  |  |  |  |  |  |  |
| For BY 2+3 |  |  |  |  |  |  |  |  |  |  |
| Plus CY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Weapon System Cost |  |  |  |  |  |  |  |  |  |  |
| **Multi-year Savings ($)** |  |  |  |  |  |  |  |  |  |  |
| Multi-year Savings (%) (total only) |  |  |  |  |  |  |  |  |  |  |
| Cancellation Ceiling – Funded |  |  |  |  |  |  |  |  |  |  |
| Cancellation Ceiling – Unfunded |  |  |  |  |  |  |  |  |  |  |
| **Outlays** |  |  |  |  |  |  |  |  |  |  |
| Annual |  |  |  |  |  |  |  |  |  |  |
| Multi-year |  |  |  |  |  |  |  |  |  |  |
| Savings |  |  |  |  |  |  |  |  |  |  |
| Remarks: Explain assumptions (outlay rate, contractor termination liability, other – explain what’s behind the numbers). |  |  |  |  |  |  |  |  |  |  |

**Exhibit MYP-2, Total Program Funding Plan (**[[DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/Chapter04.pdf)](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf)**)**

**Instructions - MYP-2, Total Program Funding Plan**

This chart will compare the funding for the annual proposal and the multi-year proposal. If there are multiple MYPs proposed for the same line item, the annual program should reflect only annual procurements and the multi-year program should reflect funding for all the proposed multi-year programs. Compare the same number of procurement years and same quantity in each year for the annual proposal and for the multi-year proposal. Explain the categories of costs included in the cancellation ceiling. Use as many columns as necessary to display outlays until liquidated. Use the same number of years for both annual and multi-year contract.

2

|  |  |
| --- | --- |
| Exhibit MYP-3, Contract Funding Plan | Date |
| Appropriation (Treasury) Code/CC/BA/BSA/Item Control No | P-1 Line Item Nomenclature |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | BY 1 | BY 2 | BY 2+1 | BY 2+2 | BY 2+3 | BY 2+4 | BY 2+5 | BY 2+6 | BY 2+7 | Total |
| **Procurement Quantity** |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Annual Procurement** |  |  |  |  |  |  |  |  |  |  |
| Gross Cost |  |  |  |  |  |  |  |  |  |  |
| Less PY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Net Procurement (= P-1) |  |  |  |  |  |  |  |  |  |  |
| Plus CY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Contract Price |  |  |  |  |  |  |  |  |  |  |
| **Multi-year Procurement** |  |  |  |  |  |  |  |  |  |  |
| Gross Cost (P-1) |  |  |  |  |  |  |  |  |  |  |
| Less PY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Net Procurement (= P-1) |  |  |  |  |  |  |  |  |  |  |
| Advance Procurement |  |  |  |  |  |  |  |  |  |  |
| For BY 1 |  |  |  |  |  |  |  |  |  |  |
| For BY 2 |  |  |  |  |  |  |  |  |  |  |
| For BY 2+1 |  |  |  |  |  |  |  |  |  |  |
| For BY 2+2 |  |  |  |  |  |  |  |  |  |  |
| For BY 2+3 |  |  |  |  |  |  |  |  |  |  |
| Plus CY Adv Procurement |  |  |  |  |  |  |  |  |  |  |
| Contract Price |  |  |  |  |  |  |  |  |  |  |
| **Multi-year Savings ($)** |  |  |  |  |  |  |  |  |  |  |
| Multi-year Savings (%) (total only) |  |  |  |  |  |  |  |  |  |  |
| Cancellation Ceiling – Funded |  |  |  |  |  |  |  |  |  |  |
| Cancellation Ceiling – Unfunded |  |  |  |  |  |  |  |  |  |  |
| **Outlays** |  |  |  |  |  |  |  |  |  |  |
| Annual |  |  |  |  |  |  |  |  |  |  |
| Multi-year |  |  |  |  |  |  |  |  |  |  |
| Savings |  |  |  |  |  |  |  |  |  |  |
| Remarks: Explain assumptions (outlay rate, contractor termination liability, other – explain what’s behind the numbers). |  |  |  |  |  |  |  |  |  |  |

**Exhibit MYP-3, Contract Funding Plan (**[[DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf)](http://www.defenselink.mil/comptroller/fmr/02b/Chapter04.pdf)**)**

**Instructions - MYP-3, Contract Funding Plan**

This chart will compare the funding for the annual proposal and the multi-year proposal for the multi-year contract. Compute savings for the same number of procurement years and same quantity in each year under an annual proposal and under a multi-year proposal. Explain the categories of costs included in the cancellation ceiling. Use as many columns as necessary to display outlays until liquidated. Use the same number of years for both annual and multi-year contract. The Services and Defense Agencies should perform an independent analysis of the cost and benefits of the contractor's proposal. Explain assumptions (outlay rate, contractor termination liability, other - explain what's behind the numbers). The total TOA difference on this chart will agree with the cost avoidance over annual line on Exhibit MYP-2 for each MYP contract. The Department's policy is to not have unfunded cancellation ceilings; however, if a program is structured with an unfunded cancellation, reflect those costs on this exhibit and explain fully why the program must be structured with one.

An exception, to be approved by the USD Comptroller, is needed to structure a contract with an unfunded cancellation ceiling. Justification explaining why an unfunded cancellation ceiling is the chosen acquisition strategy should be provided. This justification should specify what costs comprise the unfunded cancellation ceiling and why these costs are not funded under the full funding policy.

Funds obligated for multi-year contracts must be sufficient to cover any potential termination costs. The costs of cancellation or termination may be paid from (1) appropriations originally available for the performance of the contract concerned; (2) appropriations currently available for procurement of the type of property concerned, and not otherwise obligated; or (3) funds appropriated for those payments.

|  |  |
| --- | --- |
| Exhibit MYP-4, Present Value Analysis | Date |
| Appropriation (Treasury) Code/CC/BA/BSA/Item Control No | P-1 Line Item Nomenclature |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | BY 1 | BY 2 | BY 2+1 | BY 2+2 | BY 2+3 | BY 2+4 | BY 2+5 | BY 2+6 | BY 2+7 | Total |
| **Annual Proposal** |  |  |  |  |  |  |  |  |  |  |
| Then Year Cost |  |  |  |  |  |  |  |  |  |  |
| Constant Year Cost |  |  |  |  |  |  |  |  |  |  |
| Present Value |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Multi-year Procurement** |  |  |  |  |  |  |  |  |  |  |
| Then Year Cost |  |  |  |  |  |  |  |  |  |  |
| Constant Year Cost |  |  |  |  |  |  |  |  |  |  |
| Present Value |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Difference** |  |  |  |  |  |  |  |  |  |  |
| Then Year Cost |  |  |  |  |  |  |  |  |  |  |
| Constant Year Cost |  |  |  |  |  |  |  |  |  |  |
| Present Value |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Remarks: (outlay rate, contractor termination liability, other – explain what’s behind the numbers). |  |  |  |  |  |  |  |  |  |  |

**Exhibit MYP-4, Present Value Analysis (**[[DoD 7000.14-R, Volume 2B, Chapter 4](http://www.defenselink.mil/comptroller/fmr/02b/02b_04.pdf)](http://www.defenselink.mil/comptroller/fmr/02b/Chapter04.pdf)**)**

**Instructions - MYP-4, Present Value Analysis**

This exhibit will be prepared for the contract values. Then year costs will agree with the outlay amounts contained on MYP-3. Constant costs will be expressed in budget year costs unless specified otherwise in the memorandum requesting submission of the budget. Compute savings for the same number of procurement years and same quantity in each year under an annual proposal and under a multi-year proposal. Present value analysis will be calculated in accordance with [DoD Instruction 7041.3](http://www.dtic.mil/whs/directives/corres/html/704103.htm) and [OMB Circular A-94](http://clinton3.nara.gov/OMB/circulars/a094/a094.html).

**CHAPTER 10**

**INITIAL FINDING**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) WHY YOU NEED APPROVAL OF INITIAL FINDING**

**(b) HOW TO PREPARE THE INITIAL FINDING**

**(c) HOW TO DETERMINE WHO MUST APPROVE THE INITIAL FINDING**

**(d) HOW TO OBTAIN THE NEEDED APPROVAL**

**(e) WHEN TO PROCEED WITH REQUEST FOR PROPOSAL (RFP)/INVITATION**

**FOR BID (IFB) RELEASE**

**(a) WHY YOU NEED APPROVAL OF INITIAL FINDING**

(1) The first of two required savings validations is called an “Initial Finding.” Approval of the initial MYC finding is required prior to release of a formal RFP or IFB. Approval of the initial MYC finding indicates that:

(i) required funding is available,

(ii) required support information is documented, and

(iii) the criteria in [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html) and [FAR 17.106-2(a)](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) are met.

**(b) HOW TO PREPARE THE INITIAL FINDING**

(1) Prepare a one-page finding as shown in Attachment 1 and attach the Initial Finding.

The format can be adapted to fit the needs of your program.

**(c) HOW TO DETERMINE WHO MUST APPROVE THE INITIAL FINDING**

(1) The approval level of the Initial Finding depends on many factors such as:

(i) the dollar amount of Unfunded Contingent Liability (UCL);

(ii) the dollar amount of EOQ;

(iii) the dollar amount of the total contract; and

(iv) whether it is a “PEO” program or “Other Contracting.”

**(d) HOW TO OBTAIN THE NEEDED APPROVAL**

(1) Depending on the type of multi-year and the approval level, the approval process can take one of three different paths. These paths are as follows:

(i) Forwarded to SAF/AQC for approval by SAF/AQC or SAF/AQ,

(ii) Forwarded to HCA for approval, or

(iii) Forwarded to designee of Head of Contracting Activity (HCA).

(2) These are general guidelines for submitting the Initial Finding for approval prior to RFP/IFB release. However, we realize that each program is unique and these guidelines can be adapted to fit the needs of your program.

(i) Step **One:** Send the Initial Finding to appropriate staff office with a cover letter signed by the program manager and contracting officer that contains the following information:

(A) A statement of your intention to release a multi-year RFP/IFB.

(*1*) Identify what is being acquired under the contract.

(*2*) Identify the intended date of release and why this date is necessary or important.

(B) A statement of the amount of projected multi-year savings (in dollars and as a percent).

(C) A statement of your belief that requesting the multi-year contract is in the best interest of the Government because it meets the multi-year criteria and is a sound fiscal business decision.

(D) A request that the Initial Finding be signed by the appropriate approval authority.

(E) A request that you be notified of and provided with a copy of the approved Initial Finding as soon as possible.

(ii) Step **Two:** Inform the staff office focal point that the letter is on its way.

(iii) Step **Three:** Verify that the letter has been received.

(iv) Step **Four:** Check on the status and ensure that the people involved understand the importance of the requested release date. Maintain an open and active dialogue throughout the approval process.

(v) Step **Five:** Verify (preferably with actual signed copy) that Initial Finding has been approved and whether there are any conditions to the approval that may affect release of RFP/IFB. Provide a copy of all approved initial findings (including exhibits) to SAF/AQC for information.

**(e) WHEN TO PROCEED WITH RFP/IFB RELEASE**

You may proceed with RFP/IFB release upon confirmation of an approved Initial Finding and after complying with any conditions of the approval. The HCA may allow early RFP release, if in the best interest of the Government, and if all other pre-solicitation requirements have been met.

**CHAPTER 11**

**CONTRACT LINE ITEM NUMBER (CLIN) STRUCTURE**

**THIS CHAPTER COVERS:**

**(a) HOW TO DEVELOP A CLIN STRUCTURE FOR A MULTI-YEAR CONTRACT**

**(b) CLIN STRUCTURE AND ADVANCE PROCUREMENT AND EOQ SPECIAL CONTRACT REQUIREMENTS (SCRs)**

**(c) HOW TO ENSURE THE REST OF THE CONTRACT IS CONSISTENT WITH**

**YOUR CLIN STRUCTURE.**

**(a) HOW TO DEVELOP A CLIN STRUCTURE FOR A MULTI-YEAR CONTRACT**

(1) General **Guidelines**. The FAR does not direct how multi-year contract CLINs are to be structured. Any approach is acceptable as long as it meets the basic rules for construction of CLINs in [DFARS 204.71](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars204.htm" \l "P1348_44075) and is within the general guidelines described below. The circumstances of the acquisition will determine what and how many CLINs are to be included in the solicitation and contract. However, the following general guidelines apply whether you will be using an EOQ multi-year contract or a Non-EOQ multi-year contract.

(i) The CLIN structure should be integrated with cancellation, funding, and other clauses and SCRs explaining how the CLINs are intended to work.

(ii) Research, Development, Test and Evaluation (RDT&E) CLINs should be clearly excepted from the multi-year label and the operation of the multi-year clauses as multi-year procurement does not apply to RDT&E.

(iii) Do not use the term “advance-buy” or “advance procurement” in both the annual-buy and multi-year contexts. It has too much potential for confusing people, particularly in a solicitation that requests both annual-buy and multi-year proposals. Instead, consistently use “long lead” in the annual-buy context and “advance procurement” and/or “EOQ” in the multi-year context. (This guideline should befollowed throughout the contractual document.) The reasons for this guideline are that:

(A) The only form of advance procurement authorized on an annual-buy contract is long lead*.* [AFFARS 5317.7402](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/5317.htm) establishes policies and procedures for long lead contracting.

