



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

NOV 14 2014

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Use of Blended Rates to Implement Multiple Compensation Caps

The attached Director, Defense Pricing (DP) memorandum of October 24, 2014 is forwarded for your information and action, as appropriate.

As background, §702 of the Bipartisan Budget Act of 2013 (PL 113-67) amended 10 USC §2324(e)(1)(P) to read as follows:

"Costs of compensation of contractor and subcontractor employees for a fiscal year, regardless of the contract funding source, to the extent that such compensation exceeds \$487,000 per year, adjusted annually to reflect the change in the Employment Cost Index for all workers, as calculated by the Bureau of Labor Statistics, except that the head of an executive agency may establish one or more narrowly targeted exceptions for scientists, engineers, or other specialists upon a determination that such exceptions are needