

PRICE NEGOTIATION MEMORANDUM, 20 OCT 1971

AIR FORCE CONTRACT FO4606-71-C-0002, FY72 OPTION PERIOD

AIR AMERICA, INC.

Performance Period 1 July 1971 to 30 June 1972

The enclosed Price Negotiation Memorandum provides the record of negotiations covering contract services for aircraft flying operations, aircraft maintenance, Udon base operation and maintenance, TACAN site operation and maintenance (O&M), weather network O&M, logistics management assistance (i.e., support operations for the Cambodian Air Force) and other services in Southeast Asia.

After extensive fact-finding discussions with customers, site visits, and audit support, negotiations started 17 Aug 71 and continued through 11 Sep 71. A total of 89 separate items were priced for the FY72 program. The estimated total contract amount for FY72 was estimated at \$13,708,920.

The record reflects negotiated prices that were \$1,361,440 from the prices proposed by the company. The reduction is shown by major contract line item.

The contract line items were primarily on a fixed price basis. Profit was determined at a rate of 13.3 per cent of cost (11.7 per cent of price), and was computed under detailed profit weighted guideline procedures.

Martin L. Kaufman

MARTIN L. KAUFMAN, Colonel, USAF 15 April 1991
former Contracting Officer
USAF Air America Contract

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PRICE NEGOTIATION MEMORANDUM 20 OCT 1971

CONTRACT FO4606-71-C-0002 FY72 OPTION PERIOD

CONTRACTOR: AIR AMERICA, INC.
FIELD EXECUTIVE OFFICE
APO SAN FRANCISCO, CALIF 96239

CONTRACTING OFFICER: MR JAMES E. SPENCER

CONTRACT NEGOTIATOR: CAPT MARTIN L. KAUFMAN

PERFORMANCE PERIOD: 1 JULY 1971 TO 30 JUNE 1972

CONTRACT DOCUMENTS ISSUED AS A RESULT OF NEGOTIATIONS:

FO4606-71-C-0002-P00035 and -P00036

FO4606-71-C-0002-0001-07

FO4606-71-C-0002-0002-10

FO4606-71-C-0002-0004-08 and -09

FO4606-71-C-0002-0005-03

FO4606-71-C-0002-0007-06.

Unclassified
Martin L. Kaufman, Col, USAF
21 May 1989

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I. INTRODUCTION

A. Introductory Summary

1. This procurement involves contract services for aircraft flying operations, aircraft maintenance, Udorn base operation and maintenance, TACAN site operation and maintenance, communication network operation and maintenance, weather network operation and maintenance, logistics management assistance and other miscellaneous services in support of SEA special projects. Work is performed at multiple locations in Southeast Asia and at Tainan AB, Taiwan. The estimated total contract amount for FY72 is \$13,708,920. The contract is primarily on a fixed price basis, with provisions for time and materials and cost reimbursement line items.
2. Contract FO4606-71-C-0002 was issued by SMAMA in June, 1970, as a selected source follow-on to contract F62531-67-C-0028 (FY 68, 69, and 70). Contract 0002 contains two one-year options to extend the term of the contract. Modification FO4606-71-C-0002-P00024 was issued 30 June 1971 exercising the FY72 option and increasing the estimated face value of the contract and orders thereto by \$13,708,920.
3. In accordance with Part XII.b.(2), (3) and (4) of the contract, Air America requested negotiation of revised rates and prices to be effective 1 July 1971. The contractor submitted a price proposal on 21 July 1971 (in advance of the maximum 15 Aug 1971 date set forth in the contract).
4. The Taipei sub-office of DCAA, Pacific Branch D, performed audit review. The Udorn Field Office of Det 11 AFCCM, and customer organizations, assisted the negotiator and DCAA by preparing technical review of proposed contractor manning and by updating work specifications. The SMAMA negotiation team members completed fact-finding surveys in South Vietnam, Thailand and Taiwan prior to negotiations.
5. Negotiations were held in Taipei, Taiwan from 17 Aug to 11 Sept 71. Negotiations resulted in a \$1,361,440 reduction from the prices proposed by the contractor. The savings were accomplished by detailed technical analysis, field recommendations and DCAA findings, coupled with examination of minimum essential customer mission requirements and personnel/cost relationships prior to and throughout the fact-finding and negotiation process.
6. As a matter separate from the above negotiated savings, customer organizations have credited the fact-finding effort with an additional \$150,000 cost-avoidance. This cost-avoidance resulted from discovery that certain contemplated contract requirements could be reduced without hindering the respective customer missions. As the reductions and deletions took place prior to submitting implementation requests to the contractor, the \$150,000 involved is not included as a negotiated savings.

B. Purchase Requests (Initial FY72)

Dep Chf 72-1	\$11,310,000
WRAMA FD2060-72-01011-01 (C-123 Acft)	1,259,000
WRAMA FD2060-72-01010 (C-7A Acft)	400,000
PACAF DC 72-2 (TACAN O&M)	215,000
PACAF DC 72-1 (TACAN Flight Support)	25,000
10th Weather 72-1-01 (Weather Network)	295,000
SMAMA FD2040-72-00085 (T-28 CBD)	5,000
SMAMA FD2040-72-33001 (Logistics Management Team)	199,920
	<u>\$13,708,920</u>

C. Negotiation Authority

1. 10 U.S.C. 2304 (a) (6)
2. Part XII. b. ("option to extend the term of the contract") of the contract schedule.

D. Scope of Negotiations

The negotiations covered pricing of all contract line items, pricing of orders provided for under the contract, specification changes and contract language.

E. Pricing Proposal

The pricing proposal contained pricing data for fixed price and time and material line items. The contractor submitted cost data under Item 4 of DD Form 633 (Contract Pricing Proposal) provisions and ASPR 16-206.2. The pricing proposal data provided cost data substantially in compliance with DD Form 633 requirements. DCAA confirmed that audit review was accomplished by use of both the pricing proposal and the contractor's cost buildup worksheets.

II. PRE-NEGOTIATION CONFERENCES

A. Pre-negotiation conferences were held in Udorn, Thailand and Taipei, Taiwan. The purpose of each conference was to present an overview of all aspects of the contract, discuss inter-related service aspects, develop specification changes (if any), discuss proposed pricing strategy, and brief attendees on procedures for conduct of the negotiations. Specific comments developed during the pre-negotiation conferences will be discussed in the applicable pricing section of this negotiation memorandum.

Personnel attending the 12 Aug 71 conference in Udorn are listed in paragraph B below. Personnel attending the pre-negotiations conferences in Taipei (conferences were held for each major contract element prior to negotiations) also attended negotiations and are shown in Part IV.A of this memorandum.

B. The following personnel attended the 12 Aug 71 pre-negotiations conference:

Mr William R. Leonard	USAID
Mr Charles P. Gabeler	USAID DC/ASB
Mr E. C. Ceaser	USAID RO
Mr D. E. Cox	USAID ASB
Mr R. E. Starbuck	USAID RO/AVN
Mr Bruce Rowland	USAID/AIRA
Lt Col Gerald J. Vanek	Det 11 AFCCM
Lt Col Joseph K. Lambert	10th Weather Squadron
Maj John R/ Knowlton	Deputy Chief
Mr James E. Spencer	SMAMA Contracting Officer
Maj Clarence G. Thompson	Udorn Field Office, Det 11 AFCCM
Mr Joseph J. McGrath	Udorn Field Office, Det 11 AFCCM
Capt Martin L. Kaufman	SMAMA Contract Negotiator
Capt Peter E. Peck	Deputy Chief
Capt George C. Kramer	10th Weather Squadron
Capt Skip Hartwig	Deputy Chief
Capt Lee E. Davis	1974th Comm Group
Capt Roger T. Hart	1974th Comm Group

III. NEGOTIATION OBJECTIVES AND OUTLINE

A. Analysis and Evaluation Background

Full DCAA support was obtained prior to and during negotiations. The buyer, contract administrative office, and using organizations provide information to DCAA on personnel manning. DCAA submitted an audit report based on evaluation of historical and projected costs set forth in the pricing proposal, adjusted for Government technical analysis. The negotiation team, during negotiations, prepared a price summary for each contract line item. The summary developed the Government objectives, based on updated manning and cost positions, general and administrative costs and profit.

B. Negotiation Approach

The Government approach during negotiations consisted of questioning the contractor's positions on manning and cost elements and presenting the Government position regarding same. During negotiations the Government team stressed that they were interested in reaching fair and reasonable prices. For areas in which the contractor concurred with the DCAA findings, the Government asked the company to present a revised proposal. The purpose of the request was to allow the Government to review an updated proposal prior to

presenting the Government offer. In those cases where the contractor stated that cost factors had increased, the Government allowed the contractor to revise the applicable portions of the proposal for further Government review. Ultimate negotiated prices were established on "bottom line" total price concept rather than on agreement to all cost and profit factors.

C. Common Pricing Elements

There were several pricing elements in which the Government applied the same factor throughout the negotiations. The elements involved SEA base G&A expense, common pool G&A expense, direct flight G&A expense and profit. Since these elements were used for each applicable item negotiated, the procedure used is explained below.

1. SEA Base G&A Expense.

The SEA base G&A expense area applies to overhead costs applicable to Third Country Nationals (TCN's) based in Southeast Asia locations other than Udorn, Thailand. This overhead cost from the non-Udorn base locations is allocated among all such TCN's. The contractor proposed a SEA base G&A rate of 7.5 per cent of applicable TCN personnel costs. The DCAA evaluation recommended a rate of 7.0 per cent. The 7.0 per cent rate was utilized by the Government.

2. Common Pool G&A Expense.

The common pool G&A expense element consists generally of expenses relating to the operating of the Taipei and Washington company offices exclusive of that portion of overhead expense applicable to direct flight support. This cost overhead is shared proportionally among all users of Air America services. The contractor proposed common pool G&A at the initial projected rate of 6.4 per cent of total costs before common pool G&A. The contractor later revised this to 6.2 per cent. DCAA evaluated historical experience rates and recommended a rate of 5.8 per cent of total costs before common pool G&A. The 5.8 per cent rate was utilized by the Government.

3. Direct Flight G&A Expense.

This cost element provides for the contractor's SEA flight training and flight standards departments, and the Taipei-based offices of the Vice Presidents for Flight Operations, Flying Contract Affairs, and Traffic and Sales. Total direct support costs are allocated by projected total aircraft revenue flying hours. The contractor proposed a rate of \$4.38 per revenue flight hour. The Government developed a rate of \$4.21 per hour, based on an addition of 150 revenue hours per month for an additional development aircraft program and questioned costs in the allocation base. The \$4.21 rate was used by the Government.