(B) A multi-year contract may involve two forms of Advance procurement:

(*1*) Long lead advance procurement, necessary to meet a planned production delivery schedule, and/or;

(*2*) EOQ advance procurement, unique to multi-year contracts, which is undertaken for the purpose of reducing the cost of production end items (i.e. to save money).

In a multi-year contract involving both long lead and EOQ requirements, long lead can usually be accommodated within the EOQ acquisitions done early in the multi-year contract. Hence, EOQ tends to be the dominant form of advance procurement in the EOQ multi-year contract.

(iv) The CLINs should be structured so the associated costs can be readily identified and segregated to provide fiscal year integrity. Each fiscal year requirement must stand on its own and the funds for each fiscal year, with the exception of no year funds, must be separately accounted for and not intermingled.

(2) Developing **a CLIN Structure**

This subsection will take you through the following steps to develop a CLIN structure for your multi-year solicitation and resulting contract:

* Step One: Develop a Table of Requirements
* Step Two: Develop the CLINs
* Step Three: Verify That Your CLIN Structure Accurately Reflects Requirements and Funding Constraints

(i) Step **One: Develop a Table of Requirements**

On a plain sheet of paper, before thinking in terms of CLINs andrules, construct a "Table of Requirements" similar to Figure 11.A. The purpose of this table is to help you determine how best to organize the items you are buying for purposes of appropriate funding andcontract line item layout. Generally, you will find that no two items in Column (A) of Figure 11.A may be combined into a single CLIN or SubCLIN if they do not have the same entries in Columns (B) through (D). In other words, a single CLIN or SubCLIN should be created for items associated with the same program year requirement and the same fund citation (or at least funds that are expected to become available at the same time).

**Table of Requirements**

(A) (B) (C) (D) (E)

Considered a Must be Funded Required Funds

What I Need Requirement of with Expected to Become Anticipated

to Buy Program Year Year Type Available Pricing\*

Optimistic Pessimistic

\* A single unit price; a single total price or amount; not separately priced.

**Figure 11.A**

(ii) Step **Two: Develop the CLINs**

What drives your CLIN structure is your frame of reference. How do you view what you are buying? What is the most useful frame of reference to establish for those who will submit proposals and those who will later administer the contract? Since this is a multi-year contract, production requirements of the second and subsequent program years must not be option CLINs. The Government is committing to buy those production quantities at the outset.

(A) You basically have three alternatives. You can group what you are buying by:

(*1*) Funding Year. (See EXAMPLE #1).

(*i*) All Advance Procurement being initiated and funded in FY XX is carried under the same FY XX CLIN.

(*ii*) Production of FY XX end items, which are fully funded in FY XX, is also carried under the FY XX CLIN.

(*2*) FY Requirements. (See EXAMPLE #2).

(*i*) All Advance Procurement effort contributing to production of FY XX end items is carried under the FY XX Production CLIN.

(*ii*) FY XX Production is also a SubCLIN under the FY XX Production CLIN.

(*3*) What is Being Bought. (See EXAMPLE #3).

(*i*) All advance procurement effort is under an advance procurement CLIN.

(*ii*) All production is under either one production CLIN or separate, production-only CLINs.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CONTRACT FUNDING PLAN**  **Program XY Launch Vehicles (XYLVs) (FY97 - FY00)**  (Dollars in Millions) | | | | | | |
|  |  |  |  |  |  |  |
|  | FY96 | FY97 | FY98 | FY99 | FY00 | TOTAL |
| QUANTITY |  | 18 | 18 | 18 | 16 | 70 |
|  |  |  |  |  |  |  |
| MULTI-YEAR | PROPOSAL |  |  |  |  |  |
| Gross |  | 1,173.5 | 1,182.5 | 1,046.7 | 896.9 | 4,299.6 |
| Less Adv Proc |  | 234.4 | 352.1 | 342.1 | 283.6 | 1,212.2 |
| Net Request |  | 939.1 | 830.4 | 704.6 | 613.3 | 3,087.4 |
|  |  |  |  |  |  |  |
| Adv Procurement |  |  |  |  |  |  |
| For FY97 | 234.4 |  |  |  |  | 234.4 |
| For FY98 | 60.4 | 291.7 |  |  |  | 352.1 |
| For FY99 | 41.9 | 92.5 | 207.7 |  |  | 342.1 |
| For FY00 | 28.9 | 64.3 | 32.8 | 157.6 |  | 283.6 |
|  |  |  |  |  |  |  |
| Total Adv Proc | 365.6 | 448.5 | 240.5 | 157.6 | 0.0 | 1,212.2 |
|  |  |  |  |  |  |  |
| Total MY Cost | 365.6 | 1,378.6 | 1,070.9 | 862.2 | 613.3 | 4,299.6 |
| Savings | -126.8 | -144.6 | +141.2 | +213.1 | +179.1 | +262.0 |

**Figure 11.B**

(B) The next few pages contain three examples of CLIN structures that could be used to accomplish the same multi-year acquisition. All three examples are based on the multi-year contract described in Figure 11.B which is summarized below:

(*1*) It will buy a total of 70 XYLVs during the four-year period from FY97 through FY00.

(*2*) The program office plans to acquire some related research and development effort under the same contract.

(*3*) The program office also wants to be able to buy a reprocurement data package since future requirements (in years following those covered by the multi-year contract) may be subjected to competition.

These examples show a MYC “with everything in it;” long lead advance procurement, EOQ advance procurement, and fully funded production. If your MYC does not involve long lead or EOQor both, tailor out the CLINs and SubCLINs for those efforts, and only use the portions of the example that pertains to your MY Program.

*Note: If you plan to award a Non‑EOQ multi-year contract that involves long lead advance procurement, you will have to: (1) provide for including recurring costs in the cancellation ceiling and (2) tailor the cancellation and funding clauses as described in* [*Chapter 12*](#ch12)*. These actions and revisions will, of course, be limited to long lead and will not mention EOQ.*

***Notes for Following Examples #1, 2, and 3***

(1) The title of all multi-year clauses and SCRs will be followed by a parenthetical applicabilitystatement. In this example, that statement would be "Not applicable to CLINs 0001 and 0007.”

(2) This R&D effort is a CLIN rather than anOption CLIN because it is being initiated at award, in 1996. The reprocurement datais carried under an Option CLIN because: (a) it is not part of the production effort covered by the MYC authority; and (b) it is a potential rather than a firm requirement, as of the time of award.

(3) All CLINs and SubCLINs for production of XYLVs are basic rather than Option CLINs. Given the authority to award a multi-year contract, the Government has a firm requirement for all 70 XYLVs ‑ the units ­associated with the secondand subsequent years are not, treated as options.

(4) The "Info CLIN" can be thought of as a category heading or title. All SubCLINs under the Info CLIN fit into that category. Thus, since Info CLIN 0002 is " FY 97 XYLVs," all 0002 SubCLINs feed into or are a part of the FY 97 XYLVs. No price or delivery schedule needs to be associated with the Info CLIN as a whole; instead, a price is assigned to each SubCLIN.

(5) The price of each advance procurement SubCLIN establishes the amount the Government will obligate when that SubCLIN is funded. As explained in the SCR you will write entitled "Advance Procurement,” the price of the advance procurement SubCLINs are part of, and not in addition to, the price of the related end item SubCLIN. For example, the price of 0002AC is the actual price of the 18 XYLVs. When SubCLIN 0002AC is funded, the Government will need to obligate the 0002AC price less the amount previously obligated for 0002AA and 0002AB. Then SubCLIN 0002AC is fully funded, and the prices of SubCLINs 0002AA and 0002ABbecome moot. To ensure this is understood by offerors, CLIN descriptive datamust either explain it or refer to the SCR that explains it*.* (See paragraph B, “Develop Contract Language to Explain the Relationship between Advance Procurement CLINs and End Item CLINs.”)

(6) SubCLIN structure is not applicable to multiple funded CLINs (sublines).

**Figure 11.C**

**EXAMPLE NO. 1:**

**Group by Funding Year**

Item No. Supplies/Services Quantity Unit Unit Amt Notes

Price

0001 CLIN Research & Development 1 LO (1)(2)

(3600)

0002 Info CLIN FY96 Effort on (3)(4)

Multi-year Production of XYLVs

0002AA SubCLIN FY96 EOQ Effort to 1 LO (5)

Support FY97 Production

0002AB SubCLIN FY96 EOQ Effort to 1 LO (5)

Support FY98 Production

0002AC SubCLIN FY96 EOQ Effort to 1 LO (5)

Support FY99 Production

0002AD SubCLIN FY96 EOQ Effort to 1 LO (5)

Support FY00 Production

0003 Info CLIN FY97 Effort on (3)(4)

Multi-year Production of XYLVs

0003AA SubCLIN FY97 EOQ Effort to 1 LO (5)

Support FY98 Production

0003AB SubCLIN FY97 EOQ Effort to 1 LO (5)

Support FY99 Production

0003AC SubCLIN FY97 EOQ Effort to 1 LO (5)

Support FY00 Production

0003AD SubCLIN FY97 Long Lead Effort 1 LO (5)

to Support FY98 Production

0003AE SubCLIN Production of FY97 18 EA (3)

XYLVs

**EXAMPLE NO. 1 (cont):**

**Group by Funding Year**

Item No. Supplies/Services Quantity Unit Unit Amt Notes

Price

0004 Info CLIN FY98 Effort on Multi­

year Production of XYLVs (3)(4)

0004AA SubCLIN FY98 EOQ Effort to 1 LO (5)

Support FY99 Production

0004AB SubCLIN FY98 EOQ Effort to 1 LO (5)

Support FY00 Production

0004AC SubCLIN FY98 Long Lead Effort 1 LO (5)

to Support FY00 Production

0004AD SubCLIN Production of FY98 18 EA (3)

XYLVs

0005 Info CLIN FY99 Effort on MY (3)(4)

Production on XYLVs

0005AA SubCLIN FY99 EOQ effort to 1 LO (5)

Support FY00 Production

0005AB SubCLIN FY99 Long Lead Effort 1 LO (5)

to Support FY99 Production

0005AC SubCLIN Production of FY99 XY 18 EA (3)

Lvs

0006 CLIN Production of FY00 XYLVs 16 EA (3)

0007 CLIN Data & Reports ‑ Prod 1 LO

0008 Option CLIN Reprocurement Data 1 LO (1)(2)

**EXAMPLE NO. 2:**

**Group by FY Requirements**

Item No. Supplies/Services Quantity Unit Unit Amt Notes

Price

0001 CLIN Research and 1 LO (1)(2)

Development (3600)

0002 Info CLIN FY97 XYLVs (3)(4)

0002AA SubCLIN FY96 Long Lead 18 LO (5)

Effort to Support Production

of FY97 XYLVs

0002AB SubCLIN FY96 EOQ Effort to 18 LO (5)

Support Production of FY97

0002AC SubCLIN Production of FY97 18 EA (3)

XYLVs

0003 Info CLIN Launch Vehicles (3)(4)

0003AA SubCLIN FY97 Long Lead 18 LO (5)

Effort to Support Production

of FY98 XYLVs

0003AB SubCLIN FY96 EOQ Effort to 18 LO (5)

Support Production of FY98

XYLVs

0003AC SubCLIN FY97 EOQ Effort 18 LO (5)

to Support Production of

FY98 XYLVs

0003AD SubCLIN Production of FY98 18 EA (3)

XYLVs

0004 Info CLIN FY99 XY Launch (3)(4)

Vehicles

0004AA SubCLIN FY98 Long Lead 18 LO (5)

Effort to Support Prod of

FY99 XYLVs

0004AB SubCLIN FY96 EOQ Effort 18 LO (5)

to Support Production of

FY99 XYLVs

**EXAMPLE NO. 2 (cont):**

**Group by FY Requirements**

Item No. Supplies/Services Quantity Unit Unit Amt Notes

Price

0004AC SubCLIN FY97 EOQ Effort 18 LO (5)

to Support Production of

FY99 XYLVs

0004AD SubCLIN FY98 EOQ Effort 18 LO (5)

to Support Production of

FY99 XYLVs

0004AESubCLIN Production of FY99 18 EA (3)

XYLVs

0005 Info CLIN FY00 XY Launch Vehicle (3)(4)

0005AA SubCLIN FY99 Long Lead 16 LO (5)

Effort to Support Production

of FY00 XYLVs

0005AB SubCLIN FY96 EOQ Effort 16 LO (5)

to Support Production of

FY99 XYLVs

0005AC SubCLIN FY97 EOQ Effort 16 LO (5)

to Support Production of

FY99 XYLVs

0005AD SubCLIN FY98 EOQ Effort 16 LO (5)

to Support Production of

FY99 XYLVs

0005AE SubCLIN FY99 EOQ Effort 16 LO (5)

to Support Production of

FY99 XYLVs

0005AF SubCLIN Production of FY00 16 EA (3)

XYLVs

0006 CLIN Data and Reports ‑ 1 LO

Productions

0007 Option CLIN Reprocurement 1 LO (1)(2)

Data

**EXAMPLE NO. 3:**

**Grouped By What is Being Bought**

Item No. Supplies/Services Quantity Unit Unit Amt Notes

Price

0001 CLIN Research & Development 1 LO (1)(2)

0002 Info CLIN FY96 Advance (3)(4)

Procurement for Multi-year

XYLV Production

0002AA SubCLIN FY96 EOQ Effort to 18 LO (5)

Support FY97 Production

(0006AA)

0002AB SubCLIN FY96 EOQ Effort to 18 LO (5)

Support FY98 Production

(0006AB)

0002AC SubCLIN FY96 EOQ Effort to 18 LO (5)

Support FY99 Production

(0006AC)

