



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

JAN 30 2002

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS

SUBJECT: Public-Private Partnerships for Depot Maintenance

This memorandum establishes interim policy on depot maintenance public-private partnerships, providing definition, outlining policy, and directing the Military Departments to pursue such partnerships to strengthen the Department of Defense (DoD) depot maintenance operations. Public-private partnerships in their many forms shall be pursued to the extent that they are authorized by law or regulation and contribute to more effective and efficient DoD depot maintenance operations and ultimately translate into better support for the war fighter.

Depot maintenance operations in DoD can benefit from public-private partnerships that combine the best of commercial processes and practices with the Department's own extensive maintenance capabilities. It is in the mutual interests of both sectors to pursue the establishment and effective operation of partnerships across the widest possible segment of our workload requirements.

Attached is further specific policy on public-private partnerships for depot maintenance. The policy in this memorandum and its attachment is effective immediately; it will be incorporated into the DoD directives system within 180 days. My focal point in this regard is Mr. Hollis Hunter, OADUSD(L&MR)MPP&R, (703) 695-0037.

Diane K. Morales

Attachment  
As stated

cc:  
CDR, USAMC  
CDR, AFMC  
CDR, NAVAIR  
CDR, NAVSEA  
CDR, NAVSUP  
CDR, MARCORMATCOM  
DIR, DLA  
JCS/J4



## Policy for DoD Depot Maintenance Public-Private Partnerships

### *Policy*

It is DoD policy to use public-private partnerships for depot maintenance. In particular, the Military Departments shall shape partnership agreements to support DoD and Defense-related workloads. Partnerships can improve the utilization of DoD facilities, equipment, and personnel. Partnerships can bring a wide variety of additional benefits to the parties involved in the agreement, and also foster improved support to the war fighter.

Each Military Department shall designate its depot maintenance activities as CITEs in the recognized core competencies of the respective activities. Depot maintenance public-private partnerships shall be formed principally around these identified core competencies. In establishing public-private partnerships involving DoD depot maintenance activities, the Military Departments shall ensure their partnerships comply with applicable statutory and regulatory requirements. Sales of goods or services, and/or leases of facilities or equipment must be based on specific statutory authority. Additionally:

- An organic depot maintenance activity will not compete with the commercial sector in the sale of articles and services that are not DoD or Defense-related unless specifically authorized by law.
- Organic depot maintenance resources (facilities, equipment, and workforce) may be made available to partnerships to the extent that the resources are not required for DoD production requirements and the arrangement will have no adverse impact on the organic activity. Resources may be made available on a variety of terms, including use on a non-interference basis or full-time lease.
- Organic depot maintenance capabilities (e.g., facilities, equipment, etc.) may be employed in all forms of partnerships. However, when a portion of the organic depot maintenance workforce is used to support a partnership, the organic workforce must be engaged in work that is DoD or Defense-related. Defense-related work includes sales under foreign military sales agreements; direct sales to friendly countries; manufacture or repair of components or subcomponents within a larger Defense contract; work to support other authorized customers of the DoD wholesale supply system; joint DoD/commercial requirements (to the extent that commercial requirements do not impact DoD production); competitively-awarded contracts in support of other Federal agencies as authorized by 10 U.S.C. 2470; and work that advances the objectives of a CITE in its core competencies as authorized by 10 U.S.C. 2474(b). This restriction on the type of work to be performed does not apply to leases of organic depot maintenance capabilities exclusive of labor (e.g., facilities, equipment, etc.).
- Organic depot maintenance activities entering into public-private partnerships will ensure, when authorized by law, and consistent with the DoD Financial Management Regulation (DoD 7000.14-R), that related reimbursements from the private sector accrue directly to the activity involved in the partnership or providing the support.

Activities participating in partnerships will separately track and report financial results by establishing and maintaining separate cost accounting job orders or cost/revenue pools, and operating results. Further, in entering into a partnership, the public sector partner shall ensure that the Government is properly indemnified against liability stemming from the partnership.

- In general, an organic depot may not increase its organic capacity solely to support a partnership. This limitation does not apply to increases that are necessary to support DoD requirements. However, organic facility construction and alterations may take partnership arrangements into consideration if the arrangements will provide best value or improve support to the war fighter. Where possible, partnerships should be structured in ways that encourage and justify private sector capital investment at the organic activity. In particular, this may involve multi-year arrangements.

### *Applicability*

This policy applies to organic (DoD in-house) depot maintenance activities (see definition attached) of the Department of Defense.