4. Profit.

a. The contractor's proposal with few exceptions, provided for a profit rate of 14.3 per cent of cost. This was equal to a profit rate of 12.5 per cent of price. The company had utilized identical profit rates for the FY70 and FY71 proposals.

b. The Government's weighted guidelines profit evaluation for FY71 showed a profit objective of 14.0 per cent of cost. This was equal to an objective rate of 12.3 per cent of price. The analysis factors have remained constant for FY72.

c. The Government utilized a profit objective of 13.3 per cent of cost, or 11.7 per cent of price, during the FY70 and FY71 negotiations. These rates were not discussed or negotiated with the contractor. Therefore, as FY70 and FY71 pricing had been accomplished utilizing a lower profit rate than that developed for FY71, it seemed possible that the contractor would continue to accept total pricing incorporating the lower FY71 profit rate objective.

d. As a result of the negotiation team's evaluation of the above factors, the team used a profit rate of 13.3 per cent of cost, or 11.7 per cent of price, in establishing the majority of Government price objectives. Exceptions to this profit rate (all of which involve lower profit rates) are shown in Sections XIV.C. 5 and 6 and in section XV.c.1, of this memorandum.

D. Negotiation Outline

The actual negotiations are presented in Sections VI through XVIII of this memorandum. The items are discussed in the order covered in the negotiations.

IV. NEGOTIATION ATTENDEES

**THE FOLLOWING PERSONNEL WERE PRESENT DURING ALL OR A PORTION OF
NEGOTIATIONS (17 AUG - 11 SEP 71)**

US GOVERNMENT

<u>NAME</u>	<u>Organization</u>
Col Ray W. Bauman	DEPCHF/ADC
Col G. E. Brennan	PACAF/DC
Col Boyce M. Smith	Hq 1st Wea Gp/CV
Mr Charles Gabeler	USAID/DCASB
Lt Col James L. Brewer	CINCPAC/J431
Lt Col Gerald Vanek	Det 11 AFPMC/CC
Lt Col C. A. Edmonds	MEDTC-FWD
Lt Col J. I. Chatman	MEDTC-HEAR
Mr E. H. Lerager	DCAA Taipei
Mr Harry C. White	327th Air Division
Mr James E. Spencer	SMAMA Contracting Officer
Maj John R. Knowlton	DEPCHF-L/AFPM
Mr Bruce H. Rowlands	USAID/AIRA
Mr. Roger W. Starbuck	USAID/RSB
Maj William A. Acker	SMAMA Legal Office
Maj Clarence G. Thompson	Udorn Field Office Cadr
Maj Joseph A. Schmitt	Hq 1st Wea Wg/DOW
Mr Joseph J. McGrath	Udorn Field Office Det 11
Mr Al Reiss	DCAA Taipei
Capt Martin L. Kaufman*	SMAMA Contract Negotiator
Capt Peter E. Peck	DEPCHF-L/AFPM
Capt George C. Kramer	10th Wea Sq/DOCW
Mr Carl Grundy	DCAA Taipei

AIR AMERICA, INC

<u>Name</u>	<u>Office</u>
Mr. James W. Walker, Jr	Vice President, Flight Operations
Mr. Al Weuste	Vice Pres, Technical Serv
Mr Var Green	Vice Pres, Flying Contr A
Mr. Sigvard O. Larson*	Asst to VP, Flying Contr
Mr. Clarence J. Abadie, Jr.	Base Manager, Udorn
Mr Donald Malech	Manager Financial Affairs Udorn
Mr. Jackson L. Forney	Director Technical Servic Udorn
Mr. Gary Bisson	Legal Counsel, Taipei
Mr. E. H. Richmond	Flight Operations, Taipei

*Primary Negotiators

University of Texas at Dallas Department of Special Collections

V. NEGOTIATION OVERALL SUMMARY

A. Overall Summary of Price Negotiations

	<u>Proposal</u>	<u>Objective</u>	<u>Negotiated</u>
1. Communications Net:			
Total all 7 sites:	\$48,878.50/mo	\$38,405.00/mo	\$38,788.00
2. Weather Net:			
Total all 4 sites:	\$22,850.73/mo	\$19,928.00/mo	\$20,170.00
3. Contractor-Furnished Aircraft:			
a. C-47	\$ 232.64/hr	\$ 232.00/hr	\$ 232.00
b. Beech 10-2	186.00/hr	186.00/hr	186.00
c. Volpar Twin Beech			
(1) 0-70:00 hours per mo	\$16,187.00/mo	\$15,555.00/mo	\$15,555.00
(2) Over 70:01 hours per mo	104.29/hr	102.59/hr	103.00
(3) Area operations pay	8.82/hr	8.71/hr	8.71
4. TACAN Fixed Price:			
a. Order 0004 Fixed Price:			
(1) Jul-Sep 71	\$23,089.00/mo	\$18,778.00/mo	\$18,947.00
(2) Oct-Dec 71	23,089.00/mo	20,621.00/mo	20,600.00
(3) Jan-Jun 72	23,089.00/mo	17,222.00/mo	17,275.00
b. Order 0004 Per Diem Rates. 9 subitems. Minor increases from Government objectives negotiated.			
c. Item 21	3,946.00/mo	3,686.00/mo	3,725.00
5. Udorn Labor Hour Rate	\$ 2.67/hr	\$ 2.44/hr	\$ 2.45
6. Udorn Base O&M	\$165,363.00/mo	\$155,995.00/mo	\$155,995.00
7. O-1 & U-17 Maintenance			
a. Jul-Aug 71	\$ 73,091.00/mo	\$ 23,207.00/mo	\$ 23,250.00
b. Sep 71 - Jun 72	73,091.00/mo	50,659.00/mo	51,000.00
8. SEA Labor Rate	\$ 5.51/hr	\$ 5.41/hr	\$ 5.41
9. Tainan Labor Rate	\$ 2.86/hr	\$ 2.86/hr	\$ 2.86

<u>Item</u>	<u>Proposal</u>	<u>Objective</u>	<u>Negotiated</u>
10. UH-34 Flying Services			
a. 0- 6,150:00 hrs/qtr (exclusive of demobilization cost)	\$ 77.10/hr	\$ 66.50/hr	\$ 67.00/hr
b. Demobilization Cost			
(1) Total	\$178,934.00	\$89,058.00	\$89,058.00
(2) Pro-rated among 24,600 flying hrs (6150 x 4)	6.07/hr	3.62/hr	3.62/hr
c. Over 6,150:01 hrs/qtr	37.14/hr	36.46/hr	36.64/hr
d. Area Operations Pay	18.68/hr	17.97/hr	18.00/hr
e. Trip Hour Pay			
Category A	32.80/hr	32.12/hr	32.12/hr
Category Dt	11.65/hr	11.41/hr	11.41/hr
f. Dead Head Pay			
Category A	24.27/hr	22.42/hr	22.42/hr
Category Dt	8.79/hr	8.18/hr	8.18/hr
11. Additional Flight Personnel: 42 subitems. Government objectives obtained on 39, with minor amounts over objectives (0.1 per cent) on remainder.			
12. Functional Check Flight & Ground Rotor Engagement:	\$16,300.00/mo	\$15,700.00/mo	\$15,700.00/mo
13. Logistics Management Assistance Team			
a. Jul-Sep 71	6,733.00/mo	6,610.00/mo	6,625.00/mo
b. Oct 71	14,335.00/mo	13,581.00/mo	13,825.00/mo
c. Nov 71 - Jun 72	15,204.00/mo	13,941.00/mo	14,400.00/mo

B. A total of 89 separate items were priced for the FY72 contract period. Fourteen priced elements were new to the contract. FY72 pricing compared to FY71 prices resulted in increases on 49 items, decreases on 23 items and prices unchanged on the remaining 3 items. The majority of price increases were due to changes in Government requirements resulting in additional personnel and/or higher skill levels. In several cases, such as the UH-34 program, reduced flying hours caused increases in the overhead allocation per hour. Details regarding price comparisons are contained in the applicable sections of this memorandum.

C. The negotiated prices reflect a total reduction of \$1,361,440 from the prices proposed by the contractor. The success of the negotiations is due to detailed audit and technical analysis, information obtained on the negotiation team's pre-negotiation fact-finding trip, and technical assistance from each customer organization and Udorn Field office personnel.

D. The Contracting Officer and the Contract Negotiator have reviewed all factors and prices pertaining to this negotiation. Additional details are set forth in the applicable sections of this memorandum. It is the opinion of the undersigned that the FY72 prices set forth in this memorandum are fair and reasonable.

Martin L. Kaufman
MARTIN L. KAUFMAN, Capt, USAF
Contract Negotiator 19 Oct 1971

James E. Spencer
JAMES E. SPENCER
Contracting Officer 19 Oct 1971

CONCUR:

James M. Mischo 20 Oct 71

JAMES M. MISCHO
Chief, F-105, A-1, T-39, F-84, A-X Branch
Weapon System & Major Equip Prog Div

VI. COMMUNICATIONS NETWORK (CONTRACT ITEM 13) AND WEATHER NETWORK
(ORDER 0005) OPERATION AND MAINTENANCE

A. Negotiation Period

17 through 19 August 1971

B. Background

These items provide for the operation and maintenance of seven (7) communications network sites and four (4) weather network sites. All weather sites are co-located with communications sites. One factor in the co-located site operation is that certain contractor personnel (such as maintenance and radio operator personnel) provide services for both networks. The two customers fund for their pro-rata portion of the services involved. Therefore, both items must be negotiated simultaneously. Prior to and during the negotiations, the customers provided technical assistance regarding personnel strength and cost-sharing agreements. Certain site costs represent allocation of central cost elements among all sites. All sites are priced on a monthly price per site basis.

