EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

September 7, 2004

MEMORANDUM FOR CHIEF ACQUISITION OFFICERS
SENIOR PROCUREMENT EXECUTIVES

FROM: Robert A. Burton
Associate Administrator

SUBJECT: Increasing the Use of Performance-Based Service Acquisition

In July 2003, the Office of Federal Procurement Policy (OFPP) issued a report, "Performance-Based Service Acquisition: Contracting for the Future," outlining recommendations to improve the quality and increase the use of performance-based service acquisition (PBSA). An interagency task force representing agencies that award a significant dollar amount of service contracts and task orders developed these recommendations. The purpose of this memorandum is to implement several of the task force's suggestions, including new instructions for reporting and querying the Federal Procurement Data System (FPDS). Unless otherwise stated in this memorandum, these changes are effective October 1, 2004.

Target Achievement Levels

Agencies should apply PBSA methods on 40 percent of eligible service actions over $25,000, to include contracts, task orders, modifications, and options, awarded in fiscal year (FY) 2005, as measured in dollars. OFPP, in consultation with the Chief Acquisition Officers Council, will re-evaluate the target achievement levels for future years based on agencies' FY 2005 performance.

Reporting Requirements

Eligible services: The Federal Acquisition Regulation (FAR) encourages use of PBSA to the maximum extent practicable except for the exclusions identified in FAR 37.102 (the product service codes are included for your convenience):

(i) Architect-engineer services acquired in accordance with 40 U.S.C. 541-544 (see Part 36) - C***;
(ii) Construction (see Part 36) - Y***;
(iii) Utility services (see Part 41) - S1**; or
(iv) Services that are incidental to supply purchases.

Additionally, other types of services may not lend themselves to outcome-oriented requirements. For reporting purposes only, the following service areas will be excluded from the list of eligible

service contracts used to determine how many PBSA actions agencies are awarding. However, agencies are not precluded from using PBSA when contracting for these types of services if a performance-based approach best meets the government's needs.

- Research and development (R&D) to include Basic Research, Applied Research, Advanced Technology Development, Demonstration and Validation, and Engineering and Manufacturing Development - A**1 through A**5
- Professional Medical Services (not facility-related) - Q501 through Q527
- Tuition, Registration & Membership Fees - U005

This change should not require a modification to agency reporting systems, but will be used to query FPDS to assess agency use of PBSA. The FPDS instructions will be revised to incorporate these exclusions.

Percentage of the requirement: If more than 50 percent of the requirement is performance-based, as measured in dollars, the service action may be coded as a PBSA. With the increase in multi-purpose and hybrid service actions, agencies are encouraged to apply PBSA methods to more of their eligible service actions and should be recognized for these efforts. The FPDS instructions will be changed accordingly. As PBSA use increases and performance goals improve, this percentage may change.

Additional reporting guidance: OFPP uses the FPDS to assess agency PBSA performance. However, some agencies are not required to submit all contract data to FPDS and some PBSA efforts may go unreported. Agencies interested in supplementing their FPDS information may report additional PBSA data directly to OFPP. These supplemental reports will assist OFPP in accurately assessing all agency efforts to achieve PBSA performance goals. The first report, which will reflect FY 2005 activity and is due January 31, 2006, shall include the total dollars obligated in the following categories:

1) PBSAs funded by the agency but awarded by another agency;
2) PBSAs awarded by the agency but funded by another agency;
3) PBSAs awarded by and funded by the agency; and
4) all eligible service acquisitions awarded by the agency.

Agencies are encouraged to consider using FPDS as a supplemental reporting tool for contracts that are not required to be reported. Please visit https://www.fpds.gov for more information.

Recognizing the Use of PBSA

Agencies are encouraged to recognize employees and teams that successfully develop and implement PBSAs. To promote the use of PBSA techniques on eligible service actions, the General Services Administration (GSA) established two awards to acknowledge the PBSA efforts of acquisition professionals: 1) the GSA Excellence in Performance-Based Service Acquisition Award, and 2) the Government-wide Award for Excellence in Performance-Based Service Acquisition. The awards recognize the PBSA efforts of acquisition professionals, and

other agencies may consider using these awards as a model. More information on the awards can be found at www.acqnet.gov.

Guidance

OFPP rescinds its 1998 Guide to Best Practices for Performance-Based Service Contracting. Agencies are encouraged to use the Seven Steps to Performance-Based Service Acquisition Guide, available at www.acqnet.gov, in their development of PBSAs. The guide is updated regularly, by an interagency team led by GSA, to reflect new policies and best practices, and includes samples of PBSAs that have been reviewed and selected by the team.

Additionally, a FAR case was published in the *Federal Register* for public comment on July 21, 2004, to implement the general recommendations of the PBSA interagency task force. A copy of the task force's report can be found at www.whitehouse.gov/omb/procurement/0703pbsat.pdf.

Agency Point of Contact

Agencies are gaining a wealth of PBSA experience and knowledge and OFPP encourages the sharing of this information throughout the acquisition community. To build a strong PBSA subject matter expert network and database of successful PBSA examples, and to facilitate communication regarding PBSA, OFPP requests that agencies identify a knowledgeable and experienced individual as their PBSA point of contact. These individuals may be asked to contribute PBSA examples and best practices to interagency working groups established to promote PBSA or to assist in outreach and awareness efforts. Please submit the person's name, title, telephone number, and e-mail address to Lesley Field in OFPP by November 1, 2004.

Management Plan

OMB is considering asking agencies to submit PBSA management plans outlining the agency's approach to increasing the use of PBSA techniques on eligible service contracts and developing core PBSA skills and experience within the acquisition workforce. Later this fiscal year, OFPP may convene a working group that includes the agency PBSA points of contact to further define the scope and content of this plan.

For further information, please contact Lesley Field at (202) 395-4761 or lfield@omb.eop.gov.