0002AD SubCLIN FY96 EOQ Effort to 16 LO (5)

Support FY00 Production

(0006AD)

0002AE SubCLIN FY96 Long Lead Effort 18 LO (5)

Support FY97 Production

(0006AA)

0003 Info CLIN FY97 Advance (3)(4)

Procurement for Multi-year

LV Production

0003AA SubCLIN FY97 EOQ Effort to 18 LO (5)

Support FY98 Production

(0006AB)

0003AB SubCLIN FY97 EOQ Effort to 18 LO (5)

Support FY99 Production

(0006AC)

0003AC SubCLIN FY98 EOQ Effort to 18 LO (5)

Support FY00 Production

(0006AD)

**EXAMPLE NO. 3 (cont):**

**Grouped By What is Being Bought**

Item No. Supplies/Services Quantity Unit Unit Amt Notes

Price

0003AD SubCLIN FY97 Long Lead Effort 18 LO (5)

to Support FY98 Production

(0006AB)

0004 Info CLIN FY98 Advance (3)(4)

Procurement for Multi-year LV Production

0004AA SubCLIN FY98 EOQ Effort to 18 LO (5)

Support FY99 Production

(0006AC)

0004AB SubCLIN FY99 EOQ Effort to 18 LO (5)

Support FY00 Production

(0006AD)

0004AC SubCLIN FY98 Long Lead Effort 18 LO (5)

to Support FY99 Production

(0006AC)

0005 Info CLIN FY99 Advance (3)(4)

Procurement for Multi-year LV Production

0005AA SubCLIN FY99 EOQ Effort to 18 LO (5)

Support FY00 Production

(0006AD)

0005AB SubCLIN FY99 Long Lead Effort 18 LO (5)

to Support FY00 Production

(0006AD)

0006 Info CLIN 70 XY Launch Vehicles (3)(4)

0006AA Production of FY97 XYLVs 18 EA (3)

0006AB Production of FY98 XYLVs 18 EA (3)

0006AC Production of FY99 XYLVs 18 EA (3)

0006AD Production of FY00 XYLVs 16 EA (3)

0007 CLIN Data and Reports Production 1 LO

0008 Option CLIN Reprocurement Data 1 LO (1)(2)

(iii) **Step Three: Verify That Your CLIN Structure Accurately Reflects Requirements And Funding Constraints.**

Obtain a copy of the latest version of the program's Exhibit MYP-3,Contract Funding Plan. Verify that the copy you have accurately reflects the program's official requirements and funding expectations. This Contract Funding Plan is supposed to reflect:

(A) the quantity of end items required in each year;

(B) the years in which advance procurement is to be performed; and

(C) the enditems that are to benefit from the advance procurement effort.

Your CLIN structure should reflect the same things.

**(b) CLIN STRUCTURE AND ADVANCE PROCUREMENT AND EOQ SCRS**

(1) If the contemplated multi-year contract involves any advance procurement, then the advance procurement CLINs (or SubCLINs) must refer to a SCR that explains how they relate to the associated production end item CLINs.

***Example***

**Sample Advance Procurement SCR**

a. Items [identify AP CLINs and/or SubCLINs] require advance procurement of supplies and services needed to produce deliverable end items, as follows:

Contribute to the Production

of the End Items Required

This Adv Proc SubCLIN by this Production SubCLIN

0001AA 0001AB

0002AA 0002AB

0003AA 0003AB

b. It is not contemplated that deliveries will be made under the advance procurement SubCLINs. When the Government funds the production SubCLIN to which the advance procurement SubCLIN relates, then all work performed, funds obligated, costs incurred, and payments are made under the related production SubCLIN.

c. If the Government funds an advance procurement SubCLIN and then cancels the related production SubCLIN, the parties will negotiate the amount to be paid the Contractor for the advance procurement effort performed, which will be part of the cancellation charge determined and payable under clause [FAR 52.217-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm), "Cancellation Under Multi-year Contracts."

(2) There is one more SCR you should consider including in Section H regarding segregation of costs associated with performance of advance procurement CLINs. EOQ effort by itself does not result in a whole acquisition/program end item. EOQ CLINs are a means of funding and starting work on an end item until full funding for that item is received. Since EOQ costs become part of the end item cost, it is important to keep the EOQ costs segregated to prevent potential double billing by the contractor. A sample clause to accomplish this would read as follows:

***Example***

**Sample EOQ SCR**

“The total amount of dollars set forth for EOQ CLINs 0001AA, 0001AB, 0001AC, 0003AA, 0003AB, and 0005 are (insert type of appropriation for each fixed price) amounts. The contractor will segregate all costs incurred in performance of these EOQ CLINs. The Contract's cost segregationwill be in sufficient detail so that all work performed, cost incurred, and payments made under each EOQ are clearly identified with that EOQ CLIN/SubCLIN.

Upon full funding of the related production CLIN/SubCLIN, the contractor will (1) maintain the integrity of its data and records on each EOQ CLIN/SubCLIN and (2) treat the total work performed and costs incurred and payments made under the EOQ CLIN/SubCLIN as part of the related production CLIN/SubCLIN.”

**(c) HOW TO ENSURE THE REST OF YOUR CONTRACT IS CONSISTENT WITH THE CLIN STRUCTURE**

(1) The CLINs in Section B of the contract, together with the sample Advance Procurement SCR and sample EOQ SCRs constitute your “CLIN Structure.” However, you must look at the rest of the contract to ensure the document is internally consistent.

(2) Review **Section C.** Section Cshould separately describe advance procurement requirements. It should state what the contractor is required to make or buy and what efforts the contractor is to perform. If both long lead and EOQ are involved, separate descriptions may be necessary. Section C should refer to separate contract attachments that list the long lead and/or EOQ items to be made or bought by the contractor.

(3) Review **Section E.** For each advance procurement CLIN or SubCLIN, Section E should provide a reference to the SCR that explains how the advance procurement CLINs will be treated. Section E should not provide inspection and acceptance details for advance procurement CLINs, since they are not to be separately delivered, inspected, or accepted.

(4) Review **Section F.** For each advance procurement CLIN or SubCLIN, Section F should provide a reference either to the associated end item CLIN or to the SCR (advance procurement) that explains how the advanceprocurement CLINs will be treated. Make sure Section F does not establish a delivery or completion date for advance procurement CLINs or SubCLINs.

(5) Review **Section H.** SCRs explaining treatment of advance procurement CLINs and funding should appear in Section H: "Limitation of Price and Contractor Obligation” and “Multi-year Contract Funding" (explained in Chapters 7 and 12).

(6) Review **Section I.** The other clauses necessary for your multi-year contract should appear in Section I: “Cancellation Under Multi-year Contracts” and "Cancellation Ceiling" (explained in Chapters 6 and 12).

**CHAPTER 12**

**MYC CLAUSES, PROVISIONS, AND SPECIAL CONTRACT REQUIREMENTS (SCRs)**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) THE FAR CANCELLATION CLAUSE**

**(b) SAMPLE CANCELLATION CEILING CLAUSE**

**(c) DRAFTING CONTRACT LANGUAGE TO ESTABLISH FUNDING PARTICULARS**

**(d) OTHER SOLICITATION PROVISIONS**

**(a) THE FAR CANCELLATION CLAUSE**

(1) [FAR 52.217-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm), “Cancellation Under Multi-year Contracts” (July 1996), is prescribed for use in all solicitations and contracts when a multi-year contract is contemplated. The FAR emphasizes that MYC is intended to be a flexible contracting method, and specifically allows this clause to be modified. The clause, as is, fits most non-EOQ multi-year contracts.

(2) To accommodate use of an EOQ multi-year contract, the clause should be modified in accordance with [FAR 17.104(b)](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm). Suggested alternative language and rationale can be found in Figure 12.A.

**TEXT OF CLAUSE** [**FAR 52.217-2**](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm)**: ALTERNATIVE LANGUAGE WHEN**

**EOQ ITEMS ARE INCLUDED (ALTERNATIVE WORDS ARE IN BOLD)**

**Paragraph** [**FAR 52.217-2(d)**](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm)

“The cancellation charge will cover only (1) costs (i) incurred by the contractor and/or subcontractor, (ii) reasonably necessary for performance of the contract, and (iii) that would have been equitably amortized over the entire multi-year contract period but, because of the cancellation, are not so amortized; (2) a reasonable profit or fee on the costs; **(3) labor, material, and other associated recurring costs incurred for the production of the canceled items in accordance with the clause of this contract entitled 'Limitation of Price and Contractor Obligations'; and (4) the cost impact on non-canceled items.”**

*ALTERNATIVE LANGUAGE RATIONALE:*

*Subparagraph (3) allows the cancellation charge to cover recurring costs incurred for the production of canceled items (i.e., costs associated with EOQ effort).*

*Subparagraph (4) should only be used if, due to the nature of the particular program, a cancellation would be likely to affect the cost of non-canceled items. For example, if the multi-year contract is a major component of the contractor's overall business base, the cancellation of one or more years of requirements under the multi-year contract could drastically affect overhead rates. Those unit prices would have (appropriately) been based on the parties' mutual assumption that the contractor's business base would include the entire multi-year quantity. To the extent that the base shrinks, overhead costs per unit grow. (If this language is used, the solicitation and/or contract file should explain the specific circumstances that make it necessary and appropriate.)*

**Figure 12.A**

**TEXT OF CLAUSE** [**FAR 52.217-2**](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm) **(cont): ALTERNATIVE LANGUAGE WHEN**

**EOQ ITEMS ARE INCLUDED (ALTERNATIVE WORDS ARE IN BOLD)**

**Paragraph** [**FAR 52.217-2(f)**](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm)

“The Contractor's claim may include: (1) Reasonable nonrecurring costs (see [FAR 15.4](../far/FAR15.DOC#s154)) which are applicable to and normally would have been amortized in all supplies or services which are multi-year requirements; … **(5)** **Labor, material, and other costs incurred for the production of the canceled items in accordance with the clause of this contract entitled "Limitation of Price and Contractor Obligations”; (6) The cost impact on non-canceled items; and (7) A reasonable profit on such incurred costs.”**

*Note: There is nothing wrong with (2) through (4) for an EOQ multi-year contract. They should be retained, unless not applicable to the program. Paragraph (f) is the counterpart to paragraph (d) above. This paragraph must be consistent with paragraph (d) since the cancellation charge (what the Government will pay) and the cancellation claim (what the contractor will request) must have a common basis.*

*ALTERNATIVE LANGUAGE RATIONALE:*

*Subparagraph (1) provides a reference to* [*FAR 17.1*](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm)*, which contains an applicable definition of “nonrecurring costs”.*

*Subparagraph (5) allows the claim to include recurring costs incurred for the production of canceled items (i.e., costs of EOQ effort), consistent with subparagraph (d)(3).*

*Subparagraph (6) should be used only if its counterpart is used in paragraph (d)(4).*

*Subparagraph (7) recognizes that the contractor is entitled to a reasonable profit on recognized incurred costs. This is consistent with paragraph (d)(2).*

**Paragraph** [**FAR 52.217-2(g)**](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm)

“The claim shall not include-- **(1) Labor, material, or other expenses incurred by the Contractor or subcontractors for performance or the canceled work; (2) Any cost already paid to the Contractor; (3) Anticipated profit or unearned fee on the canceled work; or (4) For service contracts, the remaining useful commercial life of facilities. “Useful commercial life” means the commercial utility of the facilities rather than their physical life with due consideration given to such factors as location of facilities, their specialized nature, and obsolescence**.”

*ALTERNATIVE LANGUAGE RATIONALE:*

[**FAR 52.217-2(g)**](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm) *is revised to delete subparagraph (2), which would preclude recognition of recurring costs and contradict language added to paragraphs (d) and (f).*

**Figure 12.A (cont)**

**(b) SAMPLE CANCELLATION CEILING CLAUSE**

(1) There is no FAR-level clause that sets forth cancellation ceilings for each year. However, [FAR 17](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) requires that cancellation ceilings be established and specifies that such ceilings and dates applicable to each program year subject to a cancellation be included in a contract clause. Additionally, [FAR 17](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) specifies that, in negotiated acquisitions, the ceilings be negotiated prior to contract award. The agreed upon cancellation ceilings and dates must then be included in the contract's Schedule, in accordance with paragraph [FAR 52.217‑2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm), “Cancellation Under Multi-year Contracts.” The sample clause below may be used to cite the cancellation ceilings.

**Sample**

**CANCELLATION CEILING (CLAUSE)**

Cancellation will occur if the Contracting Officer fails to notify the Contractor that funds are available by the respective dates indicated below. The following cancellation ceilings are established:

Second Program Year: Cancellation Ceiling -$ NTE Date/Period\*

Third Program Year: Cancellation Ceiling -$ NTE Date/Period\*

Fourth Program Year: Cancellation Ceiling -$ NTE Date/Period\*

Fifth Program Year: Cancellation Ceiling -$ NTE Date/Period\*

**Figure 12.B**

Note: *\* The dates entered here must be the same as the dates entered in the SCR on "Multi-year Contract Funding" discussed later in this chapter.*

**(c) DRAFTING CONTRACT LANGUAGE TO ESTABLISH FUNDING PARTICULARS**

(1) As discussed in [Chapter 7](#ch7), once it has been determined how to fund the contemplated multi-year contract, you should explain the funding approach in contract language that will become the parties' agreement regarding contract funding. The contract language regarding funding will take the form of two clauses. The first establishes the basic, statute-based approach to funding multi-year contracts. The second clause will provide the details of how much will be obligated at what times during the period of performance of the contract.