C. Proposal, Objective, and Negotiated Amounts

1. Monthly Combined Comm Net and Wea Net Elements

	<u>Initial Contractor Proposal</u>		<u>Revised Contractor Proposal</u>		<u>DCAA/AF Objective</u>	
	<u>Com Net</u>	<u>Wea Net</u>	<u>Com</u>	<u>Wea</u>	<u>Comm</u>	<u>Wea</u>
Radio Operators	\$11,807	\$ 6,302	\$10,605	\$ 6,146	\$10,484	\$ 6,081
Comm Engineers	1,642	410	1,642	410	1,642	410
Mechanics; RMD	17,679	8,093	12,484	6,535	12,484	6,535
GMD	5,004	-0-	4,561	-0-	4,561	-0-
Weather Analysts	-0-	2,141	-0-	2,141	-0-	2,141
Subtotal	<u>\$36,132</u>	<u>\$16,946</u>	<u>\$29,292</u>	<u>\$15,232</u>	<u>\$29,171</u>	<u>\$15,167</u>
Salary Increase (2.04%)	737	346	598	311	254	170
Per Diem	622	188	621	188	621	188
Subtotal			<u>\$30,511</u>	<u>\$15,731</u>	<u>\$30,046</u>	<u>\$15,525</u>
Base G&A Expense	2,706	1,311	2,182	1,180	2,003	1,090
	(7.5%)	(7.5%)	(7.5%)	(7.5%)	(7.0%)	(7.0%)
Subtotal	<u>40,197</u>	<u>18,791</u>	<u>32,693</u>	<u>16,911</u>	<u>32,049</u>	<u>16,615</u>
Common Pool G&A	2,572	1,203	2,027	1,048	1,859	963
	(6.4%)	(6.4%)	(6.2%)	(6.2%)	(5.8%)	(5.8%)
Total Cost	<u>\$42,769</u>	<u>\$19,994</u>	<u>\$34,720</u>	<u>\$17,959</u>	<u>\$33,908</u>	<u>\$17,578</u>
Profit	6,110	2,857	4,960	2,566	4,497	2,350
	(14.3%)	(14.3%)			(13.3%)	(13.3%)
Total Mo Price	<u>\$48,879</u>	<u>\$22,851</u>	<u>\$39,680</u>	<u>\$20,525</u>	<u>\$38,405</u>	<u>\$19,928</u>
			Negotiated		<u>\$38,788</u>	<u>\$20,170</u>

2. Individual Site Pricing

Prices Per Site Per Month

Site No	<u>Contractor's Initial Proposal</u>		<u>Contractor's Revised Proposal</u>		<u>Government Objective</u>		<u>Negotiated</u>	
	<u>Comm</u>	<u>Wea</u>	<u>Comm</u>	<u>Wea</u>	<u>Comm</u>	<u>Wea</u>	<u>Comm</u>	<u>Wea</u>
1	\$20,733.15	\$12,199.25	\$14,897.69	\$ 7,925.41	\$14,422	\$ 7,664	\$14,524	\$ 7,754
2	5,396.43	3,855.52	5,777.14	4,292.95	5,603	4,178	5,660	4,229
3	4,088.49	3,850.03	3,873.98	4,676.99	3,747	4,555	3,791	4,612
4	6,685.20	2,945.93	5,116.22	3,629.53	4,946	3,531	5,010	3,575
5	4,703.31	N/A	1,670.86	N/A	1,606	N/A	1,631	N/A
7	5,510.90	N/A	6,626.81	N/A	6,401	N/A	6,470	N/A
8	1,721.02	N/A	1,717.78	N/A	1,680	N/A	1,702	N/A
TOTAL	\$48,878.50	\$22,850.73	\$39,680.48	\$20,524.88	\$38,405	\$19,928	\$38,788	\$20,170

D. Technical Analysis of Proposed Manning

1. The comm net and weather net customers concurred in the number of radio operators and mechanics shown in the contractor's initial cost build-up. The customers also concurred in the proposed allocation of shared cost elements.

2. PCO/buyer analysis noted that the initial proposal showed an approximate \$8,000 per month increase in mechanic costs over FY71. The FY72 mechanic proposal was based on two categories: 38 full-time regional maintenance division (RMD) mechanics, assigned to both programs, priced on a cost per man basis; and 1820 hours produced per month (comm net only) from the general maintenance division (GMD), priced on a labor cost per hour basis. Analysis further noted that in FY71 negotiations the contractor had used a direct labor hour realization basis for RMD mechanics. This was a substantial change from the prior man-month basis and involved extensive discussions before the Government accepted the labor hour procedure for FY71 pricing. Therefore, the negotiation team questioned the FY72 proposal for RMD mechanic costs. DCAA was requested to develop audit data based on RMD hours produced during the FY71 period. This data base yielded costs substantially lower than those in the man-month costing procedure.

E. Major Discussions

1. Radio Operators

a. The contractor proposed costs based on an average 37.5 R/Os for comm net and 20 R/Os for weather net. This was priced at pay scales as follows:

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	<u>Comm Net</u>	<u>Wea Net</u>	<u>Total</u>
Udorn 55½ Chief Cat "C" & 7 "Dt"	7.5	-0-	7.5
Other locations: "C"	21.0	11.0	32.0
"Dt"	4.0	5.0	9.0
"DL"	5.0	4.0	9.0
	<u>37.5</u>	<u>20.0</u>	<u>57.5</u>

b. The R/Os from other locations were initially costed from a pool consisting of 60 R/Os plus 8 trainees. Subsequent to delivery of the proposal, one category "C" R/O quit. The Government stated that an adjustment should be made in the pricing, as one of the lower-pay category trainees would most likely replace the previous R/O. The contractor concurred. Pricing was established using an average cost per R/O. The average costing method also provides increased R/O assignment flexibility. Both parties agreed that, if a partial termination occurs, both will review average costing procedure to determine if it is still adequate.

c. The Government requested that the senior R/Os attend periodic contractor/customer conferences at Site No 1. Contractor concurred.

2. RMD Mechanics

a. The government questioned the contractor's use of average monthly pay and fringes, plus labor burden (at 109 per cent of pay and fringes) for RMD labor. The Government demonstrated that experienced RMD hours charged to both programs in FY71 yielded experienced costs substantially under those in the current proposal. After additional discussions, the contractor accepted use of a direct labor hour times a cost per hour pricing basis. FY71 RMD data was developed from accounting records and applied on a monthly average basis to all sites.

b. Final Government computation yielded 2,965 labor hours for communications net support and 1,553 hours for weather net support.

3. GMD Mechanics

a. Review of GMD hours and costs per hour resulted in an increase of hours from 1,920 to a new total of 2,193. Concurrently, the cost decreased from \$2.62 per hour to \$2.08 per hour.

4. Senior Weather Analysts

The Government requested that the senior weather analyst make at least one visit to each site per year. The contractor concurred.

F. Negotiated Savings

The negotiated prices represent a reduction of \$121,086 from the proposed communications net price and a reduction of \$32,169 from the proposed weather network prices. The total savings for both programs are \$153,255.

G. Summary

The negotiated FY72 monthly prices for both programs exceed the total prices for FY71 by \$548. The FY72 communications net price is \$1,839 higher, while the FY72 weather net price is \$1,293 lower. The changes are due to improvements in cost allocation procedures on cost-shared elements. The FY72 prices are considered to be fair and reasonable.

VII. FLYING SERVICES - CONTRACTOR FURNISHED AIRCRAFT (ITEM 2)

A. Negotiation Period

20 through 23 Aug 1971

B. Background

1. Contract Item 2 provides for flying services for contractor furnished aircraft provided to the Government under call arrangement procedures set forth in the contract. Three aircraft will be provided for in FY72: C-47, Beech 10-2, and a Volpar Twin Beech (VTB) aircraft.

2. Aircraft are provided on a quarterly call (C-47 and Beech 10-2) monthly call (VTB) or daily call (C-47 and Beech 10-2) basis. If a quarterly call is issued, a quarterly minimum of 180 hours is stipulated. If a daily call is used the Government pays only for the hours used that day. The monthly call (for the VTB) stipulates a minimum of 70 hours per month. (The initial VTB requirement was based on a 60 hour monthly minimum. It was later changed to a 70 hours monthly minimum).

3. The C-47 and VTB aircraft are priced on a "dry wing" rate while the Beech 10-2 is priced on a "wet wing" rate. Dry wing means that fuel will be provided by the US Government. The contract contains a provision that in the event Government fuel is not available, the contractor may furnish fuel as a cost reimbursable item. Wet wing means that contractor-provided fuel is included in the price.

C. Proposal, Objective, and Negotiated Amounts

1. C-47 price per flying hour:

	<u>CONTRACTOR Cost</u>	<u>DCAA Cost</u>	<u>Proposed Price</u>	<u>Accepted</u>
Cost	\$235.22	\$231.01	\$232.00	\$232.00

2. Beech 10-2 price per flying hour:

<u>Proposed Price</u>	<u>Accepted</u>
\$186.00	\$186.00

3. Volpar Twin Beech prices per 70 hour minimum and over-minimums

NOTE /1/ Contractor proposed C-47 price, if presented on standard cost and profit basis, would have been \$268.85/hr. Gov't objective would have been \$261.75/hr. See para D.2 on page 16.

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<u>Cost Element</u>	<u>Contractor's Revised Proposal</u>		<u>DCAA</u>		<u>Air Force Objectives</u>	
	<u>Mo. Price 0-70 Hr</u>	<u>Per Hr Over minimum</u>	<u>Mo. Price</u>	<u>Over min Per-Hr</u>	<u>Mo. Price</u>	<u>Over min Per Hr.</u>
Flight Crew:						
Base pay/fringes	\$2,770		\$2,770		Same as DCAA	
Over guarantee pay	79	29.11	79	29.11	Cost Elements	
Night time pay	19		19			
Deadhead pay	36		36			
Subtotal	<u>2,904</u>	<u>29.11</u>	<u>2,904</u>	<u>29.11</u>		
Personnel Expense	198		198			
Airframe maint	1,884	26.91	1,884	26.91		
Engine maint	1,681	24.01	1,681	24.01		
Acft deprec	1,241		1,241			
Rotables deprec	1,072		973			
Other exp	15	.22	15	.22		
Tech services	844		844			
Flt operations	2,563		2,563			
Traffic servicing	254		254			
Ground property						
Deprec	36	.51	36	.51		
Subtotal	<u>12,692</u>	<u>80.25</u>	<u>12,549</u>	<u>80.26</u>		
Base G&A	1,321	.62	1,321	.62		
Direct Flight G&A	307	4.38	295	4.21		
Common Pool G&A	814	5.32	753	4.96		
Total Cost	<u>\$13,945</u>	<u>\$91.08</u>	<u>\$13,729</u>	<u>\$90.05</u>	<u>\$13,729</u>	<u>\$90.05</u>
Profit	<u>\$1,992(14.3%)</u>	<u>13.01</u>	<u>N/A</u>	<u>N/A</u>	<u>1,826(13.3%)</u>	<u>12.95</u>
Price:	<u>\$15,937</u>	<u>\$104.09</u>			<u>\$15,555</u>	<u>\$103.00</u>

Negotiated: \$15,555/mo \$103.00/hr

4. VTB Area Operation Pay Rate (paid for each aircraft flying hour).

	<u>Contractor's Proposal</u>	<u>DCAA</u>	<u>Air Force Objective</u>
Cost per block hr	(\$14.00X.50)	(\$14.00X.50)	
Times 50% payment rate			
Area Cost Per Hr	<u>7.00</u>	<u>7.00</u>	
Area pay on 3.88% non-revenue flight time (\$7.00X.0388)	.27	.27	
Subtotal	<u>7.27</u>	<u>7.27</u>	<u>7.27</u>
Common Pool G&A	.45 (6.2%)	.42 (5.8%)	.42 (5.8%)
Total Cost	<u>7.72</u>	<u>7.69</u>	<u>7.69</u>
Profit	<u>1.10 (14.3%)</u>	<u>N/A</u>	<u>1.02 (13.3%)</u>
Price per Hr	<u>\$8.82</u>	<u>N/A</u>	<u>\$8.71</u>

Negotiated: \$8.71 per hr

D. Major Discussion

1. VTB minimums. The Government requested a change to a minimum of 70 hours per month. The contractor presented a revised proposal of \$15,937 fixed price per month and \$104.09 per hour over minimum. The initial proposal equaled \$16,187 fixed price and \$104.29 per hour.

