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Nunn-McCurdy Unit Cost Reporting



2006 Business Managers' Conference
May 10, 2006

BACKGROUND

- Drafted by Senator Nunn in 1982
- Objective: To establish an exception reporting system on major DoD program unit costs
 - Track development as well as procurement cost growth
 - Contract cost growth is a precursor of program growth
- Consolidated with existing internal (DAES) and external reports (SAR) in 1990
- Revised by the FY06 National Defense Authorization Act (NDAA) in January 2006

APPLICABILITY

- Applies to Major Defense Acquisition Programs (MDAPs) (*Section 2430, Title 10, United States Code*):
 - Research & Development costs \geq \$365M (BY00 \$)
 - Procurement costs \geq \$2.19B (BY00 \$)
- Unit Cost Reporting (UCR) begins at Milestone B (System Development and Demonstration)
- UCR ends at 90% complete (deliveries or expenditures)

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STATUTORY & REGULATORY GUIDANCE

- Required by Sections 2433 and 2435, Title 10, United States Code
- DoDI 5000.2, “Operation of the Defense Acquisition System”
- Defense Acquisition Guidebook

Defense regulations have not been updated to reflect FY06 NDAA

REPORTING CRITERIA

- Two UCR criteria:
 - Program Acquisition Unit Cost (PAUC)
 - Average Procurement Unit Cost (APUC)
- Definitions:
 - $PAUC = [Total\ Development\ \$ + Procurement\ \$ + Construction\ \$] / Total\ program\ quantity$
 - $APUC = Total\ Procurement\ \$ / Procurement\ quantity$

UNIT COST BREACHES

	“Significant”	“Critical”	<i>New Definitions</i> PAUC or APUC (measured in base-year \$)
Current Baseline Estimate	+15%	+ 25%	
Original Baseline Estimate	+30%	+50%	
	Notification and SAR	Notification, SAR, and Certification	

New Nunn-McCurdy thresholds against Original Baseline Estimate

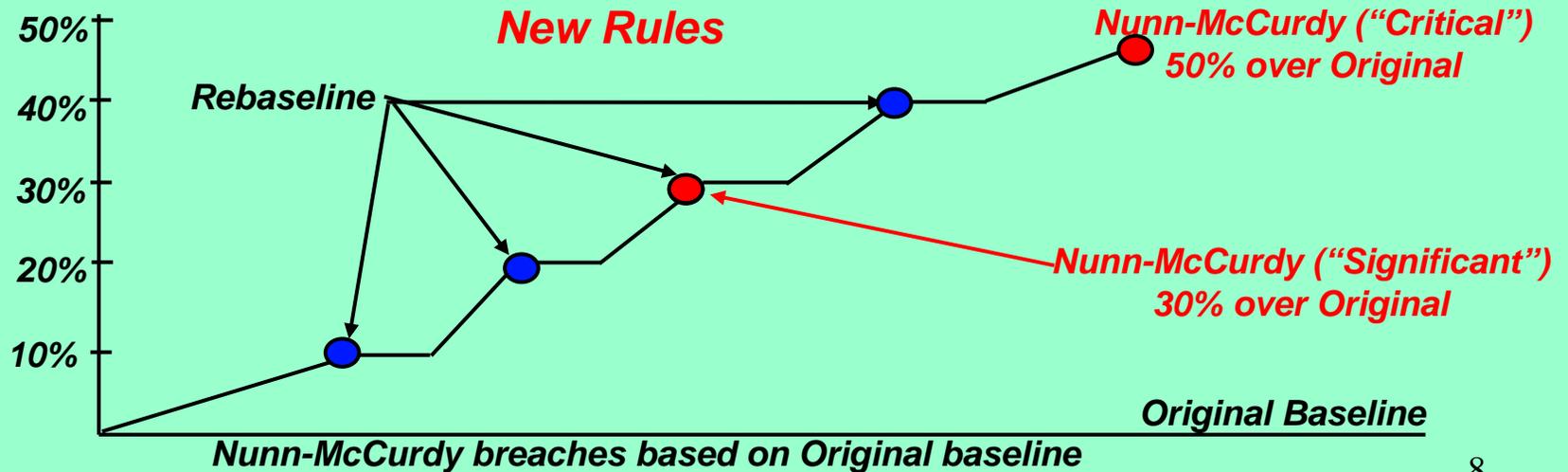
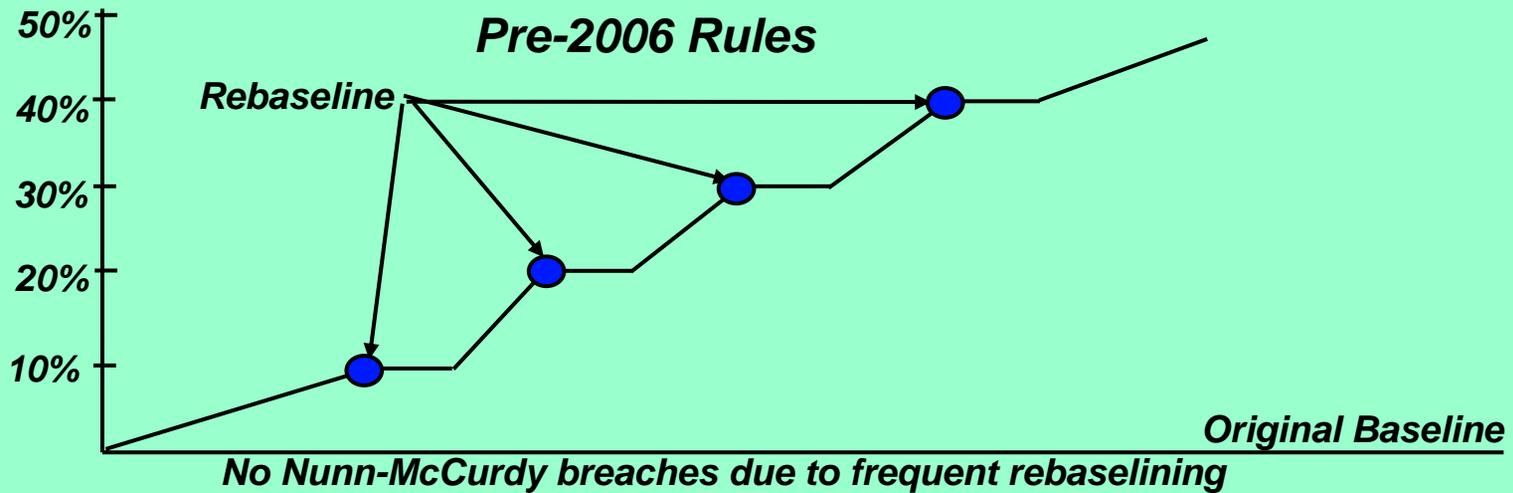
New requirements from FY06 NDAA