(2) This section will take you through the following steps to draft appropriate funding clauses for the contemplated multi-year contract:

* Step One: Draft a “Limitation of Price and Contractor Obligation” SCR.
* Step Two: Tailor the “Limitation of Price and Contractor Obligation” SCR if an EOQ Multi-year Contract will be used.
* Step Three: Draft a “Multi-year Contract Funding" SCR.
* Step Four: Ensure these funding SCRs complement and are consistent with the cancellation clauses.

(i) **Step One: Draft a “Limitation of Price and Contractor Obligation” SCR.**

Suggested language is as follows:

Paragraph (a): Funds available for performance are described in the Schedule. The amount of funds available for award is not considered sufficient for the performance required for any program year other than the first program year. When additional funds are available for the full requirements of the next succeeding program year, the Contracting Officer shall, not later than the date specified in the Schedule (unless a later date is agreed to), so notify the Contractor in writing. The Contracting Officer will also modify the contract to reflect the amount of funds specified in the Schedule as available for contract performance.

Paragraph (b): The Government is not obligated to the Contractor for any amount over that described in the Schedule as available for contract performance.

Paragraph (c): The Contractor is not obligated to incur costs for the performance required for any program year after the first unless and until written notification is received from the Contracting Officer of an increase in availability of funds. If so notified, the Contractor’s obligation will increase only to the extent contract performance is required for the additional program year for which funds are made available.

Paragraph (d): If this contract is terminated under the “Termination for Convenience of the Government” clause, ‘total contract price’ in that clause means the amount available for performance of this contract, as in paragraph (a) above, plus the amount established as the cancellation ceiling. ‘Work under the contract’ in that clause means the work under program year requirements for which funds have been made available. If the contract is terminated for default, the Government’s rights under this contract will apply to the entire multi-year requirements.

Paragraph (e): Notification to the Contractor of an increase or decrease in the funds available for performance of this contract under another clause (e.g., an “Option” or “Changes” clause) will not constitute the notification contemplated by paragraph (a) of this clause.

(ii) Step **Two: Tailor the “Limitation of Price and Contractor Obligation” SCR if an EOQ Multi-year Contract will be Used.**

Paragraph (c) of the suggested SCR in Step One is suitable for a non-EOQ multi-year contract. It must be changed for an EOQ multi-year contract, which does not require the contractor to perform work and incur costs applicable to out-year end items. The following language should work for most EOQ multi-year contracts:

"(c) The Contractor may incur labor, material, and other associated recurring costs to satisfy requirements of any program year under this contract, provided that the costs are (1) reasonable, allocable, and allowable; (2) properly incurred under the contract; and (3) either fully funded or funded with advance procurement funds consistent with special contract requirements entitled "Multi-year Contract Funding” and "Cancellation Particulars.”

(iii) **Step Three: Draft a "Multi-year Contract Funding” SCR.**

Determine what else the contract needs to say about how it will be funded anddraft a "multi-year contract funding” SCR.

(A) Step Three A: Identify Funds Available for Contract Performance.

The first sentence of paragraph (a) of the SCR recommended in Step One is “Funds available for performance are described in the Schedule.” The actual obligations made in Section G of the contract will serve this purpose. You may emphasize this point by beginning the funding SCR as follows:

"Funds available for performance are the funds obligated in Section G."

(B) Step Three B: Identify dates by which the Contracting Officer will notify the contractor that additional funds are available.

(*1*) The third sentence of paragraph (a) of the SCR recommended in Step One (“When additional funds are available for the full requirements of the next succeeding program year, the Contracting Officer shall, not later than the date specified in the Schedule (unless a later date is agreed to), so notify the Contractor in writing.”) creates a need for one element of the clause you must draft. The SCR should establish dates by which the contracting officer should provide such notification. The dates should be based on anticipated receipt of appropriated funds for each "out-year" of the multi-year contract. To provide the needed dates, consider using language such as this:

For the purpose of the SCR of this contract entitled “Limitation of Price and Contractor Obligations,” the Contracting Officer shall notify the Contractor in writing of the availability of funds for the full requirements of succeeding program years as follows:

By This Date Regarding Program Year

Day/Month/Year FY XX

Day/Month/Year FY XY

Day/Month/Year FY XZ

etc.

*Note: The dates established in this portion of the funding clause must correspond to the dates or time periods established in the cancellation clauses discussed earlier in this chapter.*

(*2*) Since DoD Appropriations Acts are frequently enacted after the beginning of the fiscal year to which they apply, the multi-year contract may have to be continued under Continuing Resolutions pending the availability of fiscal year appropriations. Your funding clause should provide for this situation. Consider using language such as the following:

In the event that funding is not available for obligation by the specified date, then the Government may delay funding the required amount specified in paragraph (a) above for three (3) successive periods of thirty (30) days; provided that the Government so notifies the Contractor. In the event of such delay, the Government may issue a unilateral modification to the contract directing the Contractor to continue work at the not-to-exceed amount applicable to the (enter appropriate years) effort (without change to contract price) as set forth below. The parties may, by mutual agreement, extend the funding delay beyond the last thirty-day period. If the required funding is provided in the amount specified in paragraph (a) above, the adjustments to the Cancellation Ceiling as adjusted by this provision would be the limitation of the Government's liability for the canceled end items.

1st 30 2nd 30 3rd 30

Funding Date Program Year day delay day delay day delay

Day/Month/Year FY XX $ $ $

Day/Month/Year FY XY $ $ $

Day/Month/Year FY XZ $ $ $

Once the funds become available, the Contracting Officer should issue a unilateral funding modification to the contract obligating the money for that fiscal year.

(*3*) The fourth sentence of paragraph (a) of the SCR recommended in Step One: "The Contracting Officer will also modify the contract to reflect the amount of funds specified in the Schedule as available for contract performance." A funding clause should be established to indicate that a modification will be issued unilaterally and within some number of days after the written notification is sent to the contractor. If the funding plan is known, it should be presented in the clause.

*Note: When the solicitation is issued, the dollar and date columns may be left blank. Section L should instruct offerors to enter necessary information. When the contract is awarded, the funding plan will represent the agreement of the parties on how and when funds will be applied to the contract.*

(iv) Step **Four: Ensure These Funding SCRs Complement and are Consistent with the Cancellation Clauses.**

Conduct a final review and compare the funding SCRs with the final cancellation clauses developed earlier in this chapter to ensure there is consistency between them. If not, revise one or the other to achieve this consistency.

**(d) OTHER SOLICITATION PROVISIONS**

(1) In addition to the FAR cancellation clause cited above, other sample provisions may be useful in your multi-year solicitation. Sample provisions are listed below along with the situations where they may be applicable.

Sample

**SOLICITATION PROVISIONS**

1. Section L, "Reduction of Multi-year Requirement"

1. Applicability: Applicable to solicitations requesting dual proposals.

REDUCTION OF MULTI-YEAR REQUIREMENT

If the Government determines before award that only the first program year requirements are needed, the Government shall evaluate offers and make award solely on the basis of offers on that first year.

**Figure 12.C.**

**Figure 12.C (con’t)**

**Sample (con’t)**

**SOLICITATION PROVISIONS**

2. Section L, "Minimum Award Under Multi-year Procedure"

1. Applicability: Applicable to solicitations requesting dual proposals.

MINIMUM AWARD UNDER MULTI-YEAR PROCEDURE

Consistent with evaluation criteria established within Section M of this solicitation, award shall not be made on less than the first program year requirements.

3. Section L, "Submission of Multi-year Prices"

1. Applicability: Applicable to solicitations requesting only a multi-year proposal.

SUBMISSION OF MULTI-YEAR PRICES

Offerors shall submit a response/responses priced to cover the following:

(a) Total requirements of the first program year.   
(b) Total multi-year requirements (all program years).

Submissions not in accordance with above shall not be considered for award and shall be declared nonresponsive. In the event that only one response is received that is both responsive and from a responsible firm, the Government reserves the right to cancel the solicitation and resolicit on a single year basis by whatever procedures are then appropriate.

4. Section L, “Multi-year Unit Prices"

1. Applicability: Applicable to solicitations requesting level unit pricing.

MULTI-YEAR UNIT PRICES

Unit prices submitted for each item or service in the total multi-year requirement shall be the same for all program years (level unit price).

5. Section L, "Multi-year Pricing of Option Items"

1. Applicability: Applicable to solicitations with options.

MULTI-YEAR PRICING OF OPTION ITEMS

In the event this solicitation provides for the use of options, option prices submitted shall not include those nonrecurring costs, which are included in the basic contract.

(2) You may also want to consider including a Section L Provision entitled "Multi-year Features of this Solicitation." This is an optional solicitation provision that might be appropriate for new or competitive multi-year contracts. A sample version of this provision can be found in [Chapter 14](#ch14).

**CHAPTER 13**

**SELECTING A PRICING METHOD**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) LEVEL UNIT PRICING AND VARIABLE UNIT PRICING**

**(b) PRINCIPLE DIFFERENCES BETWEEN THE TWO METHODS**

**(c) HOW TO DECIDE WHICH METHOD TO USE**

**(a) LEVEL UNIT PRICING AND VARIABLE UNIT PRICING**

(1) **“Level Unit Pricing”** (also known as “level line pricing”) means all items under the multi-year contract have identical unit prices. Level unit prices result from amortizing certain costs over the entire contract quantity. These costs include nonrecurring costs. In major systemsacquisitions, these costs can also be those recurring or variable costs that are not alike from item to item or program year to program year. For example, the learning curve for production of complex items is a significant driver of production costs. If the first unit costs more, due to being earlier on the learning curve, those higher costs would have to be spread over all units to achieve level unit pricing.

(2) **“Variable Unit Pricing”** means that unit prices may vary from unit to unit or from program year to program year. In major systems acquisitions, the actual cost of production items tends to vary (usually downward, as the system matures and more units are produced). Consequently, variable unit pricing is the norm for major systems MYCs, and provides the only way to ensure that unit prices reflect item value.

(3) Figure 13.A illustrates, in constant dollars, how a 50-system program would be affected over a 5 year MYC using the variable unit pricing and level unit pricing method. For program year one using level unit pricing you would require $200 less in funding, but your cancellation ceiling would be $200 greater. In program year four, the reverse is true and the level unit funding is greater.

**Pricing Methods**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| PROGRAM YEAR | 1 | 2 | 3 | 4 | 5 | TOTAL |
| PROGRAM QUANTITY | 10 | 10 | 10 | 10 | 10 | 50 |
| LEVEL UNIT PRICING | $1000 | $1000 | $1000 | $1000 | $1000 | $5000 |
| VARIABLE UNIT PRICING | $1200 | $1100 | $1000 | $900 | $800 | $5000 |

**Figure 13.A**

(4) Deciding which pricing approach to use must be done as early in the MYC process as possible. It is a prerequisite for preparing the MYP Exhibits that make up the MJP. The pricing method will affect the funding profile for the program and the projected cancellation ceiling in each year of the multi-year contract.

**(b) PRINCIPLE DIFFERENCES BETWEEN THE TWO METHODS**

(1) Figure 13.B outlines the principal differences between level unit pricing and variable unit pricing.

**Unit Pricing Differences**

**LEVEL** **VARIABLE**

**Unit Prices** Identical for each unit Different in one or more

under the MY contract. program years. Usually

highest in 1st year and

trends downward.

**End-Item Funding** The same in each year Varies for each

**Requirements** of the MY contract program year. Usually

(except for effect of higher in 1st year than

any EPA provisions and level unit pricing method

advance EOQ requirement). but lower in out‑years.

**Cancellation** Usually higher than Usually lower than level

**Exposure** variable method. method.

**Total Program**  Usually same as variable Usually same as level

**Price** method. method.

**Financial Impact** Present value of MYP Present value of MYP

savings will probably savings will probably

be higher than it would be lower than it would

be with variable method. be with level method.

**Figure 13.B**

(2) [FAR 17.106](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) states that multi-year contract procedures provide for identical (level) unit prices for all items under the multi-year contract. It acknowledges that level unit pricing may not always be in the Government's interest, however, and allows the Head of the Contracting Activity (HCA) or designee to authorize use of variable unit pricing in such cases. The purpose of the requirement for approval to use the variable method is to insure thatprior to using it, you have thought out how you will evaluate variable unit prices in a competition.

**(c) HOW TO DECIDE WHICH METHOD TO USE**

(1) There are circumstances that may make variable unit pricing better suited to a particular multi-year effort. When such circumstances arise making variable unit pricing clearly in the Government's best interest, you should not hesitate to request approval to use it.

(2) There are a number of factors to consider in deciding which pricing method to use. The following represent some of the more important considerations that should enter into your decision.

(i) The size and complexity of the program will greatly affect the method chosen. Generally speaking, large complex programs of the F-16 variety should probably employ variable unit pricing. Complex learning scenarios, multitudes of major subcontractors, and high nonrecurring costs up front are difficult to accommodate in a level unit pricing scheme. Smaller, less complex, mature programs involving little nonrecurring costs are better suited to level unit pricing.

(ii) The offerors'/contractors' willingness to carry costs incurred early in the program for several years will dictate, to some degree, the method used. The higher the nonrecurring costs that will be spread out, the less likely your chances of getting the offerors/contractors to accept level unit pricing. This is especially true where there is a lack of competition on the program. Competition is probably your greatest ally if level unit pricing makes good business sense for your program.

(iii) The funding profile expected under each method should be calculated and compared. Consider the approach that generates the greatest cost savings, provided those savings have a positive present value.

