



DEPARTMENT OF THE NAVY  
NAVAL FACILITIES ENGINEERING COMMAND  
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IN REPLY REFER TO  
ACQ 021B  
30 Dec 98

MEMORANDUM FOR DISTRIBUTION

Subj: DEVIATION TO FAR CLAUSE 52.248-1, VALUE ENGINEERING (98-41)

Encl: (1) FAR 52.248-1, Value Engineering (MAR 1989) (NAVFAC DEVIATION NOV 1998)

1. Due to the nature of the Base Operating Services (BOS) contracts, the BOS contractor possesses an in-depth knowledge of the facilities, operations, and requirements involved in maintaining and operating a base. NAVFAC is looking for ways to achieve cost savings on our BOS contracts through identification of efficiencies, elimination of redundant contract requirements and implementation of new technologies. As a means of accomplishing this, NAVFAC intends to partner with BOS contractors to identify those areas where cost savings can be achieved. Ideas submitted by the BOS contractor, approved and implemented by the Government can result in the contractor receiving a percentage of the actual savings.
2. The Assistant Secretary of the Navy (Research, Development, and Acquisition) has approved for NAVFAC's use enclosure (1) deviation to FAR clause 52.248-1. Enclosure (1) incentivizes BOS contractors to submit cost savings initiatives by allowing them to share up to 50% of the savings from accepted post award value engineering (VE) proposals and use outcome based metrics to measure and incentivize superior contract performance through the award fee process.
3. Level III contracting officer written approval is required for use of this clause. Prior to Level III approval, the customer or claimant must be willing to commit to the terms of the clause and commit activity funds up to 50% of the savings. Use of the clause is discretionary. An annual review shall be conducted and a report provided to NAVFAC Code 021B of initiatives submitted for approval in addition to any lessons learned.

A handwritten signature in black ink, appearing to read "M. F. Howard".

MICHAEL F. HOWARD  
Director, Strategic Operations/  
Community Management

## **52.248-1 Value Engineering (MAR 1989) (NAVFAC DEVIATION NOV 1998)**

As prescribed in P-68 48.201(b), insert the following clause in solicitations and contracts for Base Operating Services (BOS).

### **VALUE ENGINEERING (MAR 1989) (NAVFAC DEVIATION NOV 1998)**

(a) The Contractor is entitled, as prescribed in this clause, to share in cost savings resulting from the implementation of cost reduction projects which are presented to the Government in the form of Cost Reduction Proposals (CRP) and approved by the Contracting Officer. These cost reduction projects may require changes to the terms, conditions or Section C, Performance Work Statement, of this contract. Any cost reduction projects must not change the essential function of any products to be delivered or the essential purpose of services to be provided under the contract.

(b) Definitions.

(1) Cost savings - as contemplated by this clause, means savings that result from instituting changes to this contract, as identified in an approved Cost Reduction Proposal.

(2) Cost Reduction Proposal (CRP) - For the purpose of this clause, a Cost Reduction Proposal means a proposal that achieves cost savings as described in this clause. These alternatives must result in a net reduction in the contract price to the Government. The proposal will include technical and cost information sufficient to enable the Contracting Officer to evaluate the CRP and approve or disapprove it.

(3) Contractor implementation costs - As used in this clause, contractor implementation costs shall mean those costs which the Contractor incurs on this contract in developing, preparing, submitting, and negotiating a CRP; as well as those costs the Contractor will incur to make any structural or organizational changes in order to implement an approved CRP.

(4) Government cost - As used in this clause, the term government costs means internal costs of the Government agency which result directly from development and implementation of the CRP. These may include, but are not limited to, costs associated with the administration of the contract or with such contractually related functions such as testing, operations, maintenance and logistics support. These costs also include costs associated with other Agency contracts (including changes in contract price or cost and fee) that may be affected as a result of the implementation of a CRP. They do not include the normal administrative costs of reviewing and processing the CRP.

(c) General. The Contractor shall develop, prepare and submit CRPs with supporting information, as detailed in paragraph (e) and (f) of this clause to the Contracting Officer. The CRP will describe the proposed cost reduction activity in sufficient detail to enable the Contracting Officer to evaluate it and to approve or disapprove it. The Contractor shall share in any net cost savings realized from approved and implemented CRPs that reduce the price of this contract. The Contractor's actual percentage share of the cost savings shall be a matter for negotiation with the Contracting Officer, but shall not, in any event, exceed 50% of the total net cost savings recognized by the Contracting Officer. The Contractor may propose changes in

other activities that impact performance on its contract, including government and other contractor operations, if such changes will optimize cost savings. A Contractor shall not be entitled to share, however, in any cost savings that are internal to the Government, or which result from changes made to any contracts to which it is not a party even if those changes were proposed as a part of its CRP. Early communication between the Contractor and the Government is encouraged.

