

**BY ORDER OF THE COMMANDER
EDWARDS AIR FORCE BASE**

**EDWARDS AIR FORCE BASE
INSTRUCTION 65-602**



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Financial Management

PRODUCT AND SERVICE RATES

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This Edwards Air Force Base Instruction (EDWARDSAFBI) implements Air Force Instruction (AFI) 65-603, *Emergency and Extraordinary Expense Authority*, DoDI 7000.14-R, Vol 11A, Chapter 12 – Department of Defense Financial Management Regulation, Reimbursable Operations Policy, Major Range and Test Facility Base (MRTFB), and EDWARDSAFBI 65 - 605V1, *Reimbursement Policy*. It describes methodologies, responsibilities, establishment and validation procedures, and the use and control of Product and Service (P&S) rates. This instruction applies to all 412th Test Wing (412 TW) organizations and tenant units. This instruction does not require tiers at or below the Wing level. Waiver authority for this instruction is the 412 TW Commander. 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 chain of command. Ensure that all records created as a result of processes prescribed in this publication are maintained IAW AFI 33-322, *Records Management and Information Governance Program*, and disposed of IAW Air Force Records Information Management System (AFRIMS) Records Disposition Schedule (RDS). This publication may not be supplemented or further implemented/extended. The use of the name or mark of any specific manufacturer, commercial product, commodity, or service in this publication does not imply endorsement by the Air Force.

SUMMARY OF CHANGES

This document has been substantially revised and must be completely reviewed. Major changes include changes in POCs as appropriate, elimination of references to POCs that no longer exist, and breaking down lengthy paragraphs to individual lines for clarity.

1. Standard P&S Rates.

1.1. The 412 TW standard P&S rates are developed based on DoD 7000.14- R Vol 11A, *Reimbursable Operations Policy*. These standard P&S rates contain the cost for both cost estimating and reporting actual expenditures. Each rate represents a Responsibility Center/Cost Center (RC/CC) manager relating production and resource capabilities (in terms of units) to the organizational mission and functional responsibilities. P&S rates further help identify, accumulate, estimate and bill reimbursable costs to customers of the 412 TW.

1.2. Information from these P&S rates provides management with: Budget forecasts including an estimated reimbursable cost breakout by RC/CC in the case of production rates; production, resource, and cost information distribution RC/CC; data which identifies actual use; data to support Statement of Capability (SOC) estimates provided to customers and present and future manpower requirements based on known workload.

2. Product and Service Rate: Production Rates.

2.1. The production rates accumulate, compile, and report both planned and actual production costs and resource data by P&S Code, RC/CC and Element of Expense Investment Code (EEIC). A product is a tangible item, such as a photograph, chart, completed software program, etc. A service is an intangible item, such as an engineering labor hour, an aircraft-flying hour, or an hour of computer time. Therefore, a production rate represents either a product or service which can be produced or provided by a cost center with a specified expenditure of resources.

3. Responsibilities.

3.1. 412 TW Commander. Final approval authority for all 412 TW P&S rates.

3.2. 412 TW Financial Management Director.

3.2.1. Formulates policies and procedures on the establishment, use, validation, and reporting of P&S rates.

3.2.1.1. Establishes policy on P&S rate content.

3.2.2. Approves appointment of Acquisition Cost Rate Manager.

3.2.3. Through the Rate Manager, provides training, assistance, and guidance to 412 TW personnel in determining the adequacy of a P&S rate to show true organizational output.

3.3. Rate Manager.

3.3.1. Assigned within 412 Test Wing Financial Management Operations Acquisition Cost.

3.3.2. Prepares all rate briefings and may participate in briefing the 412 TW Commander.

3.3.3. Recommends policy changes as appropriate.

3.3.4. Develops and distributes Call Letter and Rate Development Cycle Policy and Guidelines memo to 412 TW Rate Developers.

3.3.5. Reviews all initial P&S rate documentation for completeness, accuracy, legality, and appropriateness.

3.3.6. Validates the quantities of resources and cost amounts contained in each P&S rate.

3.3.7. Completes a rate analysis on all major P&S rate changes to determine 412 TW financial impacts. Ensures all P&S rates have projected total Reimbursable Budget Authority (RBA) estimated earnings as well as Direct Budget Authority (DBA) impact for Total Obligation Authority (TOA) analysis.

