BY ORDER OF THE SECRETARY OF THE AIR FORCE

AIR FORCE POLICY DIRECTIVE 65-5

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Financial Management

COST AND ECONOMICS

COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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This Air Force Policy Directive (AFPD) implements Department of Defense Directive 5000.04, *Cost Analysis Improvement Group*, August 16, 2006, and Department of Defense Instruction 7041.3, *Economic Analysis for Decision Making*, November 7, 1995. This AFPD applies to all Air Force organizations that oversee or manage Air Force funded acquisition or sustainment programs to include, but not limited to, aircraft, weapons, space, and information technology; it applies to both military and civilian Air Force personnel. This publication shall be applied to contractors or other persons through the contract or other legally binding agreement with the Department of the Air Force. Refer recommended changes and questions about this publication to the Office of Primary Responsibility (OPR) using the AF Form 847, *Recommendation for Change of Publication*; route AF Forms 847 from the field through the appropriate functional's chain of command. Air Force offices implementing the AFPD will ensure that all records created as a result of processes prescribed in this publication are maintained in accordance with Air Force Manual (AFMAN) 33-363, *Management of Records*, and disposed of in accordance with Air Force Records Information Management System (AFRIMS) Records Disposition Schedule (RDS) located at **https://afrims.amc.af.mil/rds_series.cfm**

SUMMARY OF CHANGES

This document is substantially changed and must be reviewed in its entirety.

The changes to this AFPD constitute a complete policy directive update. Included are requirements for conducting cost, economic, business case, and financial analyses with specific emphasis on acquisition program cost estimates and Non-Advocate Cost Assessments (NACAs) for milestone reviews, annual programming and budgeting decisions, source selections, Analysis of Alternatives (AoA), and program and unit cost breaches (potential Nunn-McCurdy cost breaches). In addition, the AFPD defines key roles and responsibilities for Headquarters Air Force (HAF) and Major Commands (MAJCOMs).

1. The Air Force shall support the Planning, Programming, Budgeting, and Execution System (PPBES) and the acquisition system within the Department of Defense, by providing decision makers with credible

and objective cost, economic, and business case analyses. In addition, the Air Force shall provide financial oversight of Air Force Services Non-Appropriated Fund Instrumentality (NAFI) activities and analysis of the Army and Air Force Exchange Service (AAFES).

2. The Assistant Secretary of the Air Force for Financial Management (SAF/FM) is responsible for Air Force cost, economic, and business case analysis and will work collaboratively with other headquarters organizations (SAF/AQ, SAF/US, etc.) to ensure analyses provided to decision makers are realistic, reliable, and complete.

3. The following are the types of analyses that shall be conducted across the Air Force:

3.1. Program cost estimates for Acquisition Category (ACAT) I programs and selected ACAT II/III programs.

3.1.1. ACAT I cost estimates shall be led by a properly qualified member of the Armed Forces or full-time employee of the Department of Defense.

3.1.2. Estimates shall be updated annually and used to support milestone decisions, PPBES formulation, source selections, program and unit cost breaches (potential Nunn-McCurdy cost breaches), and Analysis of Alternatives on programs expected to meet ACAT I thresholds.

3.2. Non-Advocate Cost Assessments (NACAs) for ACAT I programs and selected ACAT II/III programs.

3.2.1. All NACAs shall be led by a properly qualified member of the Armed Forces or full-time employee of the Department of Defense.

3.2.2. The Service Acquisition Executive (SAE), or delegate, and the Air Force Corporate Structure (AFCS) shall consider the NACA in ACAT I program milestone and PPBES decisions. In a similar fashion, the Program Executive Officer (PEO)/Center Commander shall use selectively generated NACAs at programmatic decision points and in support of PPBES activities for ACAT II/III programs.

3.2.3. NACAs shall be updated annually and used to support milestone decisions, PPBES formulation, source selections, program and unit cost breaches (potential Nunn-McCurdy cost breaches), and Analysis of Alternatives on programs expected to meet ACAT I thresholds.

3.3. Independent Cost Estimates (ICEs) / Component Cost Analyses (CCAs) for Major Defense Acquisition Programs (MDAPs) and Major Automated Information Systems (MAISs) milestones where decision authority has been delegated to the SAE.

