

POLICY ALERT
No. 11-37
Cash Flow Tool for Evaluating Alternative Financing Arrangements

REFERENCES: [DPAP Memorandum dated April 27, 2011, Cash Flow Tool for Evaluating Alternative Financing Arrangements](#)

TYPE OF ACTION: Direction

EFFECTIVE DATE: April 27, 2011

SUMMARY: On September 14, 2010 the Under Secretary for Defense for Acquisition, Technology and Logistics issued a memorandum on the subject of Better Buying Power for the Department. 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 other than customary progress payments, such as Performance Based Payments (PBP). In addition, guidance was to be developed that ensures that the improved cash flow opportunities provide benefit to both industry (at both the prime and subcontractor level) and the taxpayer. The April 27, 2011 DPAP memorandum provides that direction and includes the following key points:

- For competitive fixed-price acquisitions the request for proposal will state that the proposal and award will be based on the use of customary progress payments.
- For new contract awards, the basis of negotiations for fixed price contracts shall be the use of customary progress payments.
- Contracting Officers shall utilize the PBP Analysis Tool (cash flow estimating tool) on new fixed-price type contracts resulting from solicitations issued on or after July 1, 2011 whenever PBP are contemplated for contract financing.
- The cash flow estimating tool allows the Contracting Officer and industry to compare the financial costs and benefits of using PBPs versus customary progress payments. The excel tool is available at [http://www.acq.osd.mil/dpap/cpf/Performance based payments.html](http://www.acq.osd.mil/dpap/cpf/Performance_based_payments.html).
- After agreement on price, or contract award in the case of competitive acquisitions, the contractor shall have flexibility to propose PBP for Government consideration.
- Contractors should be instructed that if PBPs are desired, a proposed PBP schedule should be submitted which includes all PBP events, completion criteria and event values along with the contractor's expected expenditure profile.
- If the PBP are deemed practical, the Government must evaluate and negotiate the details of the PBP schedule.
- The Contracting Officer must clearly identify the consideration received in the post negotiation document whenever a payment schedule more favorable to the contractor than customary progress payments is negotiated.

- The clearance official or one level above the Contracting Officer, whichever is higher, must specifically approve the negotiation consideration.

Defense Acquisition University is developing a continuous learning course CLC057 - Understanding Performance Based Payments and the Value of Cash Flow, which should be available in May 2011.

Further background and information are provided within the April 27, DPAP memorandum.

ACTION REQUIRED: Contracting Officers shall follow direction, including the use of the cash flow tool, provided in the April 27, 2011 DPAP memorandum when considering financial arrangements other than customary progress payments for fixed price contracts.

This Policy Alert is effective on the date indicated above and remains in effect until revised, superseded, or until otherwise rescinded.

You may direct comments/questions on this Policy Alert to the Contract Policy and Pricing Branch at 303-676-3985

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