Perception: Rebaselining was allowing cost growth to go unreported

ORIGINAL BASELINE ESTIMATE

- Definition:
 - For New Programs: it is the Acquisition Program Baseline (APB) established at Milestone B (previously Milestone II)
 - For Existing Programs:
 - If PAUC or APUC exceed 50% of original APB, it is the current APB existing as of January 2006 (enactment of FY06 NDAA)
 - If PAUC or APUC do not exceed 50% of original APB, it remains the APB established at Milestone B
- Future changes to the Original Baseline Estimate:
 - Only if the percentage increase in the PAUC or APUC exceeds the “Critical” cost growth threshold ($\geq 25\%$ to current APB or $\geq 50\%$ to original APB)

EXAMPLES



UNIT COST BREACHES

- Process – Program Manager (PM) to Service Acquisition Executive (SAE) to Service Secretary who “determines” the unit cost breach (PAUC or APUC)
- “Significant” unit cost breaches (PAUC or APUC) require notification and submission of Selected Acquisition Report (SAR) to Congress
 - Notification due to Congress 45 days after “determination”
 - SAR submitted for quarter in which breach was “determined”
- “Critical” unit cost breaches require (in addition to above) Secretary of Defense certification to Congress (responsibility delegated to USD(AT&L))

CERTIFICATION

- USD(AT&L) to Congress:
 - Due **60** days (previously 30 days) after the date the SAR is required to be submitted
- Certification Criteria:
 1. Program is essential to the national security
(IPT #1, Lead PA&E with JCS)
 2. There is no alternative which will provide equal capability at less cost *(IPT #2, Lead PA&E with OIPT Chair)*
 3. New estimates of the PAUC and APUC are reasonable
(IPT #3, Lead CAIG)
 4. Management structure is adequate to control PAUC and APUC *(IPT #4, Lead AT&L with OIPT Chair)*

CERTIFICATION

- New NDAA language requires USD(AT&L) perform an assessment of:
 - projected cost of completing the program if current requirements are not modified
 - projected cost of completing the program based on a reasonable modification of such requirements
 - rough order of magnitude costs of any reasonable alternative system or capability
- Above assessment provides Congress with required “supporting explanation”

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PENALTIES FOR FAILURE TO SUBMIT SAR OR CERTIFY ON TIME

- Suspension of Obligations
 - If either SAR or certification are not submitted on time, obligational authority suspended on all major contracts
 - Suspension shall cease to apply after 30 days of continuous session of Congress (starting from the date of receipt of SAR/certification)

“SIGNIFICANT” & “CRITICAL” INCREASES AGAINST CURRENT BASELINE

Service	≥ 10% < 15% (Near Breach)	≥ 15% and < 25% ("Significant")	≥ 25% ("Critical")
Army		GMLRS (20%)	
Navy	LPD 17 (14%)		ASDS (No certification, program cancelled)
Air Force	C-130AMP (14%) WGS (13%)		GLOBAL HAWK NPOESS

“SIGNIFICANT” & “CRITICAL” INCREASES AGAINST ORIGINAL BASELINE

Service	≥ 20% < 30% (Near Breach)	≥ 30% and < 50% (“Significant”)	≥ 50% (NO BREACHES) (“Critical”)
Army	FBCB2 (29%) PAC-3 (25%) STRYKER (25%)	ATIRCM/CMWS (49%) CHEM DEMIL CMA (32%) CMA NEWPORT (44%)	BLACK HAWK UPGRADE BRADLEY UPGRADE CH-47F FCS FMTV GMLRS JAVELIN LONGBOW APACHE
Navy	E-2C REPRO (20%)	EFV (34%) F/A-18 (36%) MH-60S (44%) VA CLASS (48%)	ASDS H-1 UPGRADES JSOW (Baseline/BLU-108) LPD 17 MH-60R T-45TS TRIDENT II MSL V-22
Air Force	C-130J (26%)	C-130 AMP (43%) JASSM (41%) JPATS (47%) JSF (33%)	AEHF AMRAAM C-17A EELV F-22A GLOBAL HAWK MM III GRP NPOESS SBIRS HIGH

ISSUES GOING FORWARD

- As a result of FY06 NDAA, DoD will report more “Significant” and Critical” Nunn-McCurdy breaches
 - Streamline certification process?
 - Take “Significant” breaches more seriously
- To mitigate increased number of breaches, early warning needed:
 - Increased awareness by Services during POM build
 - Extrapolate EVMS trends to program level at the quarterly DAES
 - Work closely with CAIG & Service cost community