



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

FEB 01 2006

ACQUISITION
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Performance-Based Service Acquisition (PBSA)

The purpose of this memorandum is to ensure that Military Departments and Defense Agencies are aware of current DoD requirements relating to PBSA. DoD remains committed to increasing the appropriate use of PBSA. On September 7, 2004, the Office of Federal Procurement Policy (OFPP) issued a memorandum, Attachment (1), implementing PBSA recommendations developed by an interagency task force, including target goals for PBSA use; a list of service areas excluded from the assessment of PBSA goal achievement; and guidance for supplemental reporting. DoD has made significant progress increasing PBSA use. In Fiscal Year 2004, more than 40% of applicable service contracts were performance-based. Therefore, DoD has continued to work toward its existing goal of 50% of eligible service actions over \$25,000 (measured in dollars awarded). Please note that actions may be coded as performance-based if more than 50% of the requirement, measured in dollars, is performance-based.

Attachment (2) provides a current list of services exempted from the requirement to use performance-based contracting methods and a list of service areas excluded from the annual assessment of PBSA goal achievement. Military Departments and Defense Agencies that want actions in the excluded service areas to be included in the annual assessment of PBSA should contact my office.

DoD is committed to increasing the quality of PBSA actions. On August 19, 2003, the USD(AT&L) issued a memorandum, Attachment (3), requiring that, by the end of Fiscal Year 2005, personnel involved in preparation of performance-based statements of work must complete PBSA training. To address this requirement, Defense Acquisition University continuous learning module, CLC 013, Performance-Based Services Acquisition, is available at <https://learn.dau.mil/html/clc/Register.jsp>.

Fiscal Year 2005 PBSA reports, your point of contact information, and a report of PBSA training for personnel involved in preparing or approving performance-based statements of work are due to my office by February 28, 2006. My point of contact is Ms. Linda Neilson, who can be reached at (703) 697-8334 or via email at linda.neilson@osd.mil.

Domenic C. Cipicchio
Acting Director, Defense Procurement and
Acquisition Policy

Attachments:
As stated



DISTRIBUTION:

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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.

1. Eligible Services:

The following services are exempted from the requirement to use performance-based contracting methods (see Federal Acquisition Regulation (FAR) 37.102, Policy, and OFPP memorandum dated September 7, 2004):

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

2. Services excluded from the list of eligible service contracts:

There are additional types of services that may not be appropriate for performance-based contracting methods. Therefore, the following service areas are excluded from the list of eligible service contracts used to determine how many PBSA actions agencies are awarding.

Please note, however, that agencies are not precluded from using PBSA procedures for services in these areas. Military Departments and Defense Agencies with PBSA activity in these service areas may provide pertinent FPDS data in a supplemental report for consideration in the assessment of PBSA activity.

- Research and development (R&D) – A**1 through A**5 and A**7, to include—
 - Basic Research,
 - Exploratory Development,
 - Advanced Development,
 - Demonstration/Validation,
 - Engineering and Manufacturing Development, and
 - Operational System Development.
- Professional Medical Services (not facility-related) – Q501 through Q527
- Tuition, Registration & Membership Fees – U005



ACQUISITION,
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THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

AUG 19 2003

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS ATTENTION: SENIOR ACQUISITION EXECUTIVES DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Performance Based Service Acquisitions

The Department needs to continue increasing the use of performance based service acquisitions (PBSA) because such acquisitions provide significant benefits to the government. By specifying our objectives, we allow contractors the latitude to determine the best way to achieve the objectives without constraints on how to achieve them. As you know, the Department established a goal to award 50 percent of contract actions and dollars using performance-based specifications by Fiscal Year 2005. We are making good progress toward meeting this goal. For FY 2002, the Department awarded over 20 percent of its service requirements using performance based specifications. Outlined below are the results of a recent Office of Federal Procurement Policy (OFPP) report and the Department's current goals and policies regarding PBSA.

OFPP issued a report developed by an interagency working group (report located at: http://www.whitehouse.gov/omb/procurement/july_revision_pbsat_task_force.pdf). The report recommends changes to the Federal Acquisition Regulation and PBSA reporting requirements, and recommends improving the quality and availability of guidance.