*Note: Cost savings are ultimately shown in the Exhibit MYP-3, Contract Funding Plan, included in the multi-year savings validation package. The present value of those savings is ultimately shown in the Exhibit MYP-4, Present Value Analysis, in the multi-year savings validation package.*

(3) There is no set rule on how to treat the nonrecurring costs. Some alternatives are:

(i) Assign them to the year in which they are expected to be incurred with all end items being acquired in that year carrying an equal share. (This would be consistent with variable unit pricing).

(ii) If you want to enable the contractor to get paid for a large up-front investment (bona fide nonrecurring costs) without spreading this cost over each end-item, you may fashion a CLIN that allows you to reimburse the contractor for the agreed upon cost of the investment.

(4) How to obtain approval to use variable unit pricing. The letter requesting approval to use variable unit pricing must:

(i) State its purpose is to request the approval to use variable unit pricing, as required by [FAR 17.106-3(g)](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm);

(ii) Explain why level unit pricing is not in the Government's interest; and

(iii) Describe the method to be used in evaluating price proposals if the MYC will be competitive.

**CHAPTER 14**

**PREPARING THE SOLICITATION**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) ESTABLISH THE REQUIREMENTS**

**(b) DECIDE WHAT KIND OF PROPOSAL (S) YOU NEED FROM EACH OFFEROR**

**(c) ESTABLISH EVALUATION CRITERIA**

**(d) DEVELOP A NOTICE TO OFFERORS DESCRIBING THE MULTI-YEAR ASPECT OF**

**THE SOLICITATION**

**(e) DEVELOP PROPOSAL PREPARATION INSTRUCTIONS**

In negotiated procurements, Requests for Proposals (RFPs) are used to communicate Government requirements to prospective contractors and to solicit proposals from them. This chapter is designed to help you prepare and structure a solicitation beyond the detail contained in [FAR 15](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/15.htm). The Multi-year Solicitation Checklist (Figure 14.A) and the following guidance keyed to each item in the checklist will help you prepare the solicitation.

*Note: Although a Section C Multi-year Addendum is referred to throughout this chapter, a separate Multi-year Statement of Objectives (SOO) is another acceptable method of communicating unique multi-year requirements. Two stand-alone SOOs (multi-year and non-multi-year) may be developed and depending on the multi-year decision, the applicable SOO used in the contract.*

**(a) ESTABLISH THE REQUIREMENTS**

**(1) Decide whether your Section C needs a Multi-year Addendum (or separate SOO) that will apply if a multi-year contract is awarded. The Addendum requires contractor performance of specific tasks for the purpose of achieving one or more objectives of the multi-year contract.**

(i) As with a typical non-multi-year solicitation, the Government is seeking proposals to satisfy a given set of requirements. What is unique about the multi-year solicitation is that it entertains different contracting approaches. This drives the contracting officer to provide either CLINs and/or terms and conditions (e.g., we will either use this basic CLIN and option CLINs or we will use this other set of CLINs geared to MYC or we will use these special funding and cancellation clauses if we award a multi-year contract, but we won't if we award an annual-buy contract).

(ii) There are certain objectives for contemplating the use of a multi-year contract. The most common objective is to save money. But there are other equally valid objectives a program manager may have when using a MYC approach. If your objectives include improving productivity, enhancing theindustrial base, or enhancing standardization, you should incorporate appropriate requirements into Section C that will apply to the multi-year contract.

**The Multi-year Solicitation Checklist**

**A. ESTABLISH THE REQUIREMENTS**

1. Decide whether the Section C should have a Multi-year Addendum (or separate SOO) that will apply if a multi-year contract is awarded. The Addendum requires contractor performance of specific tasks for the purpose of achieving one or more objectives of the multi-year contract.

2. Establish the CLINs that will apply if a conventional annual-buy contract is awarded.

3. Establish the CLINs that will apply if a multi-year contract is awarded (See [Chapter 11](#ch11)).

4. Draft Section B of the Request for Proposals.

5. Draft the funding clauses applicable to the contemplated multi-year contract (See [Chapter 7](#ch7)).

6. Draft the cancellation clauses applicable to the contemplated multi-year contract (See [Chapter 12](#ch12)).

**B. DECIDE WHAT KIND OF PROPOSAL (S) YOU NEED FROM EACH OFFEROR.**

1. Review FAR requirements.

2. Understand the relationship between deciding what proposal(s) to require and the approach to validating multi-year savings.

**C. ESTABLISH EVALUATION CRITERIA.**

1. Establish the evaluation criteria you will use to decide whether to award a conventional annual-buy contract or a multi-year contract.

2. Establish the evaluation criteria you will use to select the winning contractor if it is a competitive acquisition.

**D. DEVELOP A NOTICE TO OFFERORS DESCRIBING THE MULTI-YEAR ASPECT OF THE SOLICITATION**

**E. DEVELOP PROPOSAL PREPARATION INSTRUCTIONS**

1. Instructions for preparing the annual-buy proposal.

2. Instructions for preparing the multi-year proposal.

**Figure 14.A**

(iii) The most straightforward way to do this is with a Section C Addendum. This addendum should deal only with the productivity, industrial base, or standardization (or other) requirements you expect the contractor to satisfy if he is awarded a multi-year contract.

(iv) The solicitation should contain pertinent requirements if such objectives are to be met. If you do have a Multi-year Addendum to your Section C**,** it represents the single difference that will keep the annual-buy and multi-year proposals from being directly comparable to each other. Thus, you should allow for this in:

(A) Developing evaluation criteria to be used in deciding between the annual-buy and multi-year approaches. (If you have a Multi-year Addendum, then the subject of that addendum (e.g., increased productivity) should be an evaluation criterion.)

(B) Proposal preparation instructions, so that the cost of this portion of the total effort is identified. This will enable you to subtract this cost from the total multi-year cost line for purposes of an apples-to-apples comparison of the cost to the Government of the two contracting approaches.

(2) Establish **the CLINs that will Apply if a Conventional Annual-buy Contract is Awarded.** Follow normal rules and procedures regarding the establishment of CLINs.

(3) Establish **the CLINs that will Apply if a Multi-year Contract is Awarded.** [Chapter 11](#ch11) provides guidance on structuring CLINs in a multi-year contract.

(4) Draft **Section B of the Request For Proposals.** If you will be requesting both an annual-buy proposal and a multi-year proposal, Section B should include the CLINs applicable to each. It should also include a paragraph that explains which CLINs apply to the annual-buy proposal/contract and which apply to the multi-year proposal/contract. Otherwise, Section B should be prepared in accordance with normal rules and procedures.

(5) Draft **the Funding Clauses Applicable to the Contemplated Multi-year Contract.** [Chapter 12](#ch12) provides guidance for drafting these clauses.

(6) Draft **the Cancellation Clauses Applicable to the Contemplated Multi-year Contract.** [Chapter 12](#ch12) provides guidance for drafting these clauses.

**(b) DECIDE WHAT KIND OF PROPOSAL (S) YOU NEED FROM EACH OFFEROR**

(1) Review **FAR Requirements.**

(i) Dual proposals are two separate and distinct proposals submitted by an offeror in response to a single solicitation. One of the proposals, the Annual-Buy Proposal, contains the offeror's approach and prices for satisfying the requirements under a conventional annual-buy contract containing priced options that the Government may or may not exercise. The other proposal, the Multi-year Proposal, contains the offeror's approach and prices for satisfying the requirements under a multi-year contract, in which the Government commits at award to buy the entire multi-year quantity. Dual proposals, then, are two different proposals to accomplish the same work. What differentiates them is the nature of the contract under which the work will be performed.

(ii) Dual proposals allow the Government to validate preliminary estimates of multi-year savings used to support initial multi-year findings. Because of the importance of this validation, care must be taken to ensure that the end item quantities and delivery schedules for both proposals are identical. The basis upon which original Government in-house estimates were prepared should also be identical to the proposal quantity and schedule baseline.

(iii) [FAR 17.106-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) states that if a multi-year contract is being contemplated, the solicitation should call for dual proposals, unless you obtain high-level approval to do otherwise. The reason dual proposals are required and preferred is that they provide the best basis for comparing the cost of the annual-buy and multi-year approaches for the purposes of validating multi-year savings. Unless you can convince successive levels of management that you can perform a credible savings validation without obtaining an annual-buy proposal, you will need to require dual proposals.

(2) Understand **the Relationship Between Deciding What Proposal(s) to Require and the Approach to Validating Multi-year Savings.** Read [Chapter 15](#ch15) on the need for validating, planning and conducting multi-year savings. Note that the prevailing philosophy behind this guidance is that dual proposals should be obtained. Creating an annual-buy estimate in the absence of an annual-buy proposal is difficult to do and even more difficult to defend.

**(c) ESTABLISH EVALUATION CRITERIA**

(1) Establish **the Evaluation Criteria You will Use to Decide Whether to Award a Conventional Annual-buy Contract or a Multi-year Contract.** Review all [FAR 17.106](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) requirements to see which ones apply to your acquisition.

(2) Establish **the Evaluation Criteria You will Use to Select the Winning Contractor if it is a Competitive Acquisition.**

(i) In any source selection, you should establish evaluation criteria that will be used to select the winning contractor. This checklist item addresses those aspects of the process that are affected by solicitation of dual proposals. Skip this part if your buy is not a competitive acquisition.

(ii) [FAR 52.217-5](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm), Evaluation of Options, can only apply as is, to the annual-buy alternatives. If certain options (e.g., for contractor logistics support, which would not be covered by the multi-year clauses) are associated only with the multi-year alternative, and you intend to evaluate them for purposes of award, you should write a separate Evaluation of Options clause, applicable to the multi-year alternative, that clearly explains your intentions.

(iii) You should decide whether the source selection decision is independent of, or interrelated with the decision on contracting approach (i.e., annual-buyor multi-year). The source selection decision is independent if the differences between the offerors' annual-buy and multi-year proposals will not affect the Source Selection Authority (SSA) selection of the source. Consider the following questions:

1. QUESTION #1: Is the technical approach of each offeror likely to be the same regardless of contracting approach? In other words, is it unlikely that an offeror could significantly improve its technical proposal based on the practical advantages provided by the contemplated MYC approach? If the answer is yes, and technical is the predominant evaluation area, then the source selection decision is probably independent of the decision regarding contracting approach.
2. QUESTION #2: If cost/price is a substantial factor in the source selection, will it matter to the SSA's decision if an offeror is “low” given the annual-buy alternative, but “high” given the multi-year alternative (or vice versa)? If the answer is yes, the decisions are interrelated. Section M of the RFP must explain how the alternative prices (i.e., annual-buy and multi-year) will be evaluated.

**(d) DEVELOP A NOTICE TO OFFERORS DESCRIBING THE MULTI-YEAR ASPECT OF THE SOLICITATION**

(1) At the beginning of RFP Section L, a provision may be developed that directs attention to the multi-year features of the solicitation. Its purpose is to ensure each offeror understands the multi-year aspects, and how they affect preparation of the offeror's response to the RFP. The following sample provision (Figure 14.B) should fit most situations in which dual proposals or a single multi-year proposal is being solicited. It would be helpful to offerors if you use the sample's organization and format. Revise the specific content of each paragraph, as needed to accurately reflect your acquisition.

**Sample Provision - Multi-year Features of this Solicitation**

**Dual Proposals.** This RFP solicits dual proposals: a proposal to perform on a conventional annual-buy basis and a separate proposal to perform on a multi-year basis. “Multi-year basis” means under a multi-year contract, the award of which is authorized by Congress in accordance with [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html)*.* The special contracting method known as "MYC" is described in [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm). Its application to acquisitions is explained in **Informational Guidance** [IG5317.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/IG5317.1.docx), Multi-year Contracting. Copies are available from the contracting officer, or

**Multi-year Proposal.** This RFP solicits a single proposal to perform on a multi-year basis. “Multi-year basis” means under a multi-year contract, the award of which is authorized by Congress in accordance with [[10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html)](http://www4.law.cornell.edu/uscode/10/2306b.html)*.* The special contracting method known as "MYC" is described in [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm). Its application to acquisitions is explained in detail in [IG5317.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/IG5317.1.docx), Multi-year Contracting, copies of which are available from the contracting officer.

**Multi-year Aspects of this Solicitation.** The following portions of this RFP deal specifically with:

(1) Requirements of the multi-year contract.

Section B, CLINs (list)

Section C, Multi-year Addendum # (or SOO)

(2) The terms and conditions of the contemplatedmulti-year contract.

Section H, SCR H #, “Advance Procurement”

Section H, SCR H #, “EOQ”

Section H, SCR H #, “Limitation of Price and Contractor Obligation”

Section H, SCR H #, “Multi-year Contract Funding”

Section I, [FAR 52.217-2](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/52_215.htm), “Cancellation Under Multi-year Contracts”

Section I, “Cancellation Ceiling”

(3) Soliciting a multi-year proposal.

Section L, "Reduction of Multi-year Requirement" (Dual proposals)

Section L, "Minimum Award Under Multi-year Procedure" (Dual proposals)

Section L, "Submission of Multi-year Prices" (Multi-year proposal only)

Section L, "Multi-year Unit Prices" (Level unit pricing only)

Section L, "Multi-year Pricing of Option Items" (If applicable)

Section M, provision M #, (As applicable. Identify all Section M provisions that explain how the multi-year proposal will be evaluated, as well as provisions that explain how the decision regarding contracting approach does or does not interrelate with the source selection decision.)

