

**BY ORDER OF THE
SECRETARY OF THE AIR FORCE**

AIR FORCE POLICY DIRECTIVE 65-5

18 DECEMBER 2018

Financial Management

COST AND ECONOMICS



COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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This Air Force Policy Directive implements Department of Defense Directive 5105.84, *Director of Cost Assessment and Program Evaluation*, Department of Defense Instruction 5000.02, *Operation of the Defense Acquisition System*, DoDI 5000.73, *Cost Analysis Guidance and Procedures*, Department of Defense Instruction 5000.75, *Business Systems Requirements and Acquisition*, and Department of Defense Instruction 7041.03, *Economic Analysis for Decision-Making*. This publication 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 as well as the Air Force Reserve and Air National Guard. 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 using the Air Force Form 847, *Recommendation for Change of Publication*; route Air Force Forms 847 from the field through the appropriate functional's chain of command. Ensure that all records created as a result of processes prescribed in this publication are maintained in accordance with Air Force Manual 33-363, *Management of Records*, and disposed of in accordance with the Air Force Records Disposition Schedule in the Air Force Records Information Management System. This publication may not be further supplemented.

SUMMARY OF CHANGES

This document has been substantially changed and must be reviewed in its entirety. The changes to this publication constitute several policy directive updates. Included are references annotating Business Systems Category and Defense Business Systems replacing Major Automated Information Systems and the publication of Department of Defense Instructions 5000.02, 5000.73, and 5000.75. Changes include updating terms and organizational changes to move the Financial Management Center of Expertise from The Deputy Assistant Secretary for Cost and Economics (SAF/FMC) to the Air Force Installation and Mission Support Center. Changes also include removal of the Commercial Activity Program. The directive removes the term Business Case Analysis and aligns Comparative Analyses under Economic Analysis.

1. Policy. The Air Force shall support the Strategy, Planning, Programming, Budgeting, and Execution Process (SPPBE) and the acquisition system within the Department of Defense, by providing decision makers with credible and objective cost and Economic Analysis. 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). The following are the types of cost and economic analyses that shall be conducted across the Air Force:

1.1. Program Office Estimates or Single Best Estimates for all Active Acquisition Master List Acquisition Category (ACAT) I, II and III programs to include Business System Category and Defense Business Systems programs. Program Office Estimates will be used to support milestone decisions, Authority To Proceed decisions, the SPPBE process, source selections, program and unit cost breaches (potential Nunn-McCurdy cost breaches), rapid prototyping/rapid fielding initiatives, and Analysis of Alternatives on programs expected to meet ACAT I thresholds.

1.2. Non-Advocate Cost Assessments for ACAT I programs and select ACAT II/III programs. Non-Advocate Cost Assessments will be used to support milestone decisions, the SPPBE process, source selections, program and unit cost breaches, Analysis of Alternatives on programs expected to meet ACAT I thresholds, and requested rapid prototyping/rapid fielding initiatives. Non-Advocate Cost Assessments and Service Cost Positions satisfy the requirement for a Component Cost Estimate per Department of Defense Instruction 5000.02 and Department of Defense Instruction 5000.73 guidance.

1.3. Independent Cost Estimates for Major Defense Acquisition Programs, Major Automated Information Systems milestones, and Defense Business Systems Authority to Proceed decisions where decision authority has been delegated to the Service Acquisition Executive.

1.4. Economic Analyses for the Air Force when deemed necessary or required by law. The Air Force shall also develop inflation indices, discount rates, and cost and planning factors in support of Economic Analyses and financial analyses across the Air Force.

2. Roles and Responsibilities: The Assistant Secretary of the Air Force for Financial Management is responsible for Air Force cost analyses and Economic Analyses and will work collaboratively with other headquarters organizations (Assistant Secretary of the Air Force for Acquisition, Technology & Logistics; Deputy Under Secretary of the Air Force, Management, etc.) to ensure that decision makers receive realistic, reliable, and complete analyses.

2.1. The Assistant Secretary of the Air Force for Financial Management shall:

2.1.1. Develop and administer cost, economic, and financial analysis; policy and guidance; standards and templates; training, education, and professional certification programs; analyst qualification criteria; and cost estimating performance and budget risk metrics

2.1.2. 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 Headquarters Air Force functional organizations.

2.1.3. Conduct and approve Non-Advocate Cost Assessments, develop Independent Cost Estimates, review program cost estimates, and approve waivers for Program Office Estimates and Non-Advocate Cost Assessments requirements (unless required by statute) with the coordination of Assistant Secretary of the Air Force for Acquisition, Technology & Logistics; Deputy Under Secretary of the Air Force, Management (or their delegated Program Executive Officer).