3.3.8. Coordinates with the Test Wing FM Director (TW/FM) prior to P&S rate process, structure, or methodology changes.

3.3.9. Maintains documentation of all P&S rates such as: Organizational P&S rate submissions and their final reviews, all correspondence regarding rate development procedures and methodology and detailed history of current issues and processes. Proper documentation is beneficial for accuracy and accountability especially when historical research is required.

3.3.10. Provides Job Order Cost Accounting System (JOCAS) administrators with a data file containing P&S rate updates. Ensures that the P&S rates, via the data file, are accurately loaded into JOCAS by system administrators.

3.3.11. Maintains, validates, and distributes the 412 TW Product and Services Detail Catalog. The catalog is produced from JOCAS inputs.

3.3.12. Provides instructions to 412 Test Wing Test Management Group Resource Planning and Analysis Programs Job Order Number (JON) Desk to create validation JONs for all new P&S rates coded as production.

3.3.13. Provides information to FM Systems to move validation JONs to completed ("Z" phase in JOCAS) when no longer required.

3.3.14. Provides information to the JON Desk on future estimates affected by deleted or restructured P&S rates.

3.4. Cost Center Managers.

3.4.1. Identify products and services for their organizations.

3.4.2. Identify the quantity of direct resources needed to produce each product or service.

3.4.3. Forward copies of all documentation including methodology, rationale, and total estimated earnings and DBA impact to the Rate Manager.

3.4.4. Provide all necessary rationale to explain P&S changes (i.e., deletions, new rate requests or changes in rate development methodology). This information will be provided to the Rate Manager who will bring the change to FM Senior Leadership if necessary.

3.5. FM Systems.

3.5.1. Supports software and hardware necessary for developing and maintaining the P&S rate structure database.

3.5.2. The JOCAS System Administrators are responsible for importing the P&S rates into JOCAS and providing updates to all business systems databases impacted by changes made to the P&S rates.

3.6. TW/FM Leadership.

3.6.1. Reviews all requested changes to rate development policy, process, methodology, and/or structural changes.

3.6.2. Recommends approval or disapproval of proposed rate changes to the 412 TW Leadership.

4. Rate Development Business Rules.

4.1. 412 TW will use both P&S rates and direct billing of time and materials as appropriate.

4.1.1. JONs will be used for tracking indirect costs for rates determined to be ineffective or no longer required.

4.1.2. Indirect P&S rates will not be used for organizations that have minimal non- DoD customers. Manual billing for time and materials will be accomplished if required.

4.1.3. Labor rates will be estimated as 100 percent of direct time.

5. Product and Service Rate Selection Criteria.

5.1. Products produced or services rendered must be identifiable and measurable.

5.1.1. Resources that cannot be explicitly defined or measured in the production process shall be noted and forwarded to Acquisition Cost with remarks reflecting a logical approach to measurement.

5.1.1.1. These undefined requirements and resource-consuming efforts will be evaluated quarterly for inclusion within an existing P&S rate or individually identified for P&S rate status.

5.1.1.2. For example, if a specific test is now consistently requiring external advisory services not previously identified because it was only on an ad hoc basis, the effort of seeking and applying the service shall be identified and incorporated into the rate.

5.2. P&S rates will consist of identifiable resources that are classified as direct costs as well as some institutional costs for organizations that provide estimates and/or billing to Foreign Military Sales (FMS), other government or Commercial customers.

5.2.1. Direct costs are those costs that are directly attributable to the use of the facility or resource for testing under a particular program, over and above the institutional and overhead costs with respect to the facility or resource.

5.2.1.1. Chargeable direct costs include labor, contract labor, material, minor construction, utilities, equipment, supplies, items damaged or consumed during testing, and any resource or item maintained for a particular program.

5.2.2. Institutional costs fund the overhead costs of the MRTFB and are not to be charged to the DoD Component users.

5.2.2.1. Institutional costs are defined as the costs of maintaining, operating, upgrading, and modernizing the facility or resource.

5.2.2.2. Institutional costs do not include any incremental costs of operating the facility or resource that is directly attributable to the use of the facility or resource for specific testing under a particular program.