**Presolicitation Conference**. A special pre-solicitation conference will be held [date and time] at [location] to answer generic questions about MYC. Before the conference, the offeror's representative(s) should be familiar with [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm) (as supplemented) and [IG5317.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/IG5317.1.docx). The purpose of the conference is to ensure all offerors have a common understanding of the aspects of MYC that have a significant impact on preparation of a multi-year proposal. Examples are: sources of multi-year savings; how multi-year contracts are funded; cancellation; and estimating cancellation ceilings. Call [office and phone number] by [date] to reserve a place at the conference.

**Figure 14.B**

**(e) DEVELOP PROPOSAL PREPARATION INSTRUCTIONS**

(1) Instructions **for Preparing the Annual-buy Proposals.** “Instructions for Preparing the Annual-buy Proposal” should be made a separate, titled section or paragraph in Section L of the RFP. It should make the following points:

(i) CLINs (list them) in Section B constitute the annual-buy alternative being considered by the Government. These CLINs, together with all related terms and conditions in the model contract, should be the basis for your annual-buy proposal.

(ii) The basic CLINs (list them) should be priced with the understanding that the Government might not exercise any of the option CLINs (list them). There is no certainty under the annual-buy alternative that any option or combination of options should be exercised.

(2) Instructions **for Preparing the Multi-year Proposal.** “Instructions for Preparing the Multi-year Proposal” should be made a separate, titled section or paragraph in Section L of the RFP. It should make the following points:

(i) CLINs (list them) in Section B constitute the MYC alternative being considered by the Government. These CLINs, together with all related terms and conditions in the model contract, should be the basis for your “multi-year proposal.”

(ii) The multi-year contract CLINs (list them) must be priced with the understanding that the Government will be committed to buy all program year requirements as of contract award. There is no uncertainty as to whether out-year quantities of end items will be bought.

**CHAPTER 15**

**PLANNING AND CONDUCTING A SAVINGS VALIDATION**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS**

**(a) VALIDATING MULTI-YEAR SAVINGS**

**(b) WHY YOU NEED TO VALIDATE MULTI-YEAR SAVINGS**

**(c) RELATIONSHIP BETWEEN SAVINGS ESTIMATES**

**(d) CONDUCTING THE SAVINGS VALIDATION**

**(e) HOW TO PREPARE A SAVINGS VALIDATION PACKAGE**

**(a) VALIDATING MULTI-YEAR SAVINGS**

(1) "Validating multi-year savings" means estimating multi-year savings based on actual contract data rather than on budgetary estimates, and then comparing these "validated" savings to the savings estimate. This savings estimate is the MJP that supported the initial approved multi-year findings.

**(b) WHY YOU NEED TO VALIDATE MULTI-YEAR SAVINGS**

(1) As covered in [Chapter 4](#ch4), this statutory requirement is implemented so that such validation findings are made not once, but twice; before solicitations are issued andprior to award of multi-year contract*.* Prior to award of a multi-year contract, the contracting officer should validate the original determination (i.e., the initial findings). The Validation Findings take the form of a one-page findings supported by an updated set of exhibits reflecting validated multi-year savings. The purpose of validating multi-year savings is to verify prior to award that multi-year savings will indeed be sufficient to warrant using a multi-year contract.

**(c) RELATIONSHIP BETWEEN SAVINGS ESTIMATES**

(1) By using the guidance provided in this chapter, you can estimate validated multi-year savings. You can then compare the validated savings to the savings estimate in your MJP to determine which of the following relationships exists:

Category Relationship

Category I Validated savings greater than or equal to initial savings estimate in both dollars and percent and

Positive Present Value

Category II Validated savings less than initial savings estimate in dollars and/or percent and

Positive Present Value

Category III Negative Present Value

(2) The relationship between the two savings estimates not only determines the level at which your validation findings should be approved and whether Congress will have to be notified about the validated multi-year savings prior to award, but also whether it makes business sense to award the multi-year contract at all. If award is still warranted, [Chapter 16](#ch16) explains how to obtain the needed approval and how to satisfy any notification requirement.

**(d) CONDUCTING THE SAVINGS VALIDATION**

(1) The financial management office should be the Office of Primary Responsibility (OPR) for the overall validation effort. As such, it should develop the plan to conduct the savings validation effort. This section will take you through the following steps to complete your plan for conducting a savings validation:

1. Step One: Validation Source Data
2. Step Two: Rates and Factors
3. Step Three: Savings Validation Schedule
4. Step Four: “Apples-to-Apples” Comparison Methodology
5. Step Five: Preliminary Savings Validation
6. Step Six: Savings Validation OPRs
7. Step Seven: Validation Package Coordination
8. Step Eight: Approval

(2) Multi**-year Savings Validation Plan (Figure 15.A).** Review Figure 15.A to understand the planning task at hand for the validation effort. For each blank or set of blanks, there is a reference to the step that explains what you need to know in order to enter applicable data for your contract. After you fill in the blanks, Figure 15.A can be used as your plan for conducting a savings validation. You may then implement the plan according to your schedule.

**MULTI-YEAR SAVINGS VALIDATION PLAN**

**FOR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**STEP ONE: VALIDATION SOURCE DATA**

The Multi-year Source Document will be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Annual-buy Source Document will be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**STEP TWO: RATES AND FACTORS**

The following rates and factors will apply:

Inflation: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Expenditure Patterns: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Discount Factors (for Present Value Analysis): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Explanation (Required only if you plan to use rates and factors other than those prescribed at the time the validation is conducted): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**STEP THREE: SAVINGS VALIDATION SCHEDULE**

The savings validation will begin after\_\_\_\_\_\_\_\_\_\_\_\_\_and will be completed no later than\_\_\_\_\_\_\_\_\_\_\_\_\_.

**STEP FOUR: “APPLES-TO-APPLES” COMPARISON METHODOLOGY**

Explanation of Methodology: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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**STEP FIVE: PRELIMINARY SAVINGS VALIDATION**

Will be Done: YES / NO. OPR will be: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Figure 15.A**

**Page 1 of 2MULTI-YEAR SAVINGS VALIDATION PLAN (con’t)**

**FOR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**STEP SIX: SAVINGS VALIDATION OPRs**

**OPR**

A. Overall Implementation \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

B. Track and document "puts” and takes" from receipt of proposals through \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

completion of negotiations

C. Perform analysis to develop an Annual-buy price comparable to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Multi-year price

D. Prepare Exhibits \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

E. Draft the Savings Validation Package - Overall \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Cover Page and Table of Contents \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. Purpose and Background \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3. Statement of Validated Multi-year Savings \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4. Method of Determining Amount of Validated Multi-year Savings \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

5. Chronology of Events \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

6. Baseline Differences \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

7. Relationship Between the Contract Price and “Total Multi-year Cost" \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

8. Perform Administrative Effort Associated with Coordination and for

Final Submission to Approving Authority \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**STEP SEVEN: VALIDATION PACKAGE COORDINATION**

A. Correct preparation of “Findings” in Support of Multi-year \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

B. Correct preparation of exhibits \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

C. Consistency with Price Negotiation Memorandum \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

D. Consistency with Contractor Proposal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

E. Overall effectiveness of package (logical presentation, appropriate content, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

internal consistency, editorially sound)

**STEP EIGHT: APPROVAL**

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Figure 15.A**

**Page 2 of 2**

(3) Step **One: Validation Source Data.**

(i) The Air Force expects savings validations to be done at the time of contract award and reflect actual contract details. The two key “actual contract details” you will need are:

(A) The cost to the Government of the multi-year contract; and

(B) The cost to the Government of the annual-buy alternative.

(ii) You should decide which contractual documents you will use as the source of this data. Identify these documents in Figure 15.A as the Multi-year Source Document (MSD), which will provide (or be the basis for determining) the cost of the multi-year contract; and the Annual-buy Source Document (ASD), which will provide (or be the basis for determining) the cost of the annual-buy alternative.

(iii) Ideally, a savings validation should be based on a negotiated multi-year contract and a negotiated annual-buy contract with priced options. The negotiated multi-year price and the total of the negotiated annual-buy prices would represent the real cost to the Government of each alternative. The difference between the two would consequently provide the best possible assessment of multi-year savings. If you plan to negotiate both contractual arrangements, your entry in Figure 15.A will look like this:

(A) “The Multi-year Source Document will be the negotiated multi-year contract supported by the associated Price Negotiation Memorandum.”

(B) “The Annual-buy Source Document will be the negotiated annual-buy contract supported by the associated Price Negotiation Memorandum.”

(iv) In some major systems acquisitions, however, the task of negotiating such contracts is so large and complex that the limited staff can only negotiate the contract the program office really intends to award: the multi-year contract. In these cases, you should decide what source document you will use as a basis for developing a comparable cost to the Government of the annual-buy arrangement. In this case, an alternative source document should be used as a basis for a comparable cost of the annual-buy.

(v) How to Select an Alternative Source Document to Use as a Basis for Developing a Comparable Cost of the Annual-buy Arrangement:

(A) Since you will be negotiating the multi-year arrangement, you should have a negotiated multi-year contract as the MSD. Since you do not plan to negotiate the alternative arrangement, which is an annual-buy with priced options, your ASD should be something less than a negotiated contract. The next few paragraphs explain how to consider the potential source documents you could use so you can select the one that will best serve your purposes.

(B) Figure 15.B shows the major milestones in the life of a proposal. How much do you want the annual-buy proposal to mature before you use it, as your ASD is the key question to consider?

**PROPOSAL MILESTONES**

**ORIGINAL SUBMISSION**

**🡫**

**EVALUATED OR REVISED PROPOSAL**

(proposal annotated by the Government or revised by the Offeror based on results of fact-finding, evaluation,

should-cost, or final proposal revision.)

**🡫**

**PROPOSAL USED AS A BASIS FOR NEGOTIATIONS**

(or that could be used as such)

**🡫**

**NEGOTIATED AGREEMENT**

**Figure 15.B**

Consider each possibility:

(C) **Original Submission**. This is not an acceptable ASD. There is a danger that it will not be a true representation of how the offeror would actually conduct and price a series of annual-buys. This could stem from:

(*1*) The offeror, not experienced in preparing dual proposals, failing to make appropriate distinctions between its annual-buy and multi-year proposals.

(*2*) The offeror not devoting adequate time or attention to preparing the annual-buy proposal because:

(*i*) The offeror is aware of the fact that you do not intend to negotiate an annual-buy contract and feels certain the multi-year contract will be approved and used; or

(*ii*) The offeror is not interested in doing the work under an annual-buy contracting arrangement. Further, if the offeror is very interested in getting a multi-year contract, it may overstate the price of its annual-buy proposal to inflate the apparent multi-year savings and thus make the multi-year approach seem more attractive. You cannot be certain that these problems do not exist unless you evaluate the proposal in sufficient detail to determine that it is indeed a valid proposal.

(D) Evaluated **or Revised Proposal.** If, as indicated in Figure 16.B, this proposal reflects the results of Government fact-finding and proposal evaluation, then it can be considered a valid proposal. It can also be considered a valid proposal if it is the final proposal revision as the result of a competitive acquisition. As such, it can be an acceptable ASD.

(E) **Proposal Used as a Basis for Negotiations**. It is not unusual in major systems acquisitions for the proposal originally submitted to be revised prior to negotiations. Sometimes, there is more than one revision. In these situations, one of the revisions is finally identified and used as the basis for negotiations. You could arrange to have both the multi-year and annual-buy proposals brought to this point by requiring the offeror to update both proposals in tandem. In this way, the proposals should remain comparable to each other through this final iteration. From a savings validation standpoint, an annual-buy proposal that could be used as a basis for negotiations is the best ASD short of a negotiated annual-buy contract. From the standpoint of workload and the offeror's bid and proposal expenses, however, it may not be a reasonable choice.

(vi) Based on the above, identify your choice in Figure 15.A.

(4) Step **Two: Rates and Factors**

(i) When you transfer data from your source documents to the multi-year exhibits, the data will be subject to calculations involving inflation rates, expenditure patterns, and discount factors. You selected appropriate rates and factors when you prepared the MJP based on guidance in the earlier chapters. But you prepared the MJP up to two years before you will be validating multi-year savings. Consequently, the inflation rates and expenditure patterns that were prescribed then will probably have been superseded by different ones. It is possible, though not as likely, that different discount factors will also be prescribed by the time you do the savings validation. For planning purposes, you should simply recognize that the rates and factors that will apply to your savings validation would be those prescribed at the time you conduct the savings validation. In Figure 15.A, enter:

1. “Inflation: OSD(C) prescribed rates current at the time savings are validated.”
2. “Expenditure Patterns: OSD(C) prescribed patterns current at the time savings are validated.”
3. “Discount Factors: 10% mid year annual rates at the time savings are validated.”

(ii) If you plan to depart from this norm, enter in Figure 15.A precisely what you plan to use and provide an explanation in the space provided. For example, some programs have a tailored expenditure profile based on historical data. If you plan to use a tailored expenditure profile, identify it in Figure 15.A and explain why you will be using it under "Explanation.”

(5) Step **Three: Savings Validation Schedule.**

(i) The objective of this step in your planning is to ensure that the savings validation does not delay contract award. Look at Figure 3.A in [Chapter 3](#ch3). Has your program developed its milestone schedule for conducting a multi-year contract? Where should the savings validation fit in?

