**From:** Sineath CIV John
**To:** Bergman CIV Alan D; Carroll Maj George T; Cerka CIV Frances C; Corcoran LtCol Eric M; Crawford Civ Dale A; Drury CIV Deborah A; Gaylor CIV Sherry F; Gubitti Civ Cynthia A; Hake CIV Peggy L; Henley CIV June R; Higa CIV Sakura K; Humphrey CIV Sharon E; Ingle Capt Steven L; Lemmond CIV Barbara G; Long Capt Eric J; Lovett-Black Civ JoAnna; Matthews CIV Layton D; Michael Maj Ronnie D; Morris CIV Robert A; Mullen CIV Melvin T; Payne CIV Mark H; Pendley CIV Larry F; Pockette CIV Michael D; Polesnak Maj Stephanie M RC (SW) II MEF FWD G4 OCS Branch Head; Powell CIV Hollis H; Rabassi Maj Christopher E; Rego CIV Arthur J; Schmid LtCol Steven J; Stroh CIV Linda L; Washington CIV Connie A; Young Capt Wynndee M;
**cc:** Beckner CIV Linda; Donahue Maj Kimberly A; Faughnan CIV Kevin; Fernandez CIV Kimberly F; Haines CIV John; Harper CIV Twana E; Keys CIV John; Lerma MGySgt Maricela G; Mckellop SSgt Jessycca E; Reier CIV Susan; Robinson LtCol Macon R; Sullivan SES Frances L; Uher CIV Lauren; Romano CIV Mark; Oliver CIV R. Kaye; Daise CIV Stanley C; Shah, Sejal [USA];
**Subject:** APM 12-01 Cash Flow Tool for Evaluating Alternative Financing Arrangements
**Date:** Thursday, October 06, 2011 14:31:00
**Attachments:** Cash flow tool for Evaluating Alternative Financing Arrangements.pdf

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All,

BACKGROUND:

a. On September 14, 2010, the Under Secretary of Defense (USD) for Acquisition, Technology and Logistics (AT&L), issued a memorandum on the subject of Better Buying Power for the Department. In that memorandum, the Director of Defense Procurement and Acquisition Policy (DPAP) was directed to develop a cash flow model to be used by all Contracting Officers contemplating financing options other than customary progress payments, such as Performance Based Payments (PBP). Accordingly, DPAP developed and is deploying a Microsoft Office Excel-based cash flow analysis tool that Contracting Officers must use when considering other than customary progress payments.

b. This new tool allows Contracting Officers and industry to easily compare the financial cost and benefits of using PBPs versus customary progress payments. In addition, the tool also determines a win-win price that equitably accounts for the cost, benefits, and potential risk associated with PBPs.

POLICY:

For any new fixed-price contract award resulting from a solicitation issued and

Performance Based Payments are contemplated for contract financing, Contracting Officers shall utilize the Cash Flow Analysis Tool to determine a suitable financing option. The Analysis tool is located on the DPAP website at http://www.acq.osd.mil/dpap/cpf/Performance_based_payments.html.

PROCEDURES:

a. Effective Immediately, for any new award of a fixed-price contract resulting from a solicitation, the Contracting Officer shall indicate in the request for proposal (RFP) that the proposal and award will be based on the use of customary progress payments.

b. After agreement on price, or after contract award, in the case of competitive acquisitions, if a contractor proposes PBPs, the Contracting Officer shall:

(1) Review the proposed PBP schedule, which shall include all PBP events, completion criteria, event values, and the contractor's expected expenditure profile; and

(2) Use the PBP Analysis Tool to assess the practicality of PBPs for the contract and determine the reasonableness of the consideration being offered in return for the more favorable payment structure.

c. If PBPs are deemed practical, the Contracting Officer shall evaluate and negotiate the details of the PBP schedule. In addition, the Contracting Officer shall clearly identify the consideration received in the post-negotiation business clearance memorandum (BCM).

d. In all cases where there is some alternative financing arrangement other than PBPs being contemplated, the Contracting Officer shall submit the proposed arrangement to DPAP for review and concurrence before use of the alternative financing arrangement. Any such cases shall be submitted through DASN(A&LM) via email at RDAJ&As@navy.mil.

e. For modifications to contracts that already use PBP financing, the PBP Analysis Tool shall be used to help determine the price for the modification.

f. To assist in establishing effective PBPs, contracting personnel are encouraged to complete new Defense Acquisition University (DAU) continuous learning course CLC 057 - Understanding Performance Based Payments and the Value of Cash Flow.

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