2. C-47 pricing. Contractor stated that the cost build-up of \$235.22 less an "adjustment" factor of \$31.66 per hour, plus profit of \$29.08 on the remaining costs would give a proposed price of \$232.64. The contractor stated that the voluntary adjustment was in accordance with company policy on this aircraft. The company further proposed a reduction to \$232.00 per flying hour. DCAA confirmed that total questioned costs were substantially less than the voluntary adjustment. The Government accepted the proposed \$232.00 price.

3. Beech 10-2. The FY71 wet wing price was \$183.00 per hour. The contractor proposed a FY72 price of \$186.00 per hour. A detailed cost build-up was not presented. DCAA confirmed that flight crew wage agreements for calendar years 1971 and 1972, as set forth in the Far East Pilots Association (FEPA) Union Contract of 16 March 70 equaled the proposed price increase. The Government accepted the proposed \$186.00 price. Customer projects very low use in FY72.

4. Volpar Twin Beech. The contractor's cost build-up contained estimated costs for depreciation of rotables and other flight equipment. DCAA took exception to the accounting practice used in developing overhaul cost which included depreciation on repairable rotatable components. During discussion the contractor stated that the change in accounting procedure was made in response to a recommendation by a professional audit company. The contractor, later accepted the Government price offer (in which the questioned depreciation costs had been deleted from the Government cost build-up), prefacing acceptance with a statement that it was negotiating a fixed price without comment regarding the question of depreciation on rotatable spares. The contractor requested that the Government's notes reflect that no agreement was reached on this area. The Government concurred.

E. Negotiated Savings

- a. Savings are claimed only for the VTB pricing.
- b. The negotiated prices resulted in reductions from the contractor's proposal, based on an expected VTB utilization of 80 hours per month, as follows:
 1. Fixed price: \$632 per month, net savings of \$7,584.00
 2. Over minimum: \$1.29 per hour, net savings of \$155.00
 3. Area operations pay: \$0.09 per hour, net savings of \$86.00

c. Total Negotiated Savings equaled \$7,825.

F. Summary

The negotiated prices equal the Government objectives and are considered fair and reasonable.

VIII. TACAN OPERATION AND MAINTENANCE (ORDER 0004 AND ITEM 21)

A. Negotiation Period

20 through 25 August 1971.

B. Background

1. Order 0004 provides for operation and maintenance of PACAF/TACAN equipment at three SEA locations. Item 21 provides for O&M of one TACAN installation exclusive of the PACAF/TACAN requirement. During the initial FY72 planning period, only two TACAN sites, Sites 1 and 2, were considered for Contractor operation.

2. In early July SMAMA was requested to provide for TACAN Site Number 3 under the basic contract. This was added as Item 21 and an operational date of 1 August was developed. Subsequent to establishment of contract coverage for Site 3, PACAF requested establishment of a new TACAN site (identified as Site 4). TACAN customer developed a revised work specification for implementation into Order 0004 with the same specification applicable to Item 21. Therefore, the negotiations for TACAN operation and maintenance provided for Sites 1, 2, and 4 under Order 0004 and Site 3 under Item 21 of the contract.

3. Prior to fiscal 71, per diem costs for TACAN personnel were included in the fixed price. During fiscal 71 negotiations, the Government team felt that the variable nature was such that it was not possible to determine accurately the amount of per diem to include in the fixed price. Furthermore, the customer had stated that it did not have daily information from the contractor under fixed price provisions enabling it to determine the actual on-site manning in the utilization of personnel including the technicians headquartered at Udorn. Therefore, in FY71, per diem charges had been pulled out of the fixed price and included as a separate line item for payment based on day-time per diem, overnight per diem, and area operations pay for hazardous duty locations.

During the FY72 pre-negotiation conference, TACAN customer advised that the contractor had been providing a daily site manning sheet showing per diem charges and location of all personnel at all times. Customer advised that this information was extremely valuable viewpoint in managing TACAN operations and for analyzing contractor's projected manning for future programs. Customer requested separate per diem and hazardous pay elements be continued for FY72.

C. Proposal, Objective, and Negotiated Amounts. The negotiations developed two major pricing areas, the first being a fixed price per month exclusive of per diem and hazardous duty rates, the second being rates for per diem and area operations (hazardous duty) assignments. The areas are shown below as follows:

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1. Monthly Fixed Prices

<u>Monthly Cost Elements</u>	<u>Contractor's Initial Proposal</u>			<u>Contractor's Revised Proposal</u>		
	<u>Order 0004</u>	<u>Item 21</u>	<u>Item 21</u>	<u>Order 0004</u>	<u>Order 0004</u>	<u>Order 0004</u>
			<u>Aug 71-Jun 72</u>	<u>Jul-Sep 71</u>	<u>Oct-Dec 71</u>	<u>Jan-Jun 72</u>
Supervisor (An)	\$1,402	-0-	-0-	-0-	\$ 1,402	\$ 1,402
Technicians (An)	6,252			\$ 5,002	5,002	5,002
RND Mechanics-Site 4	1,609			1,609	1,609	1,746
RND Mechanics-1,2&3						
Pay & Fringes	4,129	1,416	1,416	4,129	4,129	2,680
Burden	<u>4,500 (109%)</u>	<u>1,543</u>	<u>1,543</u>	<u>4,500</u>	<u>4,500</u>	<u>2,917</u>
Subtotal	17,892	2,959	2,959	15,240	16,642	13,747
Salary Increases (2.04%)	365	60	60	311	339	280
Site 4 set-up costs	<u>71</u>			<u>71</u>	<u>71</u>	<u>71</u>
Subtotal	18,328	3,019	3,019	15,622	17,052	14,098
Base G&A	660 (7.5%)	226	226	650	650	420
Subtotal	<u>19,988</u>	<u>3,245</u>	<u>3,245</u>	<u>16,272</u>	<u>17,702</u>	<u>14,518</u>
Common Pool G&A	1,215 (6.4%)	208	201 (6.2%)	1,009	1,098	900
Total Cost	<u>20,203</u>	<u>3,453</u>	<u>3,446</u>	<u>17,281</u>	<u>18,800</u>	<u>15,418</u>
Profit	<u>2,886 (14.3%)</u>	<u>493</u>	<u>492</u>	<u>2,469</u>	<u>2,686</u>	<u>2,203</u>
Price Per Month	\$23,089	\$3,946	\$3,938	\$19,750	\$21,486	\$17,621

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DCAA/Air Force Objective

<u>Monthly Cost Elements</u>	Item	Order 0004		
	21	Jul-Sep 71	Oct-Dec 71	Jan-Jun 72
	<u>Aug 71-Jun 72</u>			
Supervisor (Am)	-0-	-0-	\$ 1,402	\$ 1,402
Technicians (Am)		\$ 5,002	5,002	5,002
R&D Mechanics-Site 4		1,609	1,609	1,749
R&D Mechanics-1,2&3				
Pay & Fringes	\$ 1,348	3,939	3,939	2,558
Burden	<u>1,524</u>	<u>4,144</u>	<u>4,144</u>	<u>2,902</u>
Subtotal	2,872	14,694	16,096	13,613
Salary Increases (2.04%)	60	300	320	277
Site 4 set-up costs		<u>71</u>	<u>71</u>	<u>71</u>
Subtotal	2,932	15,065	16,487	13,961
Base B&A	211 (7.0%)	567	567	395
Subtotal	<u>3,209</u>	<u>15,632</u>	<u>17,062</u>	<u>14,356</u>
Common Pool G&A	189 (5.8%)	906	989	833
Total Cost	<u>3,398</u>	<u>16,538</u>	<u>18,051</u>	<u>15,189</u>
Profit	<u>288</u>	<u>2,200 (13.3%)</u>	<u>2,406</u>	<u>2,020</u>
Price Per Month	\$ 3,686 /1/	\$18,738	\$20,457	\$17,209

Negotiated: Item 21 \$ 3,725/mo
Order 0004 Jul-Sep 71 \$18,947/mo
Oct-Dec 71 \$20,667/mo
Jan-Jun 72 \$17,273/mo

Note: /1/ Government objective understated in error. Correct objective would have been \$3,848.

2. Per Diem and Area Operations Rates:

	<u>Contractor Proposal Per Day</u>	<u>Government Objective Per Day</u>	<u>Negotiated Per Day</u>
Daytime Assignment:			
American	\$ 3.65	\$ 3.59 (1)	\$ 3.60
Filipino	3.27	3.22	3.25
Thai	2.82	2.77	2.80
Overnight Assignment:			
American	10.33	10.19	10.25
Filipino	7.19	7.05	7.10
Thai	6.61	6.47	6.50
Area Operations:			
American	6.08	5.99	6.00
Filipino	4.57	4.54	4.55
Thai	2.62	2.56	2.60

NOTE (1): Differences due solely to difference between contractor and Government G&A and profit rates.