(d) Computation of cost savings. The cost savings to be shared between the Government and the Contractor will be computed by the Contracting Officer by comparing a current estimate to complete (ETC) for the covered contract, as structured before implementation of the proposed CRP, to a revised ETC which takes into account the implementation of that CRP. The cost savings to be shared shall be reduced by any cost overrun, whether experienced or projected, that is identified on this contract before implementation of the CRP. Although a CRP may result in cost savings that extend far into the future, the period in which the Contractor may share in those savings, will be limited to the remaining term of the contract. Implementation costs of the Contractor savings initiative must be considered and specifically identified in the revised ETC. The Contracting Officer shall offset Contractor cost savings by any increased costs (whether implementing or recurring) to the Government when computing the total cost savings to be shared. The Contractor shall not be entitled, under this clause, to share in any cost reductions to the contract that are the result of changes stemming from any action other than an approved CRP.

(e) Processing of Cost Saving Initiatives. There is an initial submittal which shall include the following information, as applicable, in sufficient detail for the Government to determine the feasibility of further investigation of the initiative.

(1) Initiative title and description, including contract references (paragraph numbers), if appropriate; estimated total price; what the Contractor would provide; what the Government would provide; the duration of the agreement; anticipated total revenues, expenses and net gains for the agreement period; pay back schedule; risk assessment; percentage of distribution of revenues generated; drawings and maps of the affected areas and facilities; potential impacts to the Government; potential benefits; the impact to the BOSCO, etc. Initiatives should minimize any adverse impact to operations and mission capability, legal requirements, and public health and safety.

(f) Supporting Information. As a minimum, the Contractor shall provide the following supporting information with each CRP:

(1) Identification of the current contract requirements or established procedures and/or organizational support which are proposed to be changed.

(2) A description of the difference between the current process or procedure and the proposed change. This description shall address how proposed changes will meet the Government's requirements and discuss the advantages and disadvantages of the existing practice and the proposed changes.

(3) A list of contract requirements which must be revised, if any, if the CRP is approved, along with proposed revisions. Any changes to the Government contract management process should also be addressed.

(4) Detailed cost estimates which reflect the implementation costs of the CRP.

(5) An updated ETC for the covered contract, unchanged and a revised ETC for the covered contract which reflects changes resulting from implementing the CRP. If the CRP proposes changes to only a limited number of elements of the contract, the ETCs need only address those portions of the contract that have been impacted. Each ETC shall depict the level of costs incurred or to be incurred by year, or to the level of detail required by the Contracting Officer. If other CRPs have been proposed or approved on a contract, the impact of these CRPs must be addressed in the computation of the cost savings to ensure that the cost savings identified are attributable only to the CRP under consideration in the instant case.

(6) Identification of any other previous submissions of the CRP, including the dates submitted, the agencies and contracts involved, and the disposition of those submittals.

(g) Administration.

(1) Within 60 days of receipt, the Contracting Officer shall complete an initial evaluation of any proposed cost reduction plan to determine its feasibility. Failure of the Contracting Officer to provide a response within 60 days shall not be construed as approval of the CRP. The Government shall promptly notify the Contractor of the results of its initial evaluation and indicate what, if any, further action will be taken. If the Government determines that the proposed CRP has merit, it will open discussions with the Contractor to establish the cost savings to be recognized, the Contractor's share of the cost savings, and a payment schedule. The Contractor shall continue to perform in accordance with the terms and conditions of the existing contract until a contract modification is executed by the Contracting Officer. The modification shall constitute approval of the CRP, adjust the contract cost and/or price, establish the Contractor's share of cost savings, and incorporate the agreed to payment schedule.

(2) The Contractor will receive payment by submitting invoices to the Contracting Officer for approval. The amount and timing of individual payments will be made in accordance with the schedule to be established with the Contracting Officer. Notwithstanding the overall savings recognized by the Contracting Officer as a result of an approved CRP, payment of any portion of the Contractor's share of the savings shall not be made until the Government begins to realize a net cost savings on the contract (i.e., implementation, startup and other increased costs resulting from the change have been offset by cumulative cost savings). Savings associated with unexercised options will not be paid unless and until the contract options are exercised. It shall be the responsibility of the Contractor to provide such justification as the Contracting Officer deems necessary to substantiate that cost savings are being achieved.

(3) Any future activity, including a merger or acquisition undertaken by the Contractor (or to which the Contractor becomes an involved party), which had the effect of reducing or reversing the cost savings realized from an approved CRP for which the Contractor has received payment may be cause for recomputing the net cost savings associated with any approved CRP. The Government reserves the right to make an adjustment to the

Government's share of cost savings and to receive a refund of moneys paid if necessary. Such adjustment shall not be made without notifying the Contractor in advance of the intended action and affording the Contractor an opportunity for discussion.

(h) Limitations. Contract requirements that are imposed by statute shall not be targeted for cost reduction exercises. The Contractor is precluded from receiving reimbursements under both this clause and other incentive clauses of the contract, if any, for the same cost reductions.

(i) Disapproval of, or failure to approve any proposed cost reduction proposal shall not be considered a dispute subject to remedies under the Disputes clause.

(j) Cost savings paid to the Contractor in accordance with the provisions of this clause do not constitute profit or fee within the limitations imposed by 10 U.S.C. 2306(d) and 41 U.S.C. 254(b).

(k) The Government reserves the right to use the cost saving initiatives developed in this contract wherever and whenever they would be determined advantageous to the Government.