5.3. Volume and cost must be relatively constant for use in a P&S rate.

5.4. The total number of P&S rates in each organization will be kept to a manageable few but sufficient enough to enable a management measurement of the organization's productivity consistent with its mission and functions. P&S rates shall be established at the highest level of summarization possible.

5.5. Direct labor hour P&S rates (a P&S rate consisting of only 1 labor hour of a single labor skill) will be set up for workload forecasting, cost estimating, and resource control.

5.6. Indirect and overhead rates are not included in any P&S rate. They are additive rates calculated and billed through JOCAS.

6. Product and Service Rate Development Procedures.

6.1. Cost Center Managers.

6.1.1. Will identify all direct resources for which they have management responsibility.

6.1.1.1. Labor: This primary resource is the effort of skilled personnel. These costs shall be categorized in terms of quantity of labor skills applied to the mission. Categorization is by type of skill (i.e., engineer, pilot, administrative, project manager, etc.)

6.1.1.2. Equipment and Facilities: All critical resources must be included.

6.1.1.3. Other Direct Resources: All other resources, such as supplies, fuels, contracts, etc., will be categorized by type or Elements of Expense/Investment Codes (EEIC). EEIC capacity or utilization data may be computed on this type of resource by using budgets, budget forecasts, or historical data.

6.1.1.3.1. Examples of this type of category are Supplies and Direct Contract Labor.

6.1.1.3.2. Acquisition Cost supplies the proper coding needed to identify the category.

6.2. Cost Center Managers will document the P&S rates according to a format provided by Acquisition Cost.

6.2.1. Give detailed explanations/justifications of changes to the P&S rates in the notes/comments section of the spreadsheet.

6.2.2. Provide final documentation for the new fiscal year P&S rates to Acquisition Cost by the timeline outlined in the P&S Rate Development Call Letter for the affected fiscal year.

6.2.2.1. For interim rates, forward copies of all documentation to Acquisition Cost by the first calendar day of the month before the effective date of the P&S rate.

6.2.2.2. For example, if a rate change is to be effective 1 March, the documentation is due to Acquisition Cost by 1 February.

7. Product and Service Cost.

7.1. P&S costs are shown in job order cost distribution, customer billing, and cost estimates for product planning.

7.1.1. Established P&S rates are under constant scrutiny for validity by the Government Accounting Office, the USAF Inspector General, Air Force Audit Agency, and customers. Complete details on the P&S cost development must be recorded and maintained.

7.1.2. These records shall describe the basic rationale applied as well as the manning and cost breakout so subsequent changes in the manning mix, operational costs, facility decreases or increases, etc. can be compared and the cost factors adjusted.

7.2. The following criteria are used by Acquisition Cost in pricing direct resources:

7.2.1. Military personnel rates as prescribed in AFI 65-503, US Air Force Cost and Planning Factors.

7.2.2. Individual civilian pay rates, including locality pay, accelerated to include benefits.

7.2.3. Material costs are provided by the cost center, and the cost center's organization is responsible for maintaining the backup data to confirm the material costs. These costs can be confirmed by the supply activity's price list for national stock numbered items or reflected on government purchase card orders.

7.2.4. Contract costs are calculated at negotiated rates. The cost center's organization is responsible for maintaining all relevant cost data to support the rates.

8. Validation Procedures.

8.1. All rates are reviewed and verified before the beginning of a new fiscal year or as required due to organizational changes, price changes, major pay adjustments, etc.

8.1.1. P&S Rates will be validated on a quarterly basis with the exception of Flying Hour Rates (FHP). FHP rates use an average of 32 months of data and are less vulnerable to short term fluctuations. FHP rates will be adjusted annually and when the cost of fuel changes.

8.1.2. Cost Center Managers are assigned the responsibility of identifying all costs in a rate and forwarding documentation on the development of costs to Acquisition Cost.

8.1.3. Rate validation is a joint responsibility of the Rate Manager and Cost Center Managers.

8.2. The primary responsibility for particular tasks is assigned to organizations as follows:

8.2.1. Rate Manager:

8.2.1.1. Performs quarterly validation of existing rates.

8.2.1.2. Sends deviations identified as a result of this review, in writing, to the cost center manager for corrective action.

