

MEMORANDUM

From: Deputy Commander for Acquisition & Operations

Subj: IMPLEMENTATION OF TOTAL OWNERSHIP COST BASELINES IN THE NAVAL AIR SYSTEMS COMMAND

Ref: (a) ASN(RD&A) memo dated 05 May 1998; subj: Implementation of Total Ownership Cost (TOC) Baselines in the Department of the Navy

Encl: (1) Guidance for Establishing TOC Objectives and Thresholds

1. This memorandum provides implementation guidance for formulating and documenting Total Ownership Cost (TOC) reduction efforts as required by reference (a). Total Ownership Cost, as defined for the ASN(RD&A) Strategic Plan, includes all costs associated with the research, development, procurement, operation, logistical support and disposal of an individual weapon system including the total supporting infrastructure that plans, manages and executes that weapon system program over its full life.

2. Program Cost As an Independent Variable (CAIV) Plans or Affordable Readiness implementation plans will serve as the TOC reduction plan required by reference (a). CAIV and Affordable Readiness Plans need to include: a cost baseline, identification of cost drivers within that baseline, specific cost reduction initiatives, program goals/thresholds, and metrics which measure progress towards achieving stated goals.

3. Each program will use their current approved Acquisition Program Baseline and CAIV or Affordable Readiness Plan to establish a TOC objective and threshold. The TOC objective and threshold will be a single entry in the footnote field in the cost section of the Acquisition Program Baseline (APB). Revised APB's shall be submitted to the appropriate Milestone Decision Authority for ACAT I/II programs no later than 31 December 1998 and for ACAT III/IV programs by 30 June 1999.

4. Enclosure (1) contains specific guidance for establishing TOC baselines, objectives, and thresholds, as well as templates which programs can use to assess initiatives and track progress. The H-60 and JSOW programs are in the process of populating these templates and will provide lessons learned via AIR-4.2. The Cost Department, AIR-4.2, will continue to develop expanded cost element structures to define and allocate the remaining costs included under TOC during a program's life cycle. For further assistance, please contact your program's AIR-4.2 Cost Team Leader (CTL). If your program does not have a CTL, additional information and other points of contact will be available shortly on the NAVAIR TOC website which will be accessible from the cost department homepage:

<http://www.navair.navy.mil/air40/air42>

/s/
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GUIDANCE FOR ESTABLISHING TOC OBJECTIVES AND THRESHOLDS

I. General Guidance on TOC Reduction Plans:

- The narrative description in the TOC reduction plan should address initiatives underway including descriptions of cost reduction goals and investment required to achieve those goals.
- Specific detail should only be provided for those initiatives with firm and realistic plans and estimates.

II. General Guidance on TOC Baselines, Objectives, and Thresholds:

- For pre-milestone III ACAT I-IV programs, show in an updated APB the TOC baseline based upon the program life cycle cost estimate plus the additional items identified below in section III.
- For post-milestone III ACAT I-IV programs, use the same baseline for TOC as that established in the Affordable Readiness plan plus the additional items identified below in section III.
- The TOC objective to be included in the Acquisition Program Baseline document should equal the program TOC baseline less the cumulative net cost avoidance associated with the program's CAIV or Affordable Readiness initiatives.
- Unless otherwise specified, the TOC threshold should then be the TOC objective value plus 10% in accordance with SECNAVINST 5000.2B.
- For those programs involving systems employed on multiple platforms, clearly identify if initiative investment cost or cost avoidance associated with that system are also included in the platform baselines. This is to avoid double counting of potential cost avoidance.
- TOC Baseline should be updated with APB revisions or when major programmatic changes occur.

III. TOC items already included in Life Cycle Costs (LCC) estimates:

- Navy Working Capital Fund (NWCF) personnel.
- Specialty Training for undergraduate pilots and non-pilot aircrew.
- Modifications captured under Affordable Readiness baselines (HONA category A and B type modifications).

IV. New items that need to be added to LCC estimates:

- When a program is introducing a new system, common support equipment costs required as result of introducing the new system.
- Programs should take credit for and include in their plans, initiatives that currently exist and are being implemented.
- Core program office Expense Operating Budget (EOB). Include both Civilians and military. Joint program offices need to include ALL services in their headcount. The following rates should be used for this calculation:

HQ Civilians	\$76,927
Officers	\$79,264 FY98\$
Enlisted	\$35,741

- Add Demilitarization and Disposal Costs if and when available (Just cost to get the system to the "desert", not the cost to maintain after that point).

V. Items that will be added once a collection and monitoring system are in place:

- Extended Program Team EOB personnel.
- Performance enhancements and new mission modifications (HONA category C) will be included in Development and Production Phase estimates. These modifications often result in a new program designator and their cost should be captured accordingly.

VI. Items that don't need to be added to LCC estimates:

- Do not include sunk costs unless readily available. For example, programs do not have to attempt to allocate existing common support equipment to their program.

The templates provided in Attachments (1) through (3) are provided for guidance purposes as a means of displaying the program baseline, summarizing the cost reduction initiatives, and displaying investment requirements and potential cost avoidance in the TOC reduction plans. Attachment (4) is an example worksheet to show, for each initiative:

- the investment required by appropriation,
- projected cost avoidance broken down by cost element, and
- return on investment (ROI).

For acquisition programs, the cost baseline shown in attachment (1) should be the estimate of the program BEFORE the application of initiatives. This will allow to the measurement of progress against old ways of doing business. For in-service programs, the cost baseline will be the same as the affordable readiness baseline including the additional items identified in section IV of enclosure (1).