Based in part on recently enacted legislation, I ask each of you to work toward the following goals for the use of PBSA:

FY 2003	25 percent of dollars awarded
FY 2004	35 percent of dollars awarded
FY 2005	50 percent of dollars awarded

Measurement against these goals will be based solely on the percentage of contract dollars awarded using PBSA. While we should strive to use PBSA in acquiring most services, there are a few types of services that are not particularly well suited to PBSA. Such services are listed in the attachment. In order to focus efforts on the areas of greatest potential benefit, services listed on the attachment with low opportunities for utilizing PBSA will be excluded when computing the percentage of contract dollars awarded using PBSA (consistent with the OFPP report).

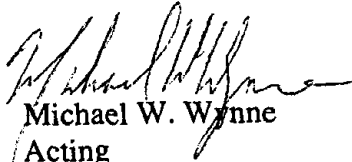


The use of statements of objectives (SOOs) is a highly effective tool in conducting PBSAs. SOO is a type of a statement of work, which includes a summary of key goals and/or outcomes desired. SOOs allow competitors to propose their solutions, including performance standards and a quality assurance surveillance plan based upon commercial business practices. You are encouraged to use SOOs to help ensure our continued success in the transformation to PBSAs.

A key component for increasing the use of PBSA is to ensure that requirements personnel understand how to prepare performance based specifications. Toward that end, 50 percent of all personnel who prepare statements of work for services contracts must receive appropriate training on preparing performance based statements of work by September 30, 2004, and the remainder must receive appropriate training by September 30, 2005. In addition to the training tools and on-line guidance already available (e.g., see "Seven Steps to Performance Based Services Acquisition" Guide at <http://oamweb.osec.doc.gov/pbsc/index.html>), we are developing a distance learning course on the use of PBSA that should be available by October 2003.

To monitor progress toward meeting PBSA goals, I ask that you submit an annual report on the percentage of services contract dollars awarded that used PBSA by January of the year following the year being reported. Your reports should be submitted to the Director, Defense Procurement and Acquisition Policy. Beginning in January 2005, the report shall also include the number of personnel responsible for preparing statements of work for service contracts within your organization and the number that received PBSA training.

Questions concerning this policy should be directed to Dr. William C. Timperley at william.timperley@osd.mil, telephone 703-697-8336, or fax 703-614-1254.


Michael W. Wynne
Acting

Attachment:
As stated

The following Federal Procurement Data System (FPDS) service codes, as listed in the FPDS manual (<http://www.fpdc.gov/fpdc/rm2002.pdf>), are removed from the reporting requirement for use of performance based service acquisitions (PBSAs). While use of PBSAs procedures is not required for these categories, it may be used when appropriate.

- General Science and Technology R&D - AJ1_ through AJ9_
- Medical R&D - AN11 through AN14 (this leaves in AN15-16; there are different stages of research)
 - AN21 through AN24 (Retain final two stages of R&D as eligible)
 - AN31 through AN34 (Retain final two stages of R&D as eligible)
 - AN41 through AN44 (Retain final two stages of R&D as eligible)
 - AN51 through AN54 (Retain final two stages of R&D as eligible)
 - AN61 through AN64 (Retain final two stages of R&D as eligible)
 - AN71 through AN74 (Retain final two stages of R&D as eligible)
 - AN81 through AN84 (Retain final two stages of R&D as eligible)
 - AN91 through AN94 (Retain final two stages of R&D as eligible)
- Social Services R&D - AQ11 through AQ14 (Retain final two stages of R&D as eligible)
- AQ91 through AQ94 (Retain final two stages of R&D as eligible)
- Purchase of Structures and Facilities – E***
- Hazardous Substance Cleanup - F108
- Oil Spill Response - F112
- Non-nuclear Ship Repair, East and West - J998 and J999
- Medical Services (not facility-related) - Q501-Q527
- Education and Training Services – U001-U099
- Lease or Rental of Equipment – W0**
- Lease or Rental of Facilities – X***

ATTACHMENT