### *Objectives*

Public-private partnerships can contribute to more effective DoD maintenance operations, the introduction of innovative processes or technology, and the economical sustainment of organic capabilities. Where possible, partnerships should be structured in ways that encourage and justify private sector capital investments at CITE activities. The decision to enter into a partnership must be supported by a business case analysis demonstrating that it is in the best interest of the government. Objectives of depot maintenance public-private partnerships include:

- providing more responsive, timely, and reliable product support to the war fighter
- sustaining parts availability to maintain workflow, reduce repair cycle times, and enhance readiness
- sustaining core capability
- reducing the cost of DoD products and services
- reducing or eliminating the DoD cost of ownership in areas such as operations and maintenance, and environmental remediation
- improving the use of available organic capacity
- leveraging private sector investments, such as facilities and equipment, to contribute to re-capitalization of depot maintenance activities
- enhancing the industrial base to improve and sustain manufacturing and repair capabilities both organically and within the private sector
- introducing improved business processes and updated technology to DoD depot maintenance operations and products
- promoting suitable private sector ventures at selected DoD depot activities
- fostering cooperation between DoD and private industry

All of these objectives must have as a principal focus improved support to depot maintenance customers (the war fighters) and/or enhanced operation and readiness of DoD weapon systems and equipment.

### *Partnerships Defined*

A public-private partnership for depot maintenance is an agreement between an organic depot maintenance activity and one or more private industry or other entities to perform work or utilize facilities and equipment. Program offices, inventory control points, and materiel/systems/logistics commands may also be parties to such agreements or be designated to act on behalf of organic depot maintenance activities.

In general, depot maintenance public-private partnering arrangements include (but are not restricted to) one or more of the following forms:

- Use of public sector facilities, equipment, and employees to perform work or produce goods for the private sector under certain defined circumstances;
- Private sector use of public sector equipment and facilities to perform work for the public sector; and
- Work-sharing agreements, using both public and private sector facilities and/or employees.

### *Basis for Partnerships*

Partnership arrangements must identify the statutory or regulatory authority for the specific undertaking, e.g., if there is a sale or lease involved.

Among the various authorities, an important basis for establishing depot maintenance public-private partnerships is found in 10 U.S.C. 2474, which outlines provisions for designating DoD depot maintenance activities as Centers of Industrial and Technical Excellence (CITEs) in their core competencies. In designating CITEs, the Secretaries of the Military Departments shall also encourage each Center to enter into public-private partnerships comprising its own employees, private industry, or other entities to perform work within its core competencies, and allow private industry to lease or use under utilized or unutilized facilities and equipment at the CITE. Such public-private partnerships should contribute to the implementation of best business practices and improvement of operations in their core competencies.

Other sections of title 10, such as 10 U.S.C. 2563 and 10 U.S.C. 2208, and regulatory guidance, including the Federal Acquisition Regulation, are applicable to depot maintenance public-private partnerships. There are a number of forms such partnerships can take. In establishing depot maintenance public-private partnerships, whatever the form, the Military Departments shall ensure compliance with all applicable statutory provisions and regulatory guidance. A summary of statutory and regulatory provisions that are frequently cited to implement partnerships is attached.

The scope of work to be supported with a partnership can range from simple facility leases of DoD property to in-depth product support. The workforce can be totally separate, or

engaged in a more complex workshare with process-specific workload sharing, or fully integrated in a single production facility. Partnerships can range from joint public-private undertakings, to private sector participation in some aspect of DoD depot maintenance production, to direct sales of articles or services to the private sector, or to leasing of DoD facilities or equipment. Public-private partnerships have flexible characteristics; each partnership should reflect the unique objectives that are the basis of the partnership as well as the particular needs of the partners and the resources to be shared. The key element in each of these arrangements is the utilization of some aspect of organic depot maintenance capability to support the partnership.

#### *Relationship to Other Logistics Considerations*

Depot maintenance partnerships can be an effective tool to implement Performance-Based Logistics (PBL) arrangements. PBL implementation strategies will consider partnering with CITEs to satisfy the requirements of 10 U.S.C. 2464 and 10 U.S.C. 2466. Incorporation of detailed performance metrics, and financial and other incentives into such partnering agreements should be used to establish successful long-term PBL partnership arrangements.

Depot maintenance partnerships may be a component of broader partnering agreements between the private sector and the Government. This policy is intended to apply to the depot maintenance aspects of such partnerships.

Defense Logistics Agency (DLA) distribution depots co-located with depot maintenance activities and DLA/Military Department logistics activities managing materiel provided to depot maintenance activities may be impacted by a depot maintenance public-private partnership. These supporting elements need to be invited to participate in the planning for depot maintenance partnerships as appropriate.

#### Attachments:

1. Public-Private Partnering Definitions
2. Summary of Legal and Regulatory Authorities

## Attachment 1

### Public-private Partnering Definitions

*Depot-level maintenance (also known as depot maintenance):* The processes of materiel maintenance or repair involving the overhaul, upgrading, or rebuilding of end items, parts, assemblies, or subassemblies, and the testing and reclamation of such equipment as necessary (regardless of the source of funds for the maintenance or repair and irrespective of the location at which the maintenance is performed). Depot maintenance includes all aspects of software maintenance as well as interim contractor support or contractor logistics support (or any similar contract support), to the extent that such support is for the performance of the maintenance or repair outlined above. Depot maintenance includes the installation of parts for modifications; it does not include the procurement of major modifications or upgrades to improve weapon system performance or the parts for safety modifications. Depot maintenance also does not include nuclear aircraft carrier refueling.