D. Technical Analysis

1. The contractor proposed manning as follows:

		<u>Order 0004 (3 Sites)</u>	<u>Item 21 (1 Site)</u>
Supervisor	A	1	-
Technicians			
Site 4	A	1	-
Other Sites	A	4	-
RMD Mechanics			
Site 4	B	4	-
Other Sites	B	8	3
	Dt	2	-
	DL	—	1
Total		20	4

2. The initial Government technical analysis questioned 2 American technicians and 1 Filipino and 1 Thai technician leaving a total of 20 personnel.

3. Extensive revision of the TACAN work specification occurred prior to negotiations. The senior TACAN representative determined that site manning on a stand-by basis, rather than 24-hour daily coverage, was acceptable. This was based on past contractor ability to maintain the desired operationally ready (OR) rate for the equipment. Revised manning was developed.

4. The contractor had proposed Item 21 pricing for the entire fiscal year. As the site was not activated until 1 August 1971, the negotiation team deleted the proposed July 71 costs.

E. Major Discussions

1. Work Specification

a. Extensive discussions were required to develop the final work specification. Agreement was reached on a number of key issues including the following:

- (1) Contractor accepted a 98 per cent OR rate.
- (2) The specification provided for stand-by manning at all locations.
- (3) Reporting formats were established for all locations.

2. Overall Personnel Manning

a. The Government would not accept costs for the supervisor set forth in the proposal until October 1971 (the hiring date). Contractor concurred in deleting this cost element for July through September.

b. The Government stated that it considered the number of personnel proposed to be excessive, particularly due to the requirement change allowing stand-by site manning. The contractor ultimately agreed to reduced manning with the immediate deletion of 1 American technician and the phase-out of 3 Filipino mechanics and 1 DL mechanic effective January 1972.

3. Replacement of Site 4 Personnel. It was agreed that the Order 0004 fixed price included replacement and transportation costs for Site 4 personnel. Per diem would not be paid for replacement personnel covering for PCS assignees on sick or annual leave.

4. In response to a DCAA finding regarding idle-time cost build-up for TACAN personnel, the contractor agreed to develop and implement a special accounting procedure for said personnel. The procedure would accrue all hours, including idle (non-DSLH) time, against the TACAN program. Projected implementation date was 1 Oct 71. The Government concurred.

F. Negotiated Savings

1. The firm fixed monthly prices negotiated resulted in a \$6,377 reduction for Item 21 and a \$54,588 reduction for Order 0004 from the contractor's proposed monthly prices. The net reduction was

\$ 60,965. The per diem and area operation rates negotiated represent a savings from the contractor's proposed prices. Expenditures are expected to remain at \$2,500 per month. However, the amount of savings cannot be computed due to the variable nature of this item.

G. Summary

a. The total monthly fixed prices for Order 0004 and Item 21 is a 40 per cent increase over FY71 prices. However, FY71 involved only two sites. The increased prices are due to additional manning needed for the FY72 program. The prices are within acceptable negotiation range of the Government objectives.

b. The negotiated FY72 per diem and area operations rates involve substantial reductions from the FY71 pricing and are the Government objectives.

c. The negotiated prices for Order 0004 and Item 21 are considered to be fair and reasonable.

IX. NEGOTIATION OF UDORN DIRECT SKILLED LABOR HOUR (DSLH) RATE
CONTRACT ITEMS 5, 6, 7, 8, 9, 10, 12AB, AND 16

A. Negotiation Period

25 through 26 August 1971

B. Background

1. The initial FY71 program negotiations provided for a guaranteed minimum per quarter of 270,000 hours with a 10 per cent surge capability to yield a total capability of 297,000 hours a quarter. The initial labor rate was \$2.69 per hour. Effective 1 Jan 1971, the DSLH minimums were raised to a guaranteed minimum of 330,000 hours per quarter with a 10 per cent surge capability to yield a total capability of 363,000 hours a quarters. The revised labor rate was \$2.44 per hour.

2. The initial FY72 PR requested a minimum capability of 350,000 DSLH hours per quarter. Prior to 1 July 1971, the BSLH minimum was revised downward to 330,000 hours per quarter. Concurrently, on 1 July 1971, the contractor initiated a revised company personnel policy regarding average work-week, reducing the work week from 48 hours per man to 44 hours per week. This impacted the contractor's ability to develop DSLH at Udorn. Contract pricing is developed on the basis of projected monthly direct and indirect labor costs, direct and indirect support costs, and general administrative expense and profit area. These cost factors, when divided by the contractor's maximum capability per month, yield a negotiated cost per labor hour. Therefore, negotiations involved developing two aspects - (1) Actual labor hour capability at Udorn, and (2) costs per month to obtain same.

C. Proposed, Objective and Negotiated Amounts

<u>Monthly Costs</u>	<u>Contractor's Initial Proposal</u>	<u>Contractor's Revised Proposal</u>	<u>DCAA</u>	<u>AF Objectiv</u>
Direct Skilled Labor	\$131,071	\$131,037	\$131,880	
Skilled Labor Support	53,002	53,002	53,002	
Unskilled Labor Support	5,476	5,476	5,476	
Other Support	10,016	10,016	10,016	
Other Expenses	<u>31,386</u>	<u>30,327</u>	<u>26,570</u>	
Projected Cost Increases:				
Economic Increases	\$ 4,711	\$ 4,596	\$ 4,536	
Additional Personnel	121	-0-	-0-	
Conversion to Annual Leave Plan for Americans	1,641	1,641	1,641	
Mechanic Trainee & Mechanic Upgrade Training	4,265	4,265	4,265	
Subtotal	<u>\$241,689</u>	<u>\$240,360</u>	<u>\$237,286</u>	

<u>Monthly Costs</u>	<u>Contractor's Initial Proposal</u>	<u>Contractor's Revised Proposal</u>	<u>DCAA</u>	<u>AF Objective</u>
Subtotal carried forward	\$241,689	\$240,360	\$237,286	
Common Pool G&A	15,468 (6.4%)	14,902 (6.2%)	13,762 (5.8%)	
Total Cost	\$257,157	\$255,262	\$251,048	\$251,048
Profit	36,737 (14.3%)	36,466 (14.3%)	N/A	33,391 (13.3%)
Total Cost & Profit	<u>\$293,894</u>	<u>\$291,728</u>	<u>N/A</u>	<u>\$285,439</u>
Hours Produced Per Month:	110,000	115,000	117,000	117,000
Price Per Hour	<u>\$ 2.67</u>	<u>\$ 2.54</u>	<u>\$ N/A</u>	<u>\$ 2.44</u>

Negotiated: \$2.45

C. Technical Analysis

1. The Government determined that the contractor's actual BSLH capability exceeded the 110,000 monthly figure shown in the initial proposal. The negotiation team analyzed fourth quarter FY71 output of 379,094 labor hours (based on a 48-hour work week) and converted same to a 44-hour work week. Computations $[(379,094 \div 3) (44 \div 48) = (126,365) (.917)]$ yielded an adjusted FY72 capability of 115,800 hours per month based on 1 July 1971 personnel strength.

2. DCAA analyzed the projected personnel strength throughout FY72. The average monthly directed skilled labor force was 718 mechanics. At an average monthly realization of 163 hours, this yielded a straight-time capability of 117,000 hours per month or 351,000 hours per quarter.

3. The negotiation team used the 117,000 hour figure in developing the Government negotiation objective. The customer estimated that utilization would equal 363,000 hours per quarter based on customer projections of workload and contractor use of overtime to meet the requirements.

4. The guaranteed minimum would remain at 330,000 hours per quarter.

D. Major Discussion - Udmn Capability

1. The company said its proposal was based on a 110,000 hour per month minimum guarantee without surge capability. The company stated that this was based on information available to it and an analysis of the projected hours by quarter for all workload to be input at Udmn. The company proposed that the minimum guarantee remain at 330,000 with a 5 per cent surge capability for a total capability of 345,000 hours per

quarter. Contractor provided its forecast of hours per quarter for aircraft systems applicable to Udorn. Forecast was as follows:

UH-34 Aircraft (AA operated)	75,000 hrs
Other UH-34 Aircraft	30,000 hrs
T-28 Aircraft	70,000 hrs
01/U17 Aircraft	40,000 hrs
C123 Aircraft	63,000 hrs
C7A Aircraft	1,500 hrs
U4/U6/C47/U1 Aircraft	500 hrs
Comm/Weather Support	3,100 hrs
Company Aircraft	40,000 hrs
UH-1 Aircraft	1,500 hrs
Contract Misc	<u>24,000 hrs</u>

TOTAL 348,600 hrs per quarter

2. The contractor stated that its current maximum capability as a result of conversion to the 44 hour work week was such that it could not provide the 110,000 hours per month plus a 10 per cent surge capability for a total of 121,000 hours per month. The contractor prepared a revised proposal with a fixed price of \$2.54 per hour based on a monthly capability of 115,000 hours. Contractor advised that this was based on 708 persons on board. The contractor advised that the revised manning schedule reduced third country nations (TCN) manning and adjusted for graduating trainees and attrition. The TCN adjustment replaces some Chinese and Filipinos mechanics and replaces same with Thais. (Note: TCN pay rates are substantially higher than pay rates for Thais. Therefore, increasing the proportion of Thais in the DSLH pool yields proportionately lower total costs.)

3. The Government requested that the contractor consider full application of graduating trainees to the DSLH labor pool. It was understood by both parties that final agreement would be reached on a price per labor hour with no additional discussion of the labor hours used by either party in determining plant capability.

E. Negotiated Savings

The negotiated DSLH rate is a \$0.22 per hour reduction from the contractor's initial proposal. At an expected utilization of 1,452,000 hours for FY72, this yields a net savings of \$319,440.

F. Summary

The negotiated DSLH rate of \$2.45 per hour is a \$0.01 per hour increase over the prior FY71 rate of \$2.44 per hour. As the FY71 rate was based on a standard work week of 48 hours, the FY72 rate in effect is a reduction in cost per hour for FY72 $[(\$2.44) (48 \div 44) = \2.66 per

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hour converting the FY71 cost/profit basis to a 44 hour work week]. The FY72 rate turned out favorably to the Government due to increased utilization of Thai mechanics, replacing TCNs retiring or otherwise leaving the company. The FY72 rate is considered to be fair and reasonable.

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X UDORN BASE OPERATION AND MAINTENANCE (ITEM 12AA)

A. Negotiation Period

25 through 26 Aug, 1971

B. Background

Contract Item 12AA provides for services other than direct skilled labor necessary to provide continuous operation and maintenance of the Base, Thailand, in performance of U.S Government requirements. All facilities and equipment are provided by the Government. Pricing is based on the number of personnel necessary to provide the services. The contractors initial proposal was based on the 31 May 71 on-board strength, plus a substantial personnel increase. The contractor subsequently presented a revised proposal which reduced proposed personnel strength.

