

MANAGEMENT INITIATIVE DECISION



MID 917

TITLE: Performance Based Logistics

DATE: October 18, 2004

DECISION: The Deputy Secretary approved the MID.

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SUBJECT: Performance Based Logistics (PBL)

DOD COMPONENTS: Military Departments and the Office of the Secretary of Defense

SUMMARY OF EVALUATION: This Management Initiative Decision (MID) directs a pilot program to test revised contracting, programming, budgeting, and financing processes for PBL agreements. The six programs that will participate in this pilot are: the Sentinel Radar System; the Tube-Launched, Optically-Tracked, Wire-Guided Improved Target Acquisition System (TOW ITAS); the ALQ-99 Tactical Radar Jamming System Pod; the Expeditionary Fighting Vehicle; the B-2; and the Joint Strike Fighter (JSF). Specifically, for each pilot program this MID directs the Military Departments (MILDEPs) and the JSF Joint Program Office (JPO) to:

- Complete a PBL business case analysis (BCA) within 180 days of the approval of this MID. If the BCA concludes that PBL is the best sustainment process for that system:
 - Develop an acquisition strategy to execute a true performance agreement for sustainment.
 - Identify PBL resources in a new Select and Native Programming (SNaP) Data Collection System exhibit in program/budget submissions.
 - Within the Major Commands' or Major Claimants' budgets, ensure PBL Operation and Maintenance (O&M) resources are included within a single budget sub-activity group (SAG) in the applicable O&M appropriations and, further, limit the lines of accounting involved to the least number practical by consolidating or realigning resources within the commands.
- Brief an interim report on implementation of this MID not later than 90 days after the approval of this MID.

This MID also directs the Total Life Cycle Systems Management (TLCSM) Steering Group to develop criteria and milestones for evaluating the pilot programs' plans for and experience with the revised processes and criteria for expansion of the revised processes beyond the pilot programs to legacy and/or other new systems.

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DETAIL OF EVALUATION: The Performance Based Logistics (PBL) strategy is to improve weapon system readiness by capitalizing on integrated logistics chains. The cornerstone of PBL is the purchase of weapon system sustainment as an integrated package based on output measures, such as system availability, rather than input measures, such as parts and technical services.

DISCUSSION: The 2001 Quadrennial Defense Review (QDR) Report, dated September 30, 2001, stated, "A transformed U.S. force must be matched by a support structure that is equally agile, flexible, and innovative." The QDR report directed the implementation of PBL to compress the supply chain and improve readiness for major weapon systems and commodities. This MID provides for a pilot program to test revised processes to facilitate this direction.

To implement new operational and transformational strategies, the warfighter requires weapon systems that are responsive, ready, and reliable. The focus of the PBL strategy is to translate warfighter-specified levels of operational performance into a sustainment program that optimizes system readiness requirements and total ownership costs (TOC). The PBL process requires the warfighter and the Program Manager (PM) to agree upon and document performance-based requirements for product support that can be purchased within the warfighter's resources. Examples of performance-based metrics used in PBL are: operational availability, mission capable rate, and customer wait time. In a true PBL agreement, the provider (government, industry, or government/industry partnership) is incentivized and empowered to meet customer-oriented performance requirements (reliability, availability, etc.) to improve product support effectiveness while reducing TOC. Customers (the warfighters) buy a level of performance as opposed to individual spare parts, maintenance actions, or technical data. Business case analyses must be performed to determine whether PBL is the best sustainment approach for specific weapon systems and subsystems.

PBL agreements must be structured with the understanding that the warfighter's statement of requirements is not a one-time event. As scenarios change and the operational environment evolves, performance requirements and acceptable levels of risk

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change. The dynamic threat environment compels warfighters to reevaluate their requirements and risk management assessments based upon emerging and evolving threats. PBL agreements with providers must be flexible to allow the warfighter to redistribute resources as priorities change.

CURRENT PROCESS: The MILDEPs have attempted to implement PBL based on business case analyses, consistent with the QDR guidance. Early applications of PBL uncovered a number of financial and contractual challenges to full implementation of PBL within the Department of Defense (DoD). For example, the F-18 Super Hornet PBL contract involves multiple line items associated with repairable parts, maintenance, technical services, and consumable parts. Each line item is funded by specific appropriations, with limited flexibility across the contract. In essence, the Department is buying a collection of elements on a single contract, but it is not buying output.

PBL strategies are programmed and resourced differently, dependent upon Service-unique approaches. Within O&M appropriations, PBL agreements can include funds from various O&M funding activities, such as Depot Maintenance, Supplies, and Depot Level Repairables. Since Guard and Reserve Components have individual O&M appropriations, these funding areas multiply when the PBL agreement supports the Guard and/or Reserve Component(s) as well as the Active Component. In the execution year, the PMs collect separate funding documents from many resource sponsors to finance the PBL agreements.

Current DoD PBL practices highlight areas of continuing challenges with full PBL implementation. Financing PBL agreements through several functional activities within various appropriations rather than financing the weapon system performance level precludes the PM from purchasing performance and leads to optimizing performance within functional stovepipes without regard to overall weapon system performance.

PILOT PROGRAM: The PBL approach calls for a pilot program to test revised contracting, programming, budgeting, and financial processes to facilitate the cultural shift from buying specific products (such as individual spare parts, maintenance actions, or technical data) to buying performance levels. Adjusting

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these processes for the pilot programs' PBL agreements as much as practicable in concert with appropriation law and other statutory requirements may facilitate the achievement of the performance goals in these performance-based agreements.