*Depot-level maintenance activity:* A specific DoD-owned and -operated facility established, equipped, and staffed to carry out depot-level maintenance. DoD depot-level maintenance activities accomplish a wide range of depot-level maintenance processes including overhaul, conversion, activation, inactivation, renovation, analytical rework, repair, modifications and upgrades, inspection, manufacturing, reclamation, storage, software support, calibration, and technical assistance. Field-level maintenance sites authorized to accomplish a specific depot-level repair or a narrow range of such repairs or maintenance are not depot-level maintenance activities.

*Core competencies:* Those core logistics-related depot-level maintenance capabilities that serve as the Department's necessary ready and controlled source of technical ability, expertise, and resources. Core competencies are the set of depot-level maintenance capabilities necessary to enable the armed forces to fulfill the strategic and contingency plans prepared by the Joint Chiefs of Staff and for which the Military Departments believe the DoD should be a recognized leader in the national technology and industrial base. Core competencies ensure that DoD depot-level maintenance activities are prepared to and actually do execute depot-level maintenance in an effective, efficient, and timely manner.

*Performance-Based Logistics (PBL):* An integrated acquisition and logistics process for buying weapon system capability that delineates outcome performance goals of weapon systems, ensures that responsibilities are assigned, provides incentives for attaining these goals, and facilitates the overall life-cycle management of system reliability, supportability, and total ownership costs. Depot-level maintenance may be a part of life-cycle management requirements.

*Public-Private Partnership:* A public-private partnership for depot maintenance is an agreement between an organic depot maintenance activity (or its agent) and one or more private industry or other entities to perform work or utilize facilities and equipment. Program offices, inventory control points, and materiel/systems/logistics commands may also be parties to such agreements or be designated to act on behalf of organic depot maintenance activities.

*Teaming:* An arrangement whereby an organic activity and a commercial entity enter into a contractual relationship to accomplish one or more deliverables stipulated in a contract. The relationship between the participants is usually initially outlined in a teaming agreement during proposal preparation and then formalized as a contractor/subcontractor relationship subsequent to contract award.

*Workshare:* An arrangement whereby a combination of organic and commercial facilities and/or employees are used to execute the requiring activity's work package; the requiring activity issues a work order to the organic participant and a contract to the private sector participant. The relationship between the participants to accomplish the work package is usually coordinated with a Memorandum of Understanding or Memorandum of Agreement.

Attachment 2

Statutory and Regulatory Provisions Relevant to  
Depot Maintenance Partnerships

(Not an exhaustive list of such provisions,  
nor a complete summary of the content of each provision – descriptions focus only on primary  
aspects of each that apply or are relevant to depot maintenance)

Authority	Thumbnail Description – Not Exhaustive
10 U.S.C. 2208(j)	Permits depot financed through working capital funds to <i>sell articles and services</i> outside DoD if the purchaser is fulfilling a DoD contract and the contract is awarded pursuant to a public-private competition.
10 U.S.C. 2469a	Requires competitive contracting (and authorizes public-private competition and teaming) when outsourcing workloads formerly performed at depots that have been closed or realigned ( <i>BRAC</i> ).
10 U.S.C. 2474	Requires the Military Departments to designate depot maintenance activities as Centers of Industrial and Technical Excellence ( <i>CITEs</i> ), authorizes and encourages public-private partnerships, permits performance of work related to core competencies, permits use of facilities and equipment, and permits <i>sales proceeds</i> from public-private partnerships to be credited to depot accounts.
10 U.S.C. 2563 (formerly 10 U.S.C. 2553)	Authorizes <i>sale of articles or services</i> outside DoD (excluding those authorized under 10 U.S.C. 4543) under specified conditions.
10 U.S.C. 2667	Allows <i>leasing</i> of non-excess facilities and equipment.
10 U.S.C. 4543	Authorizes <i>Army</i> industrial facilities that manufacture cannons, gun mounts, etc., to <i>sell articles or services</i> outside DoD under specified conditions.
10 U.S.C. 7300	Authorizes <i>Naval</i> shipyard <i>sales of articles or services</i> to private shipyards for fulfillment of contracts for nuclear ships.
22 U.S.C. 2754	Allows <i>sales or lease of articles or services to friendly countries</i> under specified conditions.
22 U.S.C. 2770	Allows <i>sales of articles and services</i> to a U.S. company for incorporation into end items to be sold to a friendly foreign country or international organization under specific conditions.
FAR 45.3	Provision of <i>government-furnished material, facilities and equipment</i> to contractors.