C Proposal, Objective, and Negotiated Amounts

Cost Per Month	Contractor's Initial Proposal	Revised Contractor Proposal (25 Aug 71)	DCAA	Air Force Objective
Base pay & fringes for personnel on board 31 May 71:	\$91,616	\$91,616	\$91,616	\$91,616
Taipei Flight Ops Div Allocation	10,594	10,594	8,643	8,643
Udorn Club	(3,008)	(3,008)	(5,085)	(3,008)
Udorn School	6,430	7,106	6,715	6,715
Subtotal	105,632	106,308	101,889	103,966
Other expenses	13,507	13,507	13,181	13,181
Subtotal	119,139	119,815	115,070	117,147
Projected cost increases:				
Salary increase (2.04%)	2,214	2,228	2,171	2,171
Additional personnel:				
Change to 44 hour weeks	2,156	1,174	1,098	1,098
Aeneral Maintenance Div	5,827	3,216	3,216	3,216
Other increases	1,287	1,136	1,136	1,136
Conversion to annual leave Plan	1,367	1,367	1,367	1,367
Bangkok base support Allocation	4,000	4,000	4,000	4,000
Subtotal	135,990	132,936	128,058	130,135
Common pool G&A	8,703(6.4%)	8,242(6.2%)	7,428(5.8%)	7,548(5.8%)
Total Cost	144,693	141,178	135,486	137,683
Profit	20,670(14.3%)	20,168(14.3%)	N/A	18,316(13.3%)
Price per month	<u>\$165,363</u>	<u>\$161,346</u>	<u>N/A</u>	<u>\$155,995</u>

Negotiated: \$156,000 per month

NOTE 1: Udorn Club provides employee meal facilities.

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D Major Discussions

1. Additional Personnel. The contractor's proposal is based on the number of personnel necessary to provide the required services. The contractor's revised proposal included a total of 67 new individuals, as follows:

a. Conversion from 48 to 44 hours work week. 23 people with an on-board date of 1 Oct 71. Proposed monthly cost of \$1,565.70 were pro-rated over a 12 month period for a net monthly impact of \$1,174.28. Personnel were as follows:

- 3 Supply Clerks,
- 2 GMD mechanics,
- 6 security guards.
- 1 personnel clerk,
- 1 communications radio operator,
- 2 traffic dispatchers,
- 5 drivers,
- and 3 Club personnel.

b. Additional O&M workload at existing base area. 13 people with an on-board date of 1 Oct 71. Proposed monthly costs of \$1,514.35 were pro-rated over a 12 month period for a net impact of \$1,135.76 per month. Personnel were as follows:

- 1 Communications Clerk,
- 1 Personnel Clerk
- and
- 8 Storekeepers,
- 3 Equipment Maintenance Technicians.

c. Base area/Facilities Expansion. Extensive Government additions including warehouses, hangars, and associated facilities will be completed in the second quarter of FY71. This area will increase the contractor's O & M responsibility and will impact the support services required (Regional General Maintenance Division) The contractor proposed personnel increases in the power plant, power generator unit, water sewage processing unit, waste processing unit and other additional RGM work areas. The proposal detailed 31 persons with an on-board date of 1 Oct 71. Proposed monthly costs of \$3,557.06 were pro-rated over 12 months, yeilding a net impact of \$2,668.48 per month. Personnel were as follows:

- 1 Engineer,
- 10 mechanics
- 2 foreman,
- 5 artisans,
- 5 leadmen,
- 1 gardener,
- 1 technician,
- and 6 utilitymen.

2. Leadmen/and mechanic upgrade reclassifications. The contractor proposed costs applicable to upgrade reclassification on 8 leadman and 8 mechanics, effective 10 Oct 71. Total cost of \$729.44 per month were pro-rated over 12 months for a net impact of \$547.08 per month.

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3. After detailed discussions of each proposed addition and classification change, the Government accepted the proposed 67 added personnel and the 16 reclassifications.

4. Udorn Club Operations

a. The contractor integrated Udorn Club Operations into the Udorn Base O&M operating account in Aug 70. Effective 1 July 1971 the company proposed monthly amortization of \$5,085 per month of the club surplus of \$61,027 as an off-setting credit to the Government for assuming the overhead costs in FY72. Concurrently, the contractor applied \$2,077 per month operating deficit against the surplus, yielding a net credit to the Government of \$3,008 per month.

b. DCAA took exception to the off-setting \$2,007 deficit. After discussions with the contractor the negotiation team reinstated the \$2,007. Reinstatement was based on verification that, prior to Aug 1970, the club costing did not include several club management slots. Therefore, upon transfer to a single cost center operation, the club had an average monthly operating deficit of \$2,007.

C. Negotiated Savings

The negotiated monthly price is a \$9,363 per month reduction from the contractor's proposed price. This yields a negotiated savings of \$112,356 for FY72.

F Summary

1. The FY 72 price exceeds the FY71 price by \$6,305 per month. However, the FY72 pricing includes 67 additional personnel as well as upgrade reclassification of 16 other personnel (the basic costs thereto accepted by the Government, exclusive of G & A expense and profit, totals \$5.447 per month). Furthermore, for FY72, the contractor has accepted O & M responsibility for a greatly expanded physical plant.

2. The negotiated FY72 price, after evaluation of all factors, including the Government price objective, is determined to be fair and reasonable.

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XI. O-1 AND U-17 DROP-IN MAINTENANCE (ITEM 14)

A. Negotiation Period

28 to 30 Aug 1971

B. Background

Contract Item 14 provides for FY72 maintenance services at five locations other than Udorn on up to 27 O-1 and U-17 aircraft. For FY71 coverage was required at 4 sites for 17 aircraft. In addition, in fiscal 71, work was performed at a 5th site on a T&M basis. For FY72 the using activity required that all sites be provided with a dedicated work force to support the O-1 and U-17 mission. The contractor proposed a 61 man work force at a fixed price of approximately \$73,000 per month for the five site, 27 aircraft program. This was a threefold increase (Personnel and price) from the FY71 program. The negotiation team was aware of situations in the latter part of FY71 in which using organizations had requested services beyond the maintenance concept used in pricing the FY71 program. In addition, for FY72 the customer had requested greater shift coverage and additional technical skills at all locations. The team felt that, once agreement was reached on specifications and skill requirements, a significant reduction from the proposed manning would take place.

C. Proposal, Objective, and Negotiated Amounts

	Original	Revised		DCAA/Air Force	
	Proposal (5 Sites)	Proposal Jul/Aug 71 (4 Sites)	Proposal Sept 71/Jun 72 (5 Sites)	Objective Jul/Aug 71 (4 Sites)	Objective Sep 71/Jun (5 Sites)
Personnel Requirements:					
Crew Chiefs	3	2	3	2	3
Leadmen	3	4	5	4	5
Mechanics	55	30	35	30	35
Total	<u>61</u>	<u>36</u>	<u>43</u>	<u>36</u>	<u>43</u>

Monthly Costs:

Base Pay & fringes	\$25,022	\$15,106	\$18,219	\$14,980	\$18,180
Reg Maint Div Burden	27,274(10%)	14,918	(\$2.55 17,818(2.55 per hr)	14,918	17,818
Per diem allowances	2,500	2,500	2,500	1,928	1,928
Projected cost increases	1,118	359	423	347	
Subtotal	<u>\$55,914</u>	<u>32,883</u>	<u>38,960</u>	<u>32,273</u>	<u>38,337</u>

Base G&A expense

	4,194 (7.5%)	2,466 (7.5%)	2,922 (7.8%)	2,259 (7.0%)	2,683 (7.0%)
Subtotal	60,108	35,349	41,882	34,532	41,020
Common Pool G&A					
	3,847 (6.4%)	2,192 (6.2%)	2,597 (6.2%)	2,003 (5.8%)	2,379 (5.8%)
Subtotal	63,955	36,541	44,479	36,535	43,399
Adjustment for leave replacement			988		988
Adjustment for Jul/Aug manning		(16,685)		(16,238)	
Subtotal	63,955	21,856	45,467	20,297	44,379
Profit	9,136 (14.3%)	2,980 (14.3%)	6,495 (14.3%)	2,700 (13.3%)	5,902 (13.3%)
Monthly Price	\$73,091	24,836	51,962	22,997	50,281

Negotiated: Jul/Aug 71 \$23,250/mo
 Aug 71/Jun 72 \$51,000/mo

D. Technical Analysis.

1. The Government developed a work requirement calling for pre-flight, post-flight inspections, 25 hour, 50 hour, and 75 hour phase inspections, replacement and check-out of communications equipment, and minor unscheduled maintenance. Proposed language was prepared and forwarded to the contractor.

2. The using activity and the Udorn plant office developed a site-by-site manning/position schedule. This schedule yielded an average daily manning of 35 persons. The average daily manning, adjusted to a seven-day-a-week work schedule, yielded a projected work force of 45 people for all five sites.

E. Major Discussions

1. The work specifications and operational concepts were developed first. The work specification incorporated customer requirements presented above. In addition, the specification provided for accomplishment of major unscheduled maintenance at each location from on-site resources, subject to work priorities established by the Government (normally, such work would be accomplished by additional personnel with labor hours paid on a T&M basis) and on-site capability to do the work. The customer representatives attending negotiations stated that they would notify all subordinate echelons of the specifications and underlying manning considerations. This notification, together with the revised specification, should eliminate earlier problems regarding contractor and Government responsibilities.

2. A total work force of 36 people was developed for Sites 2 to 5. The contractor proposed that manning for Site No 1 be established on a limited personnel basis. The contractor would provide, under the monthly

fixed price, a crew chief, leadman, and 5 qualified mechanics (including radio check and replacement capability). The limited team would draw on non-Item 14 specialists, when approved by Government representatives, for work when required. The contractor stated that this would decrease overall costs, while allowing more efficient utilization of technicians. The Government accepted the proposal. (Note: This resulted in a 43-man work force. Government technical analysis would have accepted 45 men) A pricing mechanism for Site No 1 was developed as work initially had been input under customer work request procedures (identical to FY71 procedures). Identification of personnel involved for Jul and Aug 71 would have been extremely difficult to determine. It was noted that effective 1 July 71, the contractor had 20 persons assigned to Sites 2 to 5. Both sides agreed that the cost data for July and Aug would be pro-rated by a factor of 20 over 36 to develop a price for Jul and Aug 71. The full 43 man team would be priced beginning 1 Sep 71. The Government would pay the incurred Site 1 work request hours for Jul and Aug (estimated total of \$13,500).