3.3.1. All ICEs/CCAs shall be led by a properly qualified member of the Armed Forces or full-time employee of the Department of Defense.

3.3.2. SAF/FM or the SAE may direct stand-alone ICEs/CCAs on a case-by-case basis.

3.4. Economic analysis (EA), business case analysis (BCA), financial analysis, and special studies.

3.4.1. Develop inflation indices based on OUSD (Comptroller) guidance.

3.4.2. Develop discount rates based on OMB guidance.

3.4.3. Develop, review, maintain, and apply cost and planning factors in support of Air Force program and budget decisions to include the cost per flying hour factors developed for the flying hour program.

3.4.4. Obtain data for the United States and world economy, including foreign exchange rates.

3.4.5. Maintain a program to determine and apply the effects of changes in the economy to the PPBES.

3.4.6. Provide guidance for comptroller participation in the Air Force Commercial Activities Program; assist with the development of all cost data inputs for the OMB Circular A-76 *Performance of Commercial Activities* agency cost estimate.

3.4.7. Conduct a Non-Appropriated Fund (NAF) oversight program of all active Air Force Services NAFIs and analysis of AAFES corporate operations.

3.4.8. Assess the financial health of defense firms and the defense and aerospace industry.

4. Responsibilities.

4.1. The Deputy Assistant Secretary for Cost and Economics (SAF/FMC) shall:

4.1.1. Develop and administer cost, economic, financial, and business case analysis policy and guidance; standards and templates; training, education, and professional certification programs; analyst qualification criteria; cost estimating performance and budget risk metrics; participate in cost and technical data collection efforts; develop cost estimating methods and model development projects; maintain a historical cost database; and provide support to other HAF functional organizations.

4.1.2. Prepare or delegate NACAs and review program cost estimates.

4.1.3. Develop ICEs/CCAs.

4.1.4. Approve waivers for program cost estimates and NACA requirements (unless required by statute) with the concurrence of SAF/AQ, SAF/US (or their delegate PEO).

4.1.5. Develop EAs, BCAs, and financial analyses when requested by HAF or considered high-level interest items, or in support of installations and MAJCOMs via the FM Center of Expertise (CoE). Responsibility for certification and approval remains with the supported unit.

4.1.6. Review and comment on technical propriety and sufficiency of any cost, economic, financial, or business case analysis (whether developed by the MAJCOM, acquiring organization or HAF organization) when the analysis will be presented to the Secretary of the Air Force (SecAF), the Under Secretary of the Air Force (USecAF), the Chief of Staff of the Air Force (CSAF), or the Vice Chief of Staff of the Air Force (VCSAF), OSD, OMB, or Congress.

4.1.7. Establish and maintain NAFI oversight; and provide AAFES analysis.

4.1.8. Develop inflation indices, discount rates, cost per flying hour factors, OMB Circular A-76 analysis, and other cost and economic support required in paragraph **3.4.**

4.2. The PEOs for space and non-space acquisition programs shall prepare and maintain program cost estimates.

4.3. Major commands (MAJCOM), field operating agencies and direct reporting units will:

4.3.1. Establish and maintain cost, economic and financial management expertise to support the resource allocation process; certify economic and business case analyses within their command; support training, education, professional development and certification programs; and develop knowledge management tools.

4.3.2. Develop AoA cost estimates, economic and business case analyses, and provide other cost and economic support required in paragraph **3.4.**

4.3.3. Establish and maintain NAFI oversight expertise to accomplish independent financial oversight of AF NAFI activities under their command.

4.3.4. Prepare NACAs when delegated by SAF/FMC.

4.3.5. Request financial analytical support as needed from the FM CoE.

5. Information Collection, Records, and Forms.

5.1. Information Collections. No information collections are created by this publication.

5.2. Records. The program records created as a result of the processes prescribed in this publication are maintained in accordance with AFMAN 33-363 and disposed of in accordance with the AFRIMS RDS located at **https://afrims.amc.af.mil/rds_series.cfm**.

