DEPARTMENT OF THE AIR FORCE
HQ WARNER ROBINS AIR LOGISTICS CENTER (AFMC)
ROBINS AIR FORCE BASE GEORGIA

17.204

Pg 14.98

04 MAY 1998

MEMORANDUM FOR SEE DISTRIBUTION

FROM: WR-ALC/PKP

SUBJECT: Length of Contracts

1. The attached memos offer guidance and initiatives to reduce contract duration, and they stress the importance of considering contract duration during the acquisition planning phase. The guidelines herein are not mandatory, nor are they suitable for all acquisitions.

2. A sample 'bridge clause' is included; this clause allows for exercise of options utilizing a new contractual vehicle. In addition, a Contract Duration Planning Matrix is provided; this can be a valuable tool to utilize during acquisition planning.

3. Please consider this guidance when preparing solicitations and contracts that contain options. Point of contact for further information is Kim McDonald, WR-ALC/PKPB, 61924.

JAMES B. GRANT
Chief, Contract Policy and
Competition Advocate Division
Directorate of Contracting

Attachment:
HQ AFMC/PK Memo, 24 Mar 98, w/ Atchs

Atch 98-6E (FAR 17) Post to FAR 17.204 by circling the reference and noting in the margin: "See 64-10, Atch 98-6E filed at FAR 17." Then file the Atch behind the sups to FAR 17

24 MAR 1998

MEMORANDUM FOR SEE DISTRIBUTION

FROM: HQ AFMC/PK

SUBJECT: Length of Contracts

1. The attached memo (Atch 1) from Mrs. Druyun, Principal Deputy Assistant Secretary (Acquisition & Management), and its attached memo from OUSD(A&T)/DDP, encourages that our acquisition planning include strategies to ensure that we can close out our R&D and EMD contracts after Initial Operational Test and Evaluation (IOT&E) is complete or certainly prior to a Milestone III decision. It also urges us to:

a. Award annual production lots as separate contracts in order to simplify and shorten their performance length.

b. Ensure no additional efforts are added to existing contracts (which extend period of performance), and

c. Reinvigorate our efforts to focus on Mrs. Spector's initiative to exercise contract options as new contracts using the same terms, conditions, and contract clauses in the contract containing the option.

2. We believe these initiatives to reduce contact duration will improve administration, payment, and timely closeout of our contracts. Contracts that are extended time and time again tend to grow in complexity making it increasingly difficult to administer, closeout and pay them. Shorter contract duration facilitates contract simplification, which helps eliminate funding issues such as canceling funds and proliferation of CLINs and ACRNs.

3. These initiatives are compatible with our emphasis on establishing long-term relationships with our best value suppliers. One method of continuing a long-term relationship while shortening contract duration is to consider using a bridge clause permitting the exercise of options on a new contract vehicle. We do, however, recognize that there are situations where longer-term contracts better serve the Government's interests. A number of factors, such as contract type, color of money, incentive structure and type of effort need to be considered when determining

appropriate contract duration. The bottom line is that contract duration should not be fallout but a conscious decision specifically addressed during the initial strategy sessions for both new work and changes.

4. A contract duration planning matrix is provided (Atch 2) as a tool for both the initial acquisition planning stages and planning strategies involving the addition of new work to existing programs. We strongly encourage that contract duration be a decision element addressed during ASPs for new work and other early planning forums for in-scope changes to existing contracts.

5. My staff and I are available to assist you as necessary. My action officer for this effort is Mr. Douglas G. Jones, HQ AFMC/PKPC, DSN 986-0358 or e-mail jonesd@wpgate1.wpafb.af.mil.

CRAIG R. COONING
Colonel, USAF
Director of Contracting

Attachments:
1. SAF/AQ Memo, 31 Oct 96, w/Atch
2. Contract Duration Planning Matrix

cc:
HQ AFMC/DR/FM/LG/JAQ

DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

Office of the Assistant Secretary

3 1 OCT 1996

MEMORANDUM FOR Air Force Program Executive Officers (AFPEOs) and Designated Acquisition Commanders (DACs)

FROM: SAF/AQ

SUBJECT: Contract Structures and Closeout

During recent program reviews, it was brought to our attention that we in the Air Force often turn relatively short-term research and development (R&D) and Engineering and Manufacturing Development (EMD) contracts into long-term contracts which are extended by addition of evolving development and modification efforts. Instead of relatively simple contracts which should be closed after four or five years, they become complex contracts that remain open for ten to fifteen years and longer. We need to make a conscious effort during the initial acquisition planning stages to ensure we can close out our R&D and EMD contracts after Initial Operational Test and Evaluation (IOT&E) is complete or certainly prior to a Milestone III decision.

Along those same lines, we should award annual production lots as separate contracts in order to simplify and shorten their performance length. The first step in doing this is ensuring no additional efforts are added to existing contracts. Mrs. Spector, Director of Defense Procurement, in her 17 May 96 memo, clearly explained the problems associated with long-term contracts and strongly urged us to exercise contract options as new contracts to help solve these problems. We need to reinvigorate our efforts to focus on this initiative.