8.2.2. Cost Center Manager:

8.2.2.1. Reviews P&S rates at least annually to establish rates for the new fiscal year.

8.2.2.2. Reviews P&S rates whenever the organization experiences a change that could bring the validity of the rates into question.

8.2.2.3. Recommends changes when there is a variance of $\pm 5\%$ in resource quantities (or costs) as indicated by the review.

8.2.2.3.1. Accounting records will not be adjusted retroactively except in unusual circumstances (e.g. finding that the wrong concept was used in establishing the P&S rates).

8.3. Since resources are the basic make-up of a P&S rate, changes in P&S costs are made at the resource level.

8.3.1. Rate submissions must include a completed DBA, RBA, and TOA analysis on projected units and earnings.

8.3.2. This analysis will be used to brief budgetary impact of the rate to appropriate levels of management.

9. Product and Service Rate Changes.

9.1. P&S rate changes will be made as follows:

9.1.1. Annually to update rates for the upcoming fiscal year.

9.1.2. As required through the rate validation process.

9.1.3. In response to specific labor or other significant cost changes.

9.2. All efforts will be made to keep P&S rate changes to a minimum to stabilize rates for 412 TW customers.

9.3. P&S rate structure changes or conversions have a profound effect upon all databases using P&S rates.

9.3.1. All estimates in JOCAS using the old P&S rate become invalid and historical usage of the P&S rate is distorted.

9.3.2. For these reasons, structural changes or conversions shall be kept to an absolute minimum.

9.3.3. Requests for such changes must be fully documented to include the relationship of the old P&S rates to the new P&S rates.

9.3.4. Acquisition Cost is the sole point of contact for rate conversions.

9.3.5. All conversions must be approved by the Rate Manager prior to input in JOCAS.

9.4. Changes to existing costs are based on the following circumstances:

9.4.1. Quarterly rate changes may occur for any one or more of the following reasons:

9.4.1.1. A 5% increase or decrease in the quantity of resources needed to produce a given product or service.

9.4.1.2. A change in the utilization of the rate.

9.4.1.3. A change in the type of resource needed to produce a given product or service (could be caused by innovations, different equipment, capability to measure and definition of previously undefined resource consumption, etc.).

9.4.1.4. To correct significant administrative or mathematical errors.

9.4.1.5. Updates to Civilian Benefits Acceleration Rate (CBAR) and across-the-board pay raises, either military or civilian.

9.4.2. Manpower requirement changes, supported by the validation, are made jointly by Acquisition Cost and the cost center manager.

9.4.2.1. Validated changes are briefed to 412 TW/FM if it is a change to the process, structure, or methodology of the P&S rate.

9.4.2.2. Acquisition Cost makes the changes and updates the rates.

9.4.2.3. If warranted, the changes are briefed to the appropriate levels of management.

9.5. Annually, the cost center manager will review the material resources in the P&S rates with current price lists to determine if changes of any cost factors are necessary.

9.5.1. If an update is necessary, the cost center manager will notify Acquisition Cost specifying the P&S rates involved and the current price of the material requiring update and will include all supporting documentation.

9.5.2. Acquisition Cost will bring the proposed changes to 412 TW/FM leadership with a recommendation.

9.6. If a change in the quantity of a resource occurs, the cost center manager must advise Acquisition Cost within 30 days prior to implementation and request a revision of the P&S rate.

9.7. Rate submissions must include a completed DBA, RBA, and TOA analysis on projected units and earnings.

9.7.1. This analysis will be used to brief budgetary impact of the rate to the appropriate levels of management.

10. Product and Service Rate Deletions.

10.1. Cost Center Managers may request deletion of a P&S rate by submitting a written request to Acquisition Cost giving a brief explanation for the deletion. For example, if the organization no longer provides one of their listed products, it may be deleted.

10.2. If the P&S rate to be deleted has been estimated for support to any JON, all such estimates must be identified before removing the P&S rate from the database.

