Navy’s Program Perspectives on Performance-Based Contracting

Federal Remediation Technologies Roundtable

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25 May 2005
Crystal City, VA
Presentation Outline

• What is PBC?
• The NAVFAC Environmental Acquisition Strategy
• The NAVFAC Approach on PBC
• Levels of PBC Implementation
• PBC Elements
• NAVFAC PBC Experience
• Summary
What is PBC?

• Structuring all aspects of an acquisition around the purpose of the work to be performed. PBC actions (task order) describe “what” is required (expected outcome) and places the responsibility on the contractor for determining “how” to deliver or meet the desired outcome on the contractor.
  – Encourage innovation and utilization of contractor expertise
  – Transfer of risk from Government to Contractor
The Navy’s Environmental Acquisition Strategy Transformation

• Acquisition Strategy prior to 2001
  – Large Businesses (LB) execute 91% of Environmental Program through contracts
  – Cost Reimbursement contracts with award fees predominantly used

• Growing External Pressures
  – Industry pressure from small business
  – Congress limits large IDIQs
  – Financial difficulties of some of the Navy’s large contractors

• Maturing Programs

• Need for Change
New Acquisition Strategy

• New Objectives Starting in 2001/2002
  – Continue to match the work requirements with the most cost-effective and efficient type of contractual vehicles
  – Achieve greater balance and diversification
    • Increase options and flexibility
    • Minimize our risk exposure
    • Meet our political and legislative contracting mandates

• New Strategy Goals
  – Increase Small Business participation (40% goal)
  – Increase use of Fixed-price contracts
  – Increase Performance-based contracting
Small Business History

**FY 01 SMALL BUSINESS**
- Small Business: 9%
- Large Business: 91%

**FY 02 SMALL BUSINESS**
- Small Business: 13%
- Large Business: 87%

**FY 03 SMALL BUSINESS**
- Small Business: 40%
- Large Business: 60%
Small Business FY 04 - FY 06

FY04 SMALL BUSINESS
- Large Business: 60%
- Small Business: 40%

FY05 SMALL BUSINESS
- Large Business: 55%
- Small Business: 45%

FY06 SMALL BUSINESS
- Large Business: 55%
- Small Business: 45%
Fixed-Price History

FY01 FIXED-PRICE
- Fixed Price: 32%
- Cost: 68%

FY02 FIXED-PRICE
- Fixed Price: 32%
- Cost: 68%

FY03 FIXED-PRICE
- Fixed Price: 56%
- Cost: 44%
Fixed-Price FY 04 - FY 06

FY04 FIXED-PRICE

- Fixed Price: 55%
- CLEAN: 17%
- RAC: 28%

FY05 FIXED-PRICE

- Fixed Price: 69%
- CLEAN: 11%
- RAC: 20%

FY06 FIXED-PRICE

- Fixed Price: 67%
- CLEAN: 8%
- RAC: 25%
The Navy Approach to PBC

• The Navy’s PBC approach:
  – Integrate and utilize PBC throughout entire acquisition strategy, as PBC techniques can be applied within all contract mechanisms to varying degrees
    • PBC is incorporated in our Acquisition Strategy.
    • Not a questions of whether to use PBC or not, but rather to what degree
    • Perception that PBC equates to only Guaranteed Fixed Price Remediation (GFPR)
    • Can implemented at any stage in the process
    • Different levels of implementation
    • The majority of our contract tools can have PBC components
Level of PBC implementation

• Decision comes down to **situational analysis of risk versus reward**
  
  **Risk:**
  • PBC shifts risk/uncertainty from Government to Contractor
  • Increased cost to assume risk

  **Reward:**
  • PBC encourages Contractor innovation, flexibility and accountability
  • Encourages speed and efficiency
  • Potential cost reduction with savings to the Government

• **Situational Factors**
  – Contractual mechanism
  – Level of environmental uncertainty
  – Level of regulator and community uncertainty
  – Potential for innovation and greater efficiency
• NAVFAC Acquisition Strategy
• NAVFAC issued specific PBC guidelines on 26 Oct 04 to address:
  – PBC eligibility (applies to non-Brooks Bill work only)
  – Responsibilities and level of approval
  – Directs increased use of PBC
  – Train our workforce
  – Explains the elements of PBC
  – Establish reporting requirements
• **Performance Objectives (task):** Define the work in measurable outcome, mission related terms.

• **Performance Standards:** Define what is acceptable (quality, quantity and timeliness) tied to performance objectives.

• **Performance Assessment Plan or Quality Assurance Plan:** Identifies acceptable quality levels for the objectives. Describe how performance will be measured.

• **Incentives:** Address how to manage performance that does not meet or exceed objectives.

• **Performance Requirements Matrix:** Documents in a summary table all the performance objectives, standards, assessments and incentives developed for a proposed contract action.
• NAVFAC has been using PBC techniques since 1999; however, not all the elements were present in our contract actions, some PBC examples include:
  – Charleston Naval Base. Combination of real estate transfer and environmental cleanup.
  – Kings Bay. Chemical Oxidation in landfill hot spots, we established performance based on reduction of contaminant levels.
  – Whiting Field. Milestones established for achieving certain contaminants reductions with a one year funding hold back to insure desired outcome.
  – Stockton and Mare Island, CA: Environmental Service Cooperative Agreement which is a combination of Guaranteed Fixed Price with Performance Base Contracting. The contractor assumes all responsibility for the action
  – Cost Plus Remediation Contracts Navy wide. We move select remediation efforts from a completed EECA, or less than 35% drawings and specs and move forward with a remedial action.
Major Future Initiatives

• Looking at innovative contract mechanisms that provide quality service at a lower cost.
  – Performance Environmental Restoration Multiple Award Contract (PERMAC): combine design and construction under a fixed price contract.
  – Looking at emphasizing incentives within the performance base framework with our fixed price and cost plus contracts.
Summary

• PBC is not a type of contract, but a way of contracting
• Integrated throughout our strategy
• Various degrees of implementation depending on situation
• Valuable tool that should be used appropriately