2.1.4. Develop Economic Analyses and financial analyses when requested by Headquarters Air Force or considered high-level interest items, or in support of installations and Major Commands (MAJCOMs).

2.1.5. Review and comment on technical propriety and sufficiency of any cost, economic, or financial analysis (whether developed by the MAJCOM, acquiring organization or Headquarters Air Force organization) when the analysis will be presented to the Secretary of the Air Force, the Under Secretary of the Air Force, the Chief of Staff of the Air Force, the Vice Chief of Staff of the Air Force, Office of the Secretary of Defense, Office of Management and Budget, or Congress.

2.1.6. Develop inflation indices, discount rates, and other cost and economic support factors.

2.1.7. 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.

2.1.8. Obtain economic data on the United States and world economy, including foreign exchange rates. Assess the financial health of defense firms and the defense and aerospace industry. Maintain a program to determine and apply the effects of changes in the economy to the SPPBE process.

2.1.9. Conduct a NAFI oversight program of all active Air Force Services NAFIs and analysis of AAFES corporate operations.

2.2. The Program Executive Officers for space and non-space acquisition programs shall prepare and maintain program cost estimates.

Heather A. Wilson
Secretary of the Air Force

Attachment 1

GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION

References

Department of Defense Directive 5105.84, *Director of Cost Assessment and Program Evaluation*, 11 May 2012

Department of Defense Instruction 5000.02, *Operation of the Defense Acquisition System*, 7 January 2015, *Incorporating Change 3*, 10 August 2017

Department of Defense Instruction 5000.73, *Cost Analysis Guidance and Procedures*, 9 June 2015, *Incorporating Change 1*, 2 October 2017

Department of Defense Instruction 5000.75, *Business Systems Requirements and Acquisition*, 2 February 2017

Department of Defense Instruction 7041.03, *Economic Analysis for Decision-making*, 9 September 2015, *Incorporating Change 1*, 2 October 2017

Air Force Manual 33-363, *Management of Records*, 1 March 2008

Adopted Forms

Air Force Form 847, *Recommendation for Change of Publication*

Abbreviations and Acronyms

AAFES—Army and Air Force Exchange Service

ACAT—Acquisition Category

MAJCOM—Major Command

NAFI—Nonappropriated Fund Instrumentality

SPPBE—Strategy, Planning, Programming, Budgeting and Execution

Terms

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

Authority to Proceed—Business systems, as outlined in the Department of Defense Instruction 5000.75, use Authority to Proceed decision points rather than milestones.

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, technical parameters that drive

cost estimating relationships, 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.

Defense Business Systems—Defense Business Systems are information systems, other than a national security system, operated by, for, or on behalf of Department of Defense, including financial systems, mixed systems, financial feeder systems, and Information Technology and Information Assurance infrastructure. Defense Business Systems support business activities such as acquisition, financial management, logistics, strategic planning and budgeting, installations and environment, and human resource management.

Economic Analysis—A systematic approach to the problem of choosing how to use scarce resources to meet a given objective. It includes consideration of costs, benefits, risk and uncertainty associated with all alternatives under consideration. At times, the term economic analysis is used in reference to the product/document that results from applying the economic analysis systematic approach. This resulting document is also referred to as a comparative analysis.

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

Non-Advocate Cost Assessment—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. Non-Advocate Cost Assessment are designed to support the Air Force Corporate Structure and acquisition milestone decision process, and can range from a simple sufficiency review of an existing estimate to a complete Independent Cost Estimate. The Non-Advocate Cost Assessment should include a cost risk/uncertainty analysis (when possible) and complete documentation.

Nunn—McCurdy Cost Breach— When Major Defense Acquisition Programs experience cost growth of 25% in Program Acquisition Unit Cost or Average Procurement Unit Cost from their current baseline or 50% from their original baseline, they are in a “critical” Nunn-McCurdy Unit Cost Breach. Programs in “critical” breach status are required to notify Congress, submit a Selected Acquisition Report , and submit Secretary of Defense certification (10 United States Code 2433) and are subject to detailed review for potential termination. The Nunn–McCurdy Amendment or Nunn–McCurdy Provision, introduced by Senator Sam Nunn and Congressman Dave McCurdy in the United States 1982 Defense Authorization Act and made permanent in 1983, is designed to curtail cost growth in American weapons procurement programs.

Program Office Estimate—The cost estimate produced by the acquiring organization (i.e., Product Center, Air Logistics Center, or Laboratory).

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 or Average Procurement Unit Cost over the current baseline estimate or b.) 30% or more in Program Acquisition Unit Cost or Average Procurement Unit Cost over the original baseline estimate, are required to notify Congress of the cost growth and submit a Selected Acquisition Report during the quarter the breach was determined.