5.3. Forms (Adopted and Prescribed).

5.3.1. Adopted Forms. AF Form 847, Recommendation for Change of Publication.

5.3.2. Prescribed Forms. No forms are prescribed by this publication.

Michael B. Donley
Acting Secretary of the Air Force

Attachment 1

GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION

Abbreviations and Acronyms

AAFES—Army and Air Force Exchange Service

ACAT—Acquisition Category

AFRC—Air Force Reserve Command

ALC—Air Logistics Center

ANG—Air National Guard

AoA—Analysis of Alternatives

AFCS—Air Force Corporate Structure

APB—Acquisition Program Baseline

BCA—Business Case Analysis

CoE—Center of Expertise

CCA—Component Cost Analysis

EA—Economic Analysis

HAF—Headquarters Air Force

ICE—Independent Cost Estimate

MAIS—Major Automated Information System

MAJCOM—Major Command

MDAP—Major Defense Acquisition Program

NACA—Non-Advocate Cost Assessment

NAF—Non-appropriated Fund

NAFI—Non-Appropriated Fund Instrumentality

NSSA—National Security Space Acquisition

PCE—Program Cost Estimate

PEO—Program Executive Officer

POM—Program Objective Memorandum

PPBES—Planning, Programming, Budgeting and Execution System

SAE—Service Acquisition Executive

USC—United States Code

Terms

Analysis of Alternatives (AoA)—A study conducted to explore numerous conceptual solutions with the goal of identifying the most promising options. The AoA is used to justify the rationale for formal initiation of the selected course of action.

Business Case Analysis (BCA)—A decision support document that identifies alternatives and presents business, economic, and technical arguments for selecting an alternative to achieve organizational or functional missions or goals.

Component Cost Analysis—An independent cost estimate or analysis conducted by the Air Force Cost Analysis Agency.

Cost Estimate / Analysis—A documented analysis that predicts future costs, including profit, to develop and field a desired system. This requires evaluation of costs and risks of the development, production, operation, support and disposal of a system. A key element of a comprehensive estimate is a cost risk/ uncertainty analysis of relevant cost, schedule, and performance factors.

Cost Risk / Uncertainty Analysis—The process of quantifying the uncertainties associated with elements of the cost model such as cost estimating relationships (CERs), technical parameters that drive CERs, labor and other rates, and the schedule. The probability (risk) that a specific cost target will be exceeded is derived from the total uncertainty of the estimate.

Economic Analysis (EA)—A systematic approach to the allocation of scarce resources. It compares the present value of the monetary costs and benefits of the alternatives under consideration, and describes and analyzes relevant non-monetary costs and benefits.

Independent Cost Estimate (ICE)—A cost estimate / analysis prepared by an organization not directly responsible for the development, acquisition, or support of the program. The ICE must include a cost risk/ uncertainty analysis and complete documentation.

Major Automated Information System Program Change—MAIS programs that experience: a) a schedule delay of more than six months, but less than one year or b) development cost or full life-cycle cost growth of at least 15 percent, but less than 25 percent over the original estimate or c) a significant, adverse change in the expected performance from the parameters originally submitted to Congress, shall notify congressional defense committees in writing within 45 days of the determination.

Non-Advocate Cost Assessment (NACA)—An analysis of program cost / price, as well as schedule and technical risk, prepared by an organization not directly responsible for the development, acquisition, or support of the program. NACAs are designed to support the AFCS and acquisition milestone decision process, and can range from a simple sufficiency review of an existing estimate to a complete ICE. The NACA should include a cost risk/uncertainty analysis (when possible) and complete documentation.

Program Deviation—A cost, schedule or technical deviation from the approved Acquisition Program Baseline (APB).

Unit Cost Breach (potential Nunn-McCurdy Cost Breach)—Major Defense Acquisition Programs experiencing: a.) significant cost growth of 15% or more in Program Acquisition Unit Cost (PAUC) or Average Procurement Unit Cost (APUC) over the current baseline estimate or b.) 30% or more in PAUC or APUC over the original baseline estimate, are required to notify Congress of the cost growth and submit a Selected Acquisition Report (SAR) during the quarter the breach was determined. Programs with critical unit cost increases of at least 25% in PAUC or APUC over the current baseline or 50% in PAUC

or APUC over the original baseline estimate are required to notify Congress, submit a SAR, and submit SecDef certification (10 USC 2433).

Program Cost Estimate (PCE)—The cost estimate produced by the acquiring organization (i.e., Product Center, ALC, or Laboratory).