(ii) Schedule the savings validation to begin as soon as the source documents are available. The OPR should allow at least two weeks to complete the effort. (Keep in mind that the savings validation effort includes obtaining the coordinations referred to in Step Seven of the plan). Keep the following things in mind when you schedule a completion date:

(A) **Worst Case**. For multi-year contracts requiring notification to Congress 30 days prior to contract award, you should complete the savings validation at least 75 days before the planned award date. This will allow 75 days in which to: (a) staff and obtain approval to proceed with a multi-year contract award; and (b) allow the Air Force to notify Congress. [Chapter 16](#ch16) explains how to obtain the approval and satisfy the Congressional notification requirement.

(B) **Best Case**. For multi-year contracts requiring notification to Congress concurrent with contract award, you should complete the savings validation at least 30 days before the planned award date. This will allow 30 days in which to staff and obtain approval to proceed with a multi-year contract award.

(6) Step **Four: "Apples-to-Apples” Comparison Methodology.**

(i) If in Step One you decided that you would negotiate both the multi-year and annual-buy arrangements, enter the following in Figure 15.A:

(A) "Compare the negotiated multi-year price with the total of the negotiated annual-buy prices."

Then go on to Step Five **or**

(B) If in Step One you decided that your MSD would be a negotiated multi-year contract and your ASD would be something less than a negotiated contract, you must decide how you will make the annual-buy data in the ASD comparable to that in the multi-year contract.

(C) Consider the differences that will exist between the two source documents when you are ready to validate multi-year savings (Figure 15.C):

**Source Document Differences**

ANNUAL-BUY SOURCE DOCUMENT MULTI-YEAR SOURCE DOCUMENT

Evaluated Proposal Multi-year Contract

Current as of: Months ago Now

Geared to Program Baseline When proposal was When negotiated agreement

as it existed: submitted was reached

Geared to Terms and In offeror’s proposal In negotiated contract

Conditions:

Cost: Proposed Negotiated

Profit: Proposed Negotiated

Price: Proposed Negotiated

**Figure 15.C**

(D) You would be comparing apples and oranges if you compared the prices from the two Source Documents. To enable an apples-to-apples comparison, you should develop by analysis an annual-buy price that is comparable to the negotiated multi-year price. For this purpose, “comparable” means based on the same premises: the same program baseline, the same terms and conditions, and as negotiated rather than as proposed.

(E) To do this, you will have to identify and save the version of the multi-year proposal that is equivalent or roughly equivalent to the ASD. Then, when you conduct the savings validation, you can compare that multi-year proposal to the negotiated multi-year contract (your MSD) as follows:

(*1*) What baseline changes are reflected in the contract that were not reflected in the proposal?

(*2*) What terms and conditions changed that had an effect on cost and price (e.g., the terms of a warranty)?

(*3*) What is the difference between the proposed price and the negotiated price? If the negotiated price is $10 million lower than the proposed price, what is that $10 million reduction attributable to?

(*i*) Removal or reduction of some effort (i.e., baseline changes)?

(*ii*) Changed terms and conditions?

(*iii*) Results of negotiation (i.e., negotiation decrement)?

(F) Having identified these “puts-and-takes” from the multi-year proposal, you can apply them to the analogous ASD and in so doing estimate what the price of the annual-buy approach would have been had you negotiated the annual-buy contractual arrangement.

(ii) This requires cost estimating and pricing expertise, and a good audit trail from the point in time that the ASD was prepared through the completion of negotiations. Documenting these “puts-and-takes” is key to a good audit trail. Also, you should designate in this planning stage, a cost estimator and a price analyst to perform this analysis. These individuals will be able to do the analysis better and faster if they understand what is involved from the outset. Then, as they play their parts in fact-finding, evaluation, and negotiations; they can be alert to the changes and events that will affect the analysis they will be doing as part of the savings validation.

(7) Step **Five: Preliminary Savings Validation.**

(i) A preliminary savings validation is an informal assessment of multi-year savings based on the dual proposals submitted by the offeror(s). To do it, simply:

(A) Jot down the proposed price of the annual-buy arrangement;

(B) Subtract the proposed price of the multi-year contract; and

(C) Evaluate the resulting number, which represents "proposed” multi-year savings, by comparing it to the savings estimate in the multi-year justification package.

(ii) If the two savings figures are similar, chances are that your estimating assumptions are consistent with the offeror's intended approach to handling a multi-year contract. If the two savings figures are very different, one of the following problems may exist:

(A) One or more of your estimating assumptions was “off”;

(B) The offeror failed to make appropriate distinctions in the way it would handle a multi-year contract versus a series of annual-buy contracts;

(C) The offeror sees different savings opportunities than you envisioned when you prepared the multi-year justification package; or

(D) The offeror has overstated the cost (and proposed price) of the annual-buy arrangement.

(iii) This preliminary savings validation requires little time and effort and no special documentation. It can alert you to potential problems, which can be investigated during the course of proposal evaluation. If you want to ensure that a preliminary savings validation is done, make sure to check the “Will Be Done” block in Figure 15.A and assign an OPR for the task.

(8) **Step Six: Savings Validation OPRs.**

(i) The financial manager should normally be responsible for developing and implementing the plan for conducting the savings validation. As the manager responsible for accomplishing the savings validation and managing financial resources, this individual should be aware of what will have to be done, the level of effort that will be required, and the other offices that need to be involved. As such, that person will assign OPRs for the required documents and efforts associated with the plan as follows:

(A) Assign the OPR for tracking and documenting “puts and “takes”.

(B) Assign the OPR for annual-buy/multi-year price analysis and comparison.

(C) Assign the OPR for preparing required exhibits.

(ii) You should prepare updated multi-year exhibits based on “actual contract details.” They should be prepared using the instructions found in earlier chapters of this guide. Keep in mind that the previous instructions were written primarily to guide someone preparing the exhibits based on estimates, when the multi-year feasibility study and MJP was being done. Instead of estimates, you will be using data from your Source Documents and your analysis. You should use the rates and factors you decided upon in Step Two. And you will base your “Cancellation Ceiling” entry in Exhibit MYP-1, Multi-year Procurement Criteria, on negotiated cancellation ceilings and a known funding plan rather than on estimates and projections.

(iii) Assign the OPR For Drafting The Savings Validation Package. The Savings Validation Package should consist of the following:

(A) Cover Sheet (similar to Figure 15.D);

(B) Table of Contents (similar to Figure 15.E); and

(C) Contents and Appendices as indicated in the Table of Contents.

**VALIDATION OF MULTI-YEAR SAVINGS**

**ASSOCIATED WITH THE**

**PRODUCTION OF 720 F-16 AIRCRAFT**

**(FY86 - FY89 REQUIREMENTS)**

**CONTRACT FXXXX-XX-X-XXXX, P00100**

APPROVED BY:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

TITLE:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

DATE:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Figure 15.D**

TABLE OF CONTENTS

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A. Multi-year Justification Package

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C. Baseline Differences

D. Savings Validation Exhibits

**Figure 15.E**

(9) Step **Seven: Validation Package Coordination.**

Figure 15.A lists five characteristics the savings validation package should have. Assign appropriate offices to be responsible for reading the final package to ensure that the package meets these criteria. Their coordination will attest to the quality of the savings validation package.

(10) **Step Eight: Approval.**

Normally, the individual given this responsibility will be the program manager or the financial manager cited earlier. This individual should approve the plan by signing it in the approval block provided in Figure 15.A and approve the Savings Validation Package by signing it in the approval block of the cover letter in Figure 15.C.

**(e) HOW TO PREPARE A SAVINGS VALIDATION PACKAGE.** Present the contents as described below:

(1) I. **Purpose**. The purpose of this document is to establish validated multi-year savings attributable to the use of MYC in acquiring [quantity] [name of end item] FY\_\_ through FY\_\_ requirements.

(2) II. **Background**. Provide relevant background information. In most cases, it will consist of:

(i) When, how and why MYC was considered. For example:

“During FY\_\_, the Air Force was formulating a plan for satisfying its FY \_\_ through FY \_\_ requirements. A multi-year feasibility study was conducted. It indicated that significant savings could be achieved through the use of a multi-year contract. In [month and year] a MJP was prepared based on budgetary estimates. It was submitted through appropriate channels to support the Air Force's recommendation to use MYC.”

“In [month and year], the Department of Defense submitted a MJP to Congress (Appendix A). This set of multi-year exhibits, based on budget estimates, projected that the Government could realize multi-year savings of $\_\_ million (then year) or \_\_ percent by acquiring the [name of end item] under a multi-year contract rather than a series of annual-buy contracts.”

(ii) When and how Congress authorized use of the multi-year contract. For example:

“Based on data in the [month and year] justification package, the Congress authorized the use of a multi-year contract in Section \_\_ of the FY\_\_ Appropriations Act and appropriated funds for that purpose.”

(iii) When the Air Force initiated procurement action.

(iv) When the Air Force and the contractor reached agreement on the price of the multi-year contract.

(v) The extent to which the negotiated contract differs from the contract contemplated when the MJP was prepared. For example:

“There were limited, but significant, differences between the contract baseline contemplated in [month and year when the justification package was prepared] and the baseline actually existing when negotiations were completed. These differences are summarized in Appendix C. They must be understood in order to relate the validated multi-year savings (based on actual contract details) to the projected multi-year savings based on budgetary estimates developed prior to [previously cited month and year].

(3) III. **Statement of Validated Multi-year Savings.** Show in summary form the derivation of the validated multi-year savings. Use the data that fit your circumstances. You should include:

Comparable Annual-buy Price $ XXX, XXX, XXX

Less Negotiated Price of Multi-year Effort $ XXX, XXX, XXX

VALIDATED MULTI-YEAR SAYINGS $ XX, XXX, XXX (XX %)

(4) IV. **Method of Determining Amount of Validated Multi-year**

**Savings.** Describe how you arrived at the validated multi-year savings. In this description you should identify the source documents you used, the analysis you performed, and any other analyses or calculations you performed to determine the amount of validated multi-year savings.

(5) V. **Appendices**. Include Appendices that provide necessary support documentation. At a minimum, include:

(i) Appendix A, Multi-year Justification Package.

(ii) Appendix B, Chronology of Events. Some of the events you

should include are:

(A) Date RFP was issued.

(B) Date proposals were received.

(C) Beginning and ending dates of factfinding.

(D) Date any revised proposals were received.

(E) Date of Appropriations Act that provided authority to use a multi-year contract.

(F) Beginning and ending dates of Should Cost, if done.

(G) Beginning and ending dates of negotiations.

(iii) Appendix C, Baseline Differences. (Summarize the differences between the set of assumptions underlying the estimates in the MJP and the set of facts and assumptions underlying the data in the savings validation exhibits. Examples include:

(A) The MJP estimates were based on [month and year] inflation projections. The negotiated price is based on [month and year] inflation projections.

(B) The MJP estimates were based on a configuration baseline of [dates]. The negotiated baseline includes Engineering Change Proposals identified in the Price Negotiation Memorandum.

The MJP estimates were based on the assumption that the contract would include a duration and description warranty. The negotiated contract includes a duration and description warranty.

(iv) Appendix D, Savings Validation Exhibits. Additional appendices may be necessary. If, for example, your analysis cannot be adequately explained by a paragraph in the body of the package, you should put the full explanation in an appendix. Or, if the multi-year contract includes a few line items priced on a conventional annual-buy basis, you may need an appendix to list those line items. This is significant because it causes the contract price to be higher than the Total Multi-year Cost on Exhibit MYP-3, Contract Funding Plan (Normally, those two numbers are identical).

(A) Prior to award, the negotiated multi-year price should be compared to a notional annual buy price that is based upon the annual buy proposal or position (if annual buy proposal has been waived) used in the initial savings validation as updated for comparable proposal and negotiation changes made during the multi-year negotiation process. A full audit trail of the construction of the annual buy position should be maintained in the official contract file. Competitively derived validation findings should reflect a comparison of the contracts actual multi-year proposed price to its comparable annual buy proposed price.

(*1*) The validation finding format should be similar to that of the initial findings supported by an updated set of exhibits. However, the format can be adapted to fit the needs of your program.

(*2*) Validation findings will be made prior to initiation of the multi-year contract if its price is definitized prior to the initiation.

(*3*) If the multi-year effort was initiated with an undefinitized contract vehicle (letter contract, EOQ advance buy contract, etc.) a preliminary validation findings should be prepared based upon dual proposal data as analyzed by the contracting officer to ensure proposal validity. If changes are made to the proposal data in preparing the validation exhibits, the contracting officer should maintain a good audit trail of those adjustments. Following the conclusion of negotiation, a final validation findings must be made before definitization.

(B) Validation Categories and Approval Levels

(*1*) Validation efforts will result in one of the three situations described in the categories below:

Category Situation

Category I: Validated savings greater than or equal to initial savings estimate in both dollars and percent

Present Value Positive

Category II: Validated savings less than savings estimate in dollars and/or percent

Present Value Positive

Category III: Negative Present Value

(*2*) The findings used in the verification are referred to as validation findings. After verification by the contracting officer, the approval of Category I findings must be done by the same organizational level required to approve the initial findings. For validation Category II findings, SAF/AQ approves major MYCs, and the HCA approves all others. For validation Category III findings, SAF/AQ approval is necessary for major MYCs and SAF/AQC approval is necessary for all others.

(*3*) After approval of the validation findings, additional reviews or Congressional notifications may be required prior to award depending on unfunded contingent liability amounts, EOQ amounts, and others. (See notification requirements in [AFFARS 5317.191](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/5317.htm).)