For the following pilot programs, the MILDEPs and the JSF JPO shall complete PBL business case analyses (BCAs) within 180 days of the approval of this MID and submit them to the Deputy Under Secretary of Defense (Logistics and Materiel Readiness {DUSD(L&MR)}), Under Secretary of Defense (Comptroller) {USD(C)}, and the Director, Program Analysis and Evaluation (D,PA&E):

U.S. Army	Sentinel Radar System TOW ITAS
U.S. Navy	ALQ-99 Tactical Radar Jamming System Pod Expeditionary Fighting Vehicle (USMC)
U.S. Air Force	B-2
JSF JPO	JSF

If the BCAs conclude that PBL is the best sustainment process for these programs, they shall continue to be pilot programs for the purposes of this MID and will plan to use the following contracting, programming, budgeting, and financial processes. Full implementation is dependent upon evaluation of the pilot programs' experience with these processes.

Contracting Process. For the pilot programs, the MILDEPs and the JSF JPO shall develop an acquisition strategy to execute true performance agreements for sustainment, i.e., buy performance output instead of buying a collection of elements on a single PBL agreement. They shall plan to implement these changes, as applicable, for initial PBL agreements or as current PBL agreements expire and new PBL agreements are negotiated. The acquisition strategy will address how to accommodate variations in expected performance to cover fixed and variable costs, enabling the warfighter to meet surge or drawdown requirements as well as to accommodate changes in the threat environment which may dictate that the warfighter adjust priorities and risk assessments. This strategy should provide the warfighter with a matrix, or sliding scale, relating resource levels to logistics support levels.

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Programming and Budgeting Process. The warfighting (customer) commands in consultation with the PMs shall determine performance requirements for the pilot programs. The PMs shall estimate the resources needed to meet the required customer performance levels. As required in DODI 5000.2, the PMs and warfighting commands shall document their negotiated performance/support requirements and associated resources in performance agreements specifying objective outcomes, measures, resource commitments, and stakeholder responsibilities. The warfighting commands shall advocate for the resources during the programming and budgeting processes, clearly identifying PBL resources. To facilitate this process, the MILDEPs shall identify the PBL resources for each pilot program in a new SNaP Data Collection System exhibit in their program/budget submissions. DUSD(L&MR), D,PA&E, and USD(C) shall develop an initial SNaP exhibit for inclusion in the Program Data Requirements for the FY 2006-2011 program/budget review.

Financial Process. The MILDEPs, within the Major Commands' or Major Claimants' budgets, shall ensure PBL O&M resources are included within a single budget SAG in the applicable O&M appropriations and, further, limit the lines of accounting involved to the least number practical by consolidating or realigning resources within the commands to facilitate buying a complete service instead of various sub-programs. This will allow the PBL provider more flexibility in meeting the performance metrics/requirements in the PBL agreement. Additionally, a balance needs to be achieved between ensuring a level of funding support to the PBL provider so that efficient operations can be achieved, and maintaining execution flexibility within the operating forces. Therefore, performance packages need to be developed with that consideration in mind and that strike an appropriate balance. In execution, at the time the service package is actually ordered (by project order, Military Interdepartmental Purchase Request, etc.), the entire cost for the agreed upon service package, for the full duration of time supported, must be obligated. Investment requirements shall continue to be financed in the Procurement and the Research, Development, Test, and Evaluation appropriations.

Interim Report. Each MILDEP and the JSF JPO shall brief an interim report on MID implementation progress to the DUSD(L&MR)

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and the USD(C) not later than 90 days after the approval of this MID. The DUSD(L&MR) will provide to the MILDEPs and the JSF JPO the areas to be covered not later than 45 days after the approval of this MID.

Pilot Program Evaluation: Not later than 120 days after the approval of this MID, the TLCSM Steering Group shall develop criteria and milestones for evaluating the pilot programs' plans for and experience with the revised processes and criteria for expansion of the revised processes beyond the pilot programs to legacy and/or other new systems.

SUMMARY: The MID requires:

The **MILDEPs** and **JSF JPO** to:

- Brief an interim report on MID implementation progress to the DUSD(L&MR) and USD(C) not later than 90 days after the approval of this MID.
- Complete PBL BCAs for the pilot programs and submit them to DUSD(L&MR), USD(C), and D,PA&E within 180 days of approval of this MID.
- Comply with the contracting, programming, budgeting, and financial processes directed in this MID for the pilot programs if the BCAs conclude that PBL is the best sustainment process for these programs.

The **DUSD (L&MR)** to:

- Provide to the MILDEPs and the JSF JPO the areas to be covered in their interim reports to DUSD(L&MR) and USD(C) not later than 45 days after approval of this MID.

The **TLCSM Steering Group** to:

- Develop criteria and milestones - not later than 120 days after the approval of this MID - for evaluating the pilot programs' plans for and experience with the revised processes and criteria for expansion of the revised processes beyond the pilot programs to legacy and/or other new systems.

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The **DUSD (L&MR)**, **D, PA&E**, and **USD (C)** to:

- Develop an initial SNaP exhibit for identification of PBL resources for inclusion in the Program Data Requirements for the FY 2006-2011 program/budget review.