10.2.1. Any impacts on related estimates must also be provided to JON Desk through Acquisition Cost before deletion.

MATTHEW W. HIGER,
Brigadier General, USAF Commander

Attachment 1**GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION*****References***

AFI 33-322, *Records Management and Information Governance Program*, 27 July 2021

AFI 65-503, *US Air Force Cost and Planning Factors*, 12 July 2018

DoD 7000.14-R Vol 11A, *Reimbursable Operations Policy*, May 2021

EDWARDSAFBI 65-605V1, *Financial Management Reimbursement Policy*, 18 May 2021

Prescribed Forms

None

Adopted Forms

AF Form 847, *Recommendation for Change of Publication*

Abbreviations and Acronyms

412 TW—412 Test Wing

AFMAN—Air Force Manual

AFRIMS—Air Force Records Information Management System

CBAR—Civilian Benefits Acceleration Rate

CS—Communication Squadron

DBA—Direct Budget Authority

DOD—Department of Defense

EEIC—Element of Expense/Investment Code

FMS—Foreign Military Sales

JOCAS—Job Order Cost Accounting System

JON—Job Order Number

MRTFB—Major Range and Test Facility Base

OPR—Office of Primary Responsibility

P&S—Product and Service

RBA—Reimbursable Budget Authority

RDS—Records Disposition Schedule

RC/CC—Responsibility Center/Cost Center

SOC—Statement of Capability

TOA—Total Operating Authority

Attachment 2**EXAMPLES OF AFTC RATE CATEGORIES (NOT ALL INCLUSIVE)****A2.1. Aircraft Support.**

A2.1.1. Cost factors may include:

- A2.1.1.1. Military labor.
- A2.1.1.2. Civilian labor.
- A2.1.1.3. Supplies/material.
- A2.1.1.4. Aviation fuel.
- A2.1.1.5. Depot Level Repairables.
- A2.1.1.6. Engine Modules.
- A2.1.1.7. Contract technical services (Tech Reps).
- A2.1.1.8. Contract support services (if applicable).

A2.2. Utilities.

A2.2.1. Cost factors may include:

- A2.2.1.1. Purchased utilities:
 - A2.2.1.1.1. Rate charged by utility company.
 - A2.2.1.1.2. Costs associated with the maintenance of the delivery system.

A2.2.2. Custodial services.

- A2.2.2.1. Refuse handling.
- A2.2.2.2. Space rental.
- A2.2.2.3. Maintenance and repair **NOTE:** If consumption is not metered, engineering estimates may be used.

A2.3. Film/Photo/Audiovisual.

A2.3.1. Cost factors may include.

- A2.3.1.1. Civilian labor.
- A2.3.1.2. Military labor.
- A2.3.1.3. Supplies and material (film, processing chemicals, photographic paper, etc.).
- A2.3.1.4. Contract costs which may encompass contractor procured supplies and material as mentioned above.

A2.4. Instrumentation. Instrumentation category is defined as the sensors used in tracking, measuring, recording and reporting data gathered in support of a customer's order. Examples are radar, telemetry, optics, real time data handling systems (scientific computers), transmitters and recorders.

A2.4.1. Cost factors may include.

A2.4.1.1. Military, civilian, and contractor labor.

A2.4.1.2. Preventive and corrective maintenance based on usage, not the passage of time.

A2.4.1.3. Rental and Automatic Data Processing Equipment (ADPE) maintenance costs.

A2.4.1.4. Material issued directly to the sensor (instrumentation) or issued as bench stock serving the sensor. Issue to a bench stock assumes that replenishment is being made to bench stock due to issues made to the sensor.

A2.4.1.5. Communication costs, including long lease lines, if budgeted by the organization.

A2.4.1.6. Engineering support to maintain or enhance the systems when not directly identified to a user (indirect).

A2.4.1.7. Quality control of all sensor enhancements or output products.

A2.4.1.8. Contract costs which encompass any of the above (includes indirect contractor costs).

A2.5. Scientific/Engineering/Technical Labor Support.

A2.5.1. Cost factors may include:

A2.5.1.1. Civilian, military, and contract labor.

A2.6. Support Equipment.

A2.6.1. Cost factors may include.

A2.6.1.1. Operator labor.

A2.6.1.2. Maintenance, labor, and material.

A2.6.1.3. Fuel.

A2.6.1.4. Rental/lease.

A2.6.1.5. Contract maintenance.

A2.6.1.6. Contract costs which encompass any of the above.