**CHAPTER 16**

**APPROVAL OF VALIDATION FINDINGS**

**AND NOTIFYING CONGRESS**

**THIS CHAPTER INCLUDES THE FOLLOWING SECTIONS:**

**(a) HOW TO PREPARE THE VALIDATION FINDINGS**

**(b) HOW TO DETERMINE WHO MUST APPROVE THE VALIDATION FINDINGS**

**(c) HOW TO OBTAIN THE NEEDED APPROVAL**

**(d) HOW TO DETERMINE WHEN TO NOTIFY CONGRESS**

**(e) HOW TO ENSURE THAT CONGRESS IS NOTIFIED**

**(f) WHEN TO PROCEED WITH AWARD**

**(a) HOW TO PREPARE THE VALIDATION FINDINGS**

(1) Prepare one-page findings as described in [Chapter 15](#ch15), paragraph (e)(5)(iv), and attach the Savings Validation Package.

**(b) HOW TO DETERMINE WHO MUST APPROVE THE VALIDATION FINDINGS**

(1) Step **One: Compare the Validated Multi-year Savings to the Savings Estimate in the MJP.**

(i) Look at Exhibit MYP-3, Contract Funding Plan, in the Savings Validation Package (prepared in accordance with the guidance in [Chapter 15](#ch15)). The validated multi-year savings is the dollar amount shown in the “Savings” row under “Total.” To express this in terms of a percentage, divide the savings by the total cost of the annual-buy alternative.

(ii) Look at Exhibit MYP-3, Contract Funding Plan, in the MJP that was previously submitted to Congress. The estimated multi-year savings is the dollar amount shown in the “Savings” row under “Total.” To express this in terms of a percentage, divide the savings by the estimated total cost of the annual-buy alternative.

(iii) Is the dollar amount of the validated multi-year savings higher, equal to, or lower than the savings estimated in the MJP?

(2) Step **Two: Note the “Present Value” of the Validated Multi-year Savings.**

(i) Look at Exhibit MYP-4, Present Value Analysis, in the Savings Validation Package. Is the Present Value of the savings positive (i.e., greater than zero) or negative (i.e., less than zero)?

(3) Step **Three: Consult Current Governing Regulations, Policy, and Congressional Direction.**

(i) In Steps One and Two, you compiled the following data:

Relevant Data

Savings Savings

Validated Estimated Validated Estimated Present Value

Savings in MJP Savings in MJP of Validated

(Dollars) (Dollars) (Percent) (Percent) Savings

Based on this data, your situation falls into one of the following categories:

(A) **CATEGORY I:** Validated Savings > MJP Savings Estimate (Dollars) **and**

Validated Savings > MJP Savings Estimate (Percent) **and**

Present Value Positive

(B) **CATEGORY II:** Validated Savings < MJP Savings Estimate (Dollars) **or**

Validated Savings < MJP Savings Estimate (Percent) **and**

Present Value Positive

(C) **CATEGORY III**: Present Value Negative

**Figure 16**

(ii) The approval level for the validation findings required by regulation and policy are dependent on the category as determined from Steps One and Two. It should be noted that these approval levels may be superseded by specific Congressional direction that may be included in the Authorization Act, Appropriations Act, and/or Congressional Committee Reports. Consult [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html), [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm), [DFARS 217.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars217.htm#P115_2890), [AFFARS 5317.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/5317.htm), [PL 105-56](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ56.105.pdf), and [PL 105-85](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ85.105.pdf) to ensure you have identified the correct approval level.

**(c) HOW TO OBTAIN THE NEEDED APPROVAL**

(1) In Category I and Category II situations, you can request approval of the Validation Findings in conjunction with satisfying Congressional notification requirements. Do this by following the guidance in paragraph E of this chapter entitled “How to Ensure that Congress is Notified.”

(2) In some Category II situations, the program manager and contracting officer may not consider validated savings or savings percentage to be high enough to make the MYC approach worthwhile. This is a subjective business judgment and there are no written guidelines. In these circumstances, officially coordinate with the appropriate staff office explaining that the multi-year contract will not be awarded with supporting rationale. Also, attach a copy of the Savings Validation Package.

(3) In a Category III situation, approval of Validation Findings is not necessary because the present value of the multi-year savings is negative. In these circumstances, officially coordinate with the appropriate staff office explaining that the multi-year contract will not be awarded and attach a copy of the Savings Validation Package. You should proceed to negotiate a contract on an annual-buy basis.

*Note: The decision not to award a contract as a multi-year applies even though Congress may have already approved use of the multi-year contract in an Appropriations Act. Congress views its approval as permissive, not directive.*

**(d) HOW TO DETERMINE WHEN TO NOTIFY CONGRESS**

(1) Congressional Notification.

(i) The determination on whether Congress needs to be notified of an impending

multi-year award has evolved over the years. The requirement to notify Congress is now in 10 USC 2306b(g), and updated in Section 814 of the National Defense Authorization Act of FY2005, which requires that the Secretary notify and provide supporting rationale to the Armed Services and Appropriations Committees of the Senate and the National Security and Appropriations Committees of the House, 30 days before awarding a multiyear contract containing a cancellation ceiling in excess of $100,000,000 that is not fully funded.

1. Additionally, Section 8008 of the Defense Appropriations Act of FY2005

places the following conditions on the award of a multiyear contract using FY2005 funds.

(A) DoD must have submitted a budget request to Congress for full funding of the units to be procured;

(B) Contract cancellation provisions must not include consideration of recurring costs associated with the production of unfunded units;

(C) Payments under the contact must not be made in advance of incurred costs on funded units; and,

(D) The contract must not provide for a price adjustment based on a failure to award a follow-on contract."

(2) [DFARS 217.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars217.htm#P115_2890) specifies that DoD must receive authorization from, or provide notification to, Congress before entering into a multi-year contract for certain procurements.

(3) Section 8008(b) of [PL 105-56](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ56.105.pdf) discusses the budget submission. Please refer to Section 8008(b) of [PL 105-56](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ56.105.pdf) for current legislative language on formal budget requests.

(4) Agencies should establish reporting procedures to meet the congressional notification requirements of paragraph D.1 of this section. The head of the agency should submit a copy of each notice to the Director of Defense Procurement, Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD (AT&L) DP), and to the Deputy Under Secretary of Defense (Comptroller) (Program/Budget) (OUSD(C)(P/B)).

(5) If notification is required, this notification requirement cannot be satisfied by any routine input to Congress (pursuant to [FAR 5.3](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/05.htm)). The information being conveyed is unique and the timing is based on when you will be ready to award the multi-year contract.

**(e) HOW TO ENSURE THAT CONGRESS IS NOTIFIED**

(1) These are general guidelines for submitting validation findings for approval and Congressional notification prior to contract award. However, we realize that each program is unique and these guidelines can be adapted to fit the needs of your program.

(i) Step **One:** Send the validation findings to appropriate staff office with a cover letter signed by the program manager and contracting officer that contains the following information:

(A) A statement of your intention to award a multi-year contract.

(*1*) Identify what is being acquired under the contract.

(*2*) Identify the intended date of award.

(B) State the amount of the validated multi-year savings (in dollars and as a percent), and a statement (if applicable) that the savings are less than the amount (in dollars and/or as a percent) estimated in the MJP previously submitted to Congress.

(C) A statement that this multi-year contract meets the criteria for 30-day advance notification to Congress.

(D) A statement of your belief that awarding the multi-year contract is in the best interest of the Government because it meets the multi-year criteria and is a sound fiscal business decision.

(E) A request that the Validation Findings is:

(*1*) Signed by the appropriate approval authority.

(*2*) Forwarded through SAF/LL to notify Congress no later than a specified date. (Specify the date that is 30 days before you plan to award the multi-year contract.)

(F) An explanation why it is necessary or important that the multi-year contract be awarded by the planned award date.

(G) A request that you be provided with a copy of the Air Force letter(s) that notifies Congress of the intended award as soon as possible after the letter(s) is sent.

(ii) Step **Two:**  Inform the staff office focal point that the letter is on its way.

(iii) Step **Three:** Verify that the letter has been received.

(iv) Step **Four:** Check on the status and ensure that the people involved understand the importance of the requested notification and award dates. Maintain an open and active dialogue throughout the validation approval and notification process.

(v) Step **Five:** Verify that Congressional notification has been made and award contract no earlier than 30 days after notification date.

(2) These are general guidelines for submitting validation findings for approval and Congressional notification concurrent with contract award. However, we realize that each program is unique and these guidelines can be adapted to fit the needs of your program.

(i) Step **One:**  Send the validation findings to appropriate staff office with a cover letter signed by the program manager and contracting officer that contains the following information:

(A) A statement of your intention to award a multi-year contract.

(*1*) Identify what is being acquired under the contract.

(*2*) Identify the intended date of award.

(B) State the amount of the validated multi-year savings (in dollars and as a percent), and a statement (if applicable) that the savings are less than the amount (in dollars and/or as a percent) estimated in the MJP previously submitted to Congress.

(C) A statement of your belief that awarding the multi-year contract is in the best interest of the Government because it meets the multi-year criteria and is a sound fiscal business decision.

(D) A request that the Validation Findings is:

(*1*) Signed by the appropriate approval authority.

(*2*) Forwarded through SAF/LL concurrent with contract award so they can notify Congress of the validated multi-year savings within 30 days after award.

(ii) Step **Two:** About two weeks after award, check with the staff office focal point to verify the Validation Findings was approved and notification was made.

**(f) WHEN TO PROCEED WITH AWARD**

You may award the multi-year contract on the thirty-first calendar day after the date of the Air Force letter that notified Congress of the validated multi-year savings and intended award if:

(1) You have a copy of the signed Validation Findings;

(2) Clearance has been received; and

(3) Congress has not objected to the award.

**CHAPTER 17**

**SUMMARY, INFORMATION, AND ASSISTANCE**

**THIS CHAPTER COVERS THE FOLLOWING SECTIONS:**

**(a) SUMMARY**

**(b) GETTING INFORMATION AND ASSISTANCE**

**(a) SUMMARY.** As you have seen by the contents of this guide, multi-year can sometimes be a complex and confusing contracting tool to use. Though detailed, this guide does not answer all questions concerning multi-year. There are also no specific training courses on MYC and it receives very limited mention in standard contracting and acquisition courses. Given this, the best approach to prepare you for a multi-year procurement consists of the following:

(1) Read all available multi-year literature applicable to your type of program/acquisition.

(2) Contact your staff points of contact for multi-year assistance and guidance.

(3) Contact a multi-year mentor who has conducted an actual multi-year for assistance and guidance.

**(b) GETTING INFORMATION AND ASSISTANCE.** Sources of information regarding MYC are as follows:

(1) Statutory.

(i) [10 USC 2306b](http://www4.law.cornell.edu/uscode/10/2306b.html), Multi-year contracts.

(ii) [10 USC 2829](http://www4.law.cornell.edu/uscode/10/2829.html), Multi-year contracts for supplies and services for the management, maintenance, and operation of military family housing.

(iii) [PL 105-56](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ56.105.pdf), [PL 105-85](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ85.105.pdf), Annual Appropriation, and Authorization Acts.

(2) Regulatory and Training.

(i) [DoD Financial Management Regulation (DoD 7000.14-R)](http://www.defenselink.mil/comptroller/fmr/): Volume 2A, Chapter 1; Volume 2B, Chapter 4; and Volume 3, Chapter 8.

(ii) [FAR 17.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/17.htm), [DFARS 217.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars217.htm#P115_2890), and [AFFARS 5317.1](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/5317.htm).

(iii) [FAR 32.7](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/32.htm), [DFARS 232.7](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/dfars232.htm#P598_30873), and [AFFARS 5332.7](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/af_afmc/affars/5332.htm).

(iv) [OMB Circular A-11](http://www.whitehouse.gov/omb/circulars/a11/current_year/a_11_2003.pdf) and [OMB Circular A-11, Part 4](http://www.whitehouse.gov/omb/circulars/a11/current_year/a_11_2003.pdf#page=371).

(3) [SAF/AQC Home Page](https://cs.eis.af.mil/airforcecontracting/knowledge_center/Pages/5315-main.aspx).

**ATTACHMENT 1**

**SAMPLE INITIAL MULTI-YEAR CONTRACT (MYC) FINDING**

DEPARTMENT OF THE AIR FORCE   
FINDINGS IN SUPPORT OF AUTHORIZATION TO MAKE MULTI-YEAR CONTRACTS

Upon the basis of the following finding, which I hereby make [*as/for*] the agency head pursuant to [10 U.S.C. 2306(b)](http://www4.law.cornell.edu/uscode/10/2306b.html) the contracts described below may be made on a multi-year basis provided appropriate Congressional approvals are obtained.

**FINDINGS**

1. The [*insert organization*] proposed to make multi-year contracts for the production of [*insert item*]*.*

2. Based upon the attached Multi-year Exhibit Package, I find that:

a. The use of multi-year contracts will promote the national security of the United States and will result in reduced total costs under the contracts;

b. The minimum need for the property to be purchased under these contracts is expected to remain substantially unchanged in terms of production rate, procurement rate, and total quantities;

c. There is reasonable expectation that throughout the contemplated contract periods the Department of the Air Force will request funding for the contracts at the level required to avoid contract cancellations;

d. There is a stable design for the property to be acquired and that the technical risks associated with such property are not excessive; and

e. The estimates of both the cost of the contracts and the anticipated cost avoidance through the use of multi-year contracts are realistic.

DATE \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ SIGN \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Approval Authority)

\_\_ Atch   
\_. \_\_\_\_\_\_\_\_\_ Exhibit Package\*   
dated \_\_\_\_\_\_\_ (\_\_ pp)

\* Exhibits not required for small Non-EOQ multi-year contracts.