3. The contractor proposed that pricing for the period beginning 1 Sep 71 include provision for leave replacements of Item 14 personnel. The Government concurred.

4. In response to a DCAA finding regarding idle-time cost build-up for Item 14 personnel, the contractor agreed to develop and implement a special accounting procedure for said personnel. The procedure would accrue all hours, including idle (non-DSLH) time, against the O-1/U-17 program. Projected implementation date was 1 Oct 71. The Government concurred.

5. Concurrent with the hour accrual procedure, the Government questioned application of the SEA burden rate of 109 percent against personnel costs. The contractor agreed to an alternate procedure wherein burden would be assessed at an audited figure of \$2.55 per hour. Monthly burden costs were established by multiplying the number of persons per month times an average realization of 162.5 hours per month times \$2.55 per hour.

F. Negotiated Savings

The negotiated price for July through August 71 and September 71 through Jun 72 are reductions from the contractor's initial proposal of \$49,841 and \$22,091 per month, respectively. This yields a net negotiated reduction of \$320,592. The Site No 1 work request payments off-set the negotiated price reduction by \$13,500. Therefore, the net savings total \$307,092.

G. Summary

The FY72 pricing represents a 70 percent increase over all costs applicable to the FY71 program. The personnel assigned went to 43, from the FY71 level of 21. The reasons thereto for personnel and cost increases due to increased personnel necessary to provide coverage for increased aircraft, additional shift coverage, and assignment of highly qualified personnel to the program. The negotiated FY72 prices are within acceptable negotiation range of the Government pricing objectives. After consideration of all factors, the FY72 prices are considered to be fair and reasonable.

XII. NEGOTIATION OF SOUTHEAST ASIA (SEA) DIRECT SKILLED LABOR RATE

A. Negotiation Period

30 Aug 1971

B. Background

The Southeast Asia (SEA) rate applies to maintenance work performed at SEA sites other than at Udorn, utilizing personnel from other than the Udorn labor pool who are not priced into other SEA work items. Approximately 54,000 labor hours are projected for FY 72. Work is performed on a time and materials basis. The FY 71 SEA rate was \$5.39 per hour.

C. Proposal, Objective, and Negotiated Amounts

SOUTHEAST ASIA DIRECT LABOR RATE

PRICE PER DIRECT LABOR HR

	<u>Contractor Proposal</u>	<u>DCAA</u>	<u>Air Force Objective</u>	<u>Negotiate</u>
Hourly Direct Labor Cost	\$1.54	\$1.54	\$1.54	-
Labor Burden ¹	2.26	2.26	2.26	-
Subtotal	<u>\$3.80</u>	<u>\$3.80</u>	<u>\$3.80</u>	-
Conversion to 44 hr week	.26	.24	.24	-
Allocation of costs from Tainan	.17	.17	.17	-
Subtotal	<u>\$4.21</u>	<u>\$4.21</u>	<u>\$4.21</u>	-
SEA Base G&A	.32(7.5%)	.30(7.0%)	.30(7.0%)	-
Subtotal	<u>\$4.53</u>	<u>\$4.51</u>	<u>\$4.51</u>	-
Common Pool G&A	.29(6.2%)	.26(5.8%)	.26(5.8%)	-
Total Cost	<u>\$4.82</u>	<u>\$4.77</u>	<u>\$4.77</u>	-
Profit	.69(14.3%)	N/A	.64(13.3%)	-
Hourly Price	<u>\$5.51</u>	N/A	<u>\$5.41</u>	<u>\$5.41</u>

NOTE: 1. Computed at 147% of personnel costs for persons assigned to SEA area.

D. Major Discussion

None

E. Negotiated Savings

The negotiated price resulted in a reduction of \$0.10 per hour from the contractor's price proposal. For FY 72, at an estimated utilization of 54,000 hours, the reduction equals a net negotiated savings of \$5,400 from the contractor's proposed pricing.

F. Summary

The negotiated FY 72 rate is the Government objective and is considered fair and reasonable.

XIII. TAINAN DIRECT SKILLED LABOR HOUR RATE

A. Negotiation Period

30 Aug 1971

B. Background

1. The contract provides for maintenance work to be performed at the Air America facility at Tainan, Taiwan. All such work is accomplished on a time and materials (T&M) basis. The estimated utilization at Tainan is 3,000 hours per month for a total of 36,000 hours in FY 72. The FY 71 Tainan rate provided a direct skilled Labor hour (DSLH) rate of \$2.83 per hour.

2. USAF team had recently completed FY 72 plant rate negotiation for the Tainan facility. Included therein was a rate for T&M contracts where company payment of the Taiwan business revenue stamp tax and surtax was applicable. This rate was \$2.856 per hour. For contract FO4606-71-C-0002, the contractor proposed a price of \$2.86 per hour. The Government accepted the \$2.86 price as being fair and reasonable.

C. Proposed, Objective, and Negotiated Amounts

	<u>Contractor's Proposal</u>	<u>Air Force Objective</u>	<u>Negotiated</u>
Price per hour	\$2.86	\$2.86	\$2.86

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XIV. FLYING SERVICES FOR GOVERNMENT FURNISHED UH-34 AIRCRAFT (ITEM 1)

A. Negotiation Period

30 August - 6 September 1971

B. Overall UH-34 Background

1. The FY 72 UH-34 flying services program involves an inter-related series of negotiated pricing factors as follows:

- (a) 6,150 minimum flying hours per quarter (Item 1)
- (b) 615 over-minimum flying hours per quarter (Item 1)
- (c) 1,775 dual-crew (price negotiations are shown in the portion of this memorandum applicable to Item 3 - additional flight personnel) aircraft flying hours per quarter (Item 3)
- (d) Area operations pay (paid for each aircraft flying hour)
- (e) Demobilization costs for reduction in Item 1 from FY 71 level (add on to basic Item 1 price)
- (f) Deadhead pay
- (g) Trip hour pay

2. Contract Item 1 provides for flying services by contractor flight crews operating Government-furnished UH-34 aircraft based at Udorn, Thailand. The basic crew consists of one pilot and one flight mechanic. Pricing is based on personnel costs for the crew complement needed to meet the net 6,765 quarterly flying program.

3. The Government required additional crew members for specified missions. The additional crew members are called and priced under Item No. 3. For FY 72, the Government desired (and guaranteed to pay for) a capability of 1,775 flying hours of dual-pilot missions per quarter. This involved a number of pilots in addition to those provided for under Item 1.

4. Area operations (hazardous area) pay per flying hour is paid to crew members for 92.5 per cent of all UH-34 aircraft hours. The rate paid by the contractor is that rate per hour set forth in the contractor's agreement with the Far East Pilots Association (FEPA). In contract pricing, area operations costs are multiplied by 92.5 per cent and paid separately under Item 1 for each aircraft hour flown under Item No. 1.

5. The FY 72 program of 6,150 minimum hours per quarter was a substantial reduction from the FY 71 third and fourth quarter program of 10,000 minimum hours per quarter. The FY 71 program was priced on the basis of 71 pilots and 45 flight mechanics. Therefore, the FY 72 pricing included a separate factor for demobilization costs for crew members deemed excess to the FY 72 program (and not absorbed by concurrent increases in other Air America flying program contracts). The FY 72 negotiated demobilization costs would be pro-rated to the negotiated hourly price for the FY 72 flying program.

6. Dead-head pay is the dollar amount paid to pilots during positioning and de-positioning time when they are traveling as passengers rather than as crew members. The payment and wages thereto are set forth in the FEPA contract and are paid in addition to the flying salaries earned by the pilots.

7. Trip hour pay is the mechanism set forth in the FEPA contract to provide a guaranteed method of paying all pilots for the minimum pay hours set forth in the FEPA agreement. Trip hours are accumulated at 1/4 of the total aircraft hours accumulated by the pilot during the month. For example, if the pilot was away from his home station for 320 hours, he would accumulate 80 trip hours. If he had flown 75 revenue hours, he would be paid for 75 revenue hours and 5 trip hours. If he had flown a number of revenue hours equal to or greater than the trip hour accrual, he would be paid for only the revenue hours.

C. Proposal, Objective and Negotiated Amounts

1. Price per hour for 0 to 6,150:00 UH-34 flying hours per quarter (contract minimum):

	Contractor's ¹ Original Proposal (36P & 31FM)	Contractor's ² Revised Proposal (4 Sept 71) (35P start, 30P end, 30FM)	DCAA ²	Air Force ² Objective (35P start, 30P end & 30FM)
Monthly Cost:				
Pilots:				
Base Pay & Fringes	\$ 75,115	\$ 72,081	\$ 72,081	(Same as DCAA)
Over Guarantee Pay	739	704	- 0 -	
Trainee Dead Head Pay	336	- 0 -	- 0 -	
Night Time Pay	86	90	90	
Position Allowance				
Senior Instr Pilot	276	240	240	
Subtotal	\$ 76,552	\$ 73,115	\$ 72,411	

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Flight Mechanics:				
Base Pay & Fringes	\$ 18,157	\$ 16,593	\$ 16,593	
Over Guarantee Pay	506	633	505	
Subtotal	<u>\$ 18,663</u>	<u>\$ 17,226</u>	<u>\$ 17,098</u>	
Instructor Time Pay	3,536	780	780	
Pilot Training	4,784	- 0 -	- 0 -	
UH-34 Base Support	17,452	15,207	15,207	
Direct Flight G & A (2,050 hrs/mo)	8,979 <u>(\$4.38 hr)</u>	8,487 <u>(\$4.14 hr)</u>	8,221 <u>(\$4.01 hr)</u>	
Total Cost Before CPG & A	\$129,966	\$114,815	\$113,717	
Common Pool G&A	8,318 <u>(6.4%)</u>	7,118 <u>(6.2%)</u>	6,596 <u>(5.8%)</u>	
Total Cost Per Month	<u>\$138,284</u>	<u>\$121,933</u>	<u>\$120,313</u>	<u>\$120,313</u>
Cost Per Flying Hour: (Mo Cost/2050 hrs)	\$67.46	\$59.48	\$58.69	\$58.69
Profit	<u>9.64(14.3%)</u>	<u>8.50(14.3%)</u>	<u>N/A</u>	<u>7.81(13.3%)</u>
Price Per Hour	<u>\$77.10</u>	<u>\$67.98</u>	<u>N/A</u>	<u>\$66.50</u>
			NEGOTIATED:	<u>\$67.00</u>

NOTE: 1. Based on 27 American/9 Thai pilots; 4 American, 20 Filipino, 7 Thai FMs.

2. Based on agreed to 28 American/7 Thai pilots at start of FY 72, phasing down to 23 American/7 Thai pilots at end of FY 72; 3 American, 20 Filipino, 7 Thai FMs.

2. Price per hour for 6,150:01 and over additional UH-34 flying hours per quarter:

	<u>Contractor's Original Proposal</u>	<u>Contractor's Revised Proposal (4 Sept 71)</u>	<u>DCAA</u>	<u>Air Force Objective</u>
Hourly Cost:				
Pilot Composite Cost	\$22.63			
Flt Mech Composite Cost	<u>3.22</u>			
Composite Crew Cost	<u>\$25.85</u>	<u>\$26.46</u>	<u>\$26.41</u>	<u>\$26.41</u>

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Continued from page 3

Direct Flt G & A	\$ 4.38	\$ 4.14	\$ 4.01	\$ 4.01
Subtotal	\$30.23	\$30.60	\$30.42	\$30.42
Common Pool G&A	1.93(6.4%)	1.90(6.2%)	1.76(5.8%)	1.76(5.8%)
Subtotal	\$32.16	\$32.50	\$32.18	\$32.18
Profit	4.59(14.3%)	4.64(14.3%)	N/A	4.28(13.3%)
	<u>\$36.75</u>	<u>\$37.14</u>	<u>N/A</u>	<u>\$36.46</u>

Negotiated: \$36.64/hr

3. Price per hour for area operations pay¹ (paid for each 181-34 flying hour accomplished):

	Contractor's Original Proposal	Contractor's Revised Proposal (4 Sept 71)	DCAA	Air Force Objective
Hourly Cost				
Pilot Composite Cost	\$11.81			
Flt Mech Composite Cost	4.80			
² Composite Crew Cost	\$16.61	\$16.15	\$16.59 ³	\$16.15 ³
Common Pool G&A	1.06(6.4%)	1.00(6.2%)	.96(5.8%)	
	\$17.67	\$17.15	\$17.55	\$17.15
Profit	2.52(14.3%)	2.45(14.3%)	N/A	2.27(13.3%)
Unadjusted Total	\$20.19	\$19.60	N/A	\$19.42
	x.925	x.925	N/A	x.925
Area Operations Price	<u>\$18.68</u>	<u>\$18.13</u>	<u>N/A</u>	<u>\$17.97</u>

Negotiated: \$18.00

NOTES: 1. Area Operations Pay is paid to crew members for 92.5% of all aircraft hours flown. Therefore, after all cost elements are determined, those elements are adjusted to the 92.5% compensation level.

2. The hourly costs contained herein are the weighted costs per hour, computed by taking the applicable pay per hour times the percentage mix of each pay category.

3. Contractor had a possible error in the revised proposal. DCAA computed on basis of personnel mix of 23 Americans and 7 Thais (ending pilot force mix). Contractor apparently computed on basis 28 Americans and 7 Thais (starting pilot force mix). Government negotiator used the lower cost figure.

4. Demobilization costs (to be added to the \$67.00 hour basic UH-34 flying hour price):

	<u>Contractor's¹ Original Proposal</u>	<u>Contractor's² Revised Proposal (4 Sep 71-AM)</u>	<u>Contractor's³ Revised Proposal (4 Sep 71-PM)</u>	<u>DCAA³ & AF Objective</u>
Salary & Related Costs for American Pilots	\$ 54,789	\$ 70,130	\$59,652	\$59,652
Travel & Hlg Shipment costs for above pilots	26,750	21,400	7,330	7,330
Salary & related costs for 6 American Flt Mechanics	19,865	31,784	- 0 -	- 0 -
Travel & Hlg Shipment costs for above FMs	16,050	16,050	- 0 -	- 0 -
Salary & related costs for 3 Filipino flt mechanics	4,217	6,747	6,747	6,747
Travel & Hlg Shipment costs for above FMs	<u>1,316</u>	<u>1,316</u>	<u>566</u>	<u>566</u>
Subtotal	\$122,987	\$147,427	\$ 74,295	\$74,295
Common Pool G&A	7,871 (6.4%)	9,140 (6.2%)	4,606 (6.2%)	4,309 (5.8%)
Subtotal	\$130,858	\$156,567	\$ 78,901	\$78,604
Profit	18,694 (14.3%)	22,367 (14.3%)	11,272 (14.3%)	10,454 (13.3%)
Total	<u>\$149,552</u>	<u>\$178,934</u>	<u>\$ 90,173</u>	<u>\$89,058</u>
Price per hour (total divided by 6150 x 4)	<u>\$6.07</u>	<u>\$7.27</u>	<u>\$3.67</u>	<u>\$3.62</u>

Negotiated: \$3.62 per hour

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- NOTES:
1. Based on 10 American pilots, 6 American flight mechanics, 3 Filipino flight mechanics
 2. Based on 8 American pilots, 6 American flight mechanics, 3 Filipino flight mechanics
 3. Based on 8 American pilots and 3 Filipino flight mechanics.

5. Dead Head Pay (paid as incurred in UH-34 program by pilots:

	<u>Contractor Proposal</u>		<u>DCAA/AF Objective</u>	
	<u>American</u>	<u>Thai</u>	<u>American</u>	<u>Thai</u>
Personnel Cost	\$13.49	\$ 4.79	\$13.49	\$4.79
Dead Head area pay	6.48	2.43	5.67	2.13
Subtotal	<u>\$19.97</u>	<u>\$ 7.22</u>	<u>\$19.16</u>	<u>\$6.92</u>
Common pool G&A	1.27(6.4%)	.47(6.4%)	1.11(5.8%)	.40(5.8%)
Subtotal	<u>\$21.24</u>	<u>\$ 7.69</u>	<u>\$20.27</u>	<u>\$7.32</u>
Profit	<u>3.03(14.3%)</u>	<u>1.10(14.3%)</u>	<u>2.15(10.6%)*</u>	<u>.86(11.7%)*</u>
Price Per Hour	<u>\$24.27</u>	<u>\$ 8.79</u>	<u>\$22.42</u>	<u>\$8.18</u>

Negotiated: American \$22.42
Thai \$ 8.18

*Lower profit rate reflects Government analysis that Contractor would accept lower profit rate due to elimination of cost risk.

6. Trip Hour Pay (paid as incurred in UH-34 program by pilots):

	<u>Contractor Proposal</u>		<u>DCAA/AF Objective</u>	
	<u>American</u>	<u>Thai</u>	<u>American</u>	<u>Thai</u>
Personnel cost	\$26.97	\$ 9.58	\$26.97	\$ 9.58
Common Pool G&A	1.73(6.4%)	.61(6.4%)	1.56(5.8%)	.56(5.8%)
Subtotal	<u>\$28.70</u>	<u>\$10.19</u>	<u>\$28.53</u>	<u>\$10.14</u>

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Profit	\$ 4.10(14.3%)	\$ 2.57(14.3%)	\$ 3.59(12.5%)*	\$ 1.27(12.5%)
Price per hour	<u>\$32.80</u>	<u>\$11.65</u>	<u>\$32.12</u>	<u>\$11.41</u>
		Negotiated:	American	\$32.12
			Thai	<u>\$11.41</u>

*Lower profit rate reflects Government analysis that contractor would accept lower profit on this element due to elimination of cost risk thereto.

D. Technical Analysis of UH-34 Flying Hour Proposal Elements

1. Pilot Requirements

a. Contractor initially proposed a pilot complement of 36 pilots, 9 Thai and 27 American for the 6,765 quarterly aircraft hour requirements. Contractor later revised this to 42 pilots, 9 Thai and 33 American, including an attrition factor of six. After extensive contractor review of the UH-34 program, including dual-pilot requirements of 1,775 pilot hours per quarter, the contractor developed a total pilot force proposal of 48 pilots. This was comprised of 36 basic program and 12 dual crew program positions.

b. Government's technical analysis developed a total pilot force of 45, with 30 pilots and 5 attritions in the 6,765 hour program and 10 in the dual crew program.

2. Flight Mechanics Requirements

a. Contractor proposed a total flight mechanic force of 31 persons, based on a mix of 4 Americans, 20 Filipinos and 7 Thais.

b. Initial Government technical analysis developed a total of 28 flight mechanics. Later analysis, based on improved data, yielded an estimate of 30 flight mechanics.

3. Dead Head Pay

a. The contractor proposed that dead head costs be paid for on an as-incurred basis, rather than being included in the fixed price cost buildup in the basic flying hour rate.

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b. Government review concurred with establishment of a separate priced element for dead head pay. It was considered necessary as a means of providing improved data to use in more efficient aircraft operating procedures. Furthermore, historical data was based on extensive dead head experience during FY 71 on a much larger flying hour program. Use of historical data would not have provided reasonably acceptable forecasting data for FY 72 due to the major differences between the FY 71 and FY 72 programs.

4. Trip Hour Pay

a. Comments for trip hour pay are comparable to dead head pay considerations. After extensive discussion the Government concurred with establishment of a separate priced element for trip hour pay.

5. Demobilization Factor

a. After agreement had been reached on the total UH-34 pilot and flight mechanic cost, the contractor proposed demobilization costs for 8 American pilots, 6 American flight mechanics and 3 Filipino flight mechanics. DCAA developed a company-wide crew requirement forecast for all U.S. Government contracts involving company flying services. This forecast conclusively showed that the 6 American flight mechanics were required for other U.S. Government contracts. Therefore, the Government analysis allowed 8 pilots and 3 Filipino flight mechanics.

6. UH-34 Base Support

a. The cost build-up for UH-34 pricing includes provision for the chief pilot, manager, crew scheduling and chief flight mechanic offices. This base support function applies to all rotary wing aircraft based at Udorn, as well as a few fixed wing aircraft. By customer request, all these costs are paid for by the UH-34 program.

b. The FY 72 proposal included pricing for 12 personnel in this area. Initial Government technical analysis developed deletion of the assistant chief pilot, assistant chief flight mechanic, and one manager of crew scheduling positions. After further review, the Government changed its position and accepted all but the previously questioned manager of crew scheduling.

F. Major Discussions

1. Total pilot requirements