If you have any questions regarding this matter, contact Major Carolyn Blalock, SAF/AQCS, (703) 697-6400 or DSN 227-6400.

DARLEEN A. DRUYUN
Principal Deputy Assistant Secretary
(Acquisition & Management)

Attachment:
OUSD(A&T)/DDP Memo, 17 May 96

Atch 1

64-10 Atch 98-6E (FAR 17)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

May 17, 1996

DP/CPF

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT, ASN(RD&A)ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (CONTRACTING)
DEPUTY, PROCUREMENT POLICY, ASA(RD&A)/SARD-PP
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS AGENCY

SUBJECT: Length of Contracts

Complex contracts containing basic and option periods of up to five years of requirements, especially when modified dozens of times during the course of performance, have proven difficult to administer and often generate confusion in the payment process. They have led to some of the many problem disbursements we experience each year. As we continue to streamline and reform our procurement process, the Department of Defense must find new and innovative ways to improve the administration, payment, and close out of our contracts. One way is to shorten the length of our contracts when feasible.

One approach to shortening contracts is to exercise future contract options as separate contracts. For example, the first option period in a contract for a basic period and two option periods could be unilaterally exercised by the contracting officer as a separate contract with a different contract number than the base period's contract. The same terms, conditions, and contract clauses which applied to the basic period would also be used to form the successive contract for the option period.

Since the assignment of a new contract number in lieu of a modification number is solely for administrative convenience, separate contracts for options do not constitute new procurements. The contract for the option so exercised would also contain the unexercised option for the second option period, which could subsequently be exercised in the same manner as the first option. This approach has the additional benefit of enabling the initial contract whose performance has been completed to be closed out at an earlier date, since subsequent options will have been awarded as separate contracts.

When a priced option is unilaterally exercised as a new contract in this manner, it must contain the terms and conditions included in the contract at the time of initial award, because the option prices are based in part on those original terms and conditions. Unfortunately, at this time some automatic contract writing systems are only able to write new contracts using general provisions in effect on the date a new contract is awarded. Consequently, options awarded as new contracts may require issuance by means other than the agency's automatic contract writing system.

While conceivably useful for a variety of requirements and contract types, this approach should not be applied to procurements where its benefits are marginal. For example, it need not be applied to contracts that are solely for services, nor to options that add quantities that do not extend the term of the contract. One possible alternative for these and similar situations may be greater use of delivery order contracts.

Options exercised as new contracts may be best suited to major weapons systems contracts that are not approved for multiyear contracting, but nevertheless contain options for discrete outyear buys, funded from a variety of appropriations. A draft provision designed for that purpose is attached. It should be viewed as a starting point for considering ways to write contracts that are less massive and more easily administered.

I strongly urge you to structure solicitations for fixed price contracts for major weapons systems, particularly those with an estimated value of $25 million or greater (including options), so that their option periods can be exercised as separate contracts. This should be done solely as an administrative measure, to help prevent problem disbursements and improve contract administration and close out.

Eleanor Spector

Eleanor R. Spector
Director of Defense Procurement

Attachment

cc: DSMC, Ft. Belvoir

CONTRACT DURATION PLANNING MATRIX

Acquisition Situation	Possible planning strategies
Long-term contract awarded w/option(s)	Exercise option(s) as new contract using a bridge clause
Added scope requiring a new or revised J&A authority	Award a new contract
Multiple, diverse repetitive requirements with multiple accounting classifications	Maximum utilization of task ordering contracts, requirement contracts, basic ordering agreements, and IDIQ cts
Hybrid or heterogeneous requirements	Consider awarding separate contracts for different requirements. Avoid unnecessary requirement splitting.
New Foreign Military Sale	Award a new contract
Multiple contract types	Clearly segregated CLINs/ ACRNs
Long lead requirements	Definitize separately and award new contract for follow-on effort
ECPs/CCPs that extend duration	New contract/block changes on requirements contract

Note: This guideline provides an if/then tool for consideration in both the initial acquisition planning stages and for planning strategies involving the addition of new work to existing programs. It is not all inclusive but simply provides suggestions/strategies for new contracts and added efforts. They should be considered and used as appropriate.

SEPARATE CONTRACT BREAK-OUT

(a) For administrative convenience, at the time the first option is exercised, the Government reserves the right to break-out the first option and all remaining unexercised options as a separate contract that is completely detached from this contract ________ for purposes of government payments for goods or services. The goods or services acquired under the terms of this base contract ________ will remain solely under this contract for purposes of government payment.

(b) This separate contract break-out shall occur as part of and pursuant to the option exercise provisions established in ____ and shall incorporate the same terms and conditions set forth in this contract ________, except for any necessary administrative tailoring.

(c) This separate contract break-out award process is also applicable to the exercise of all subsequent options and a similar clause will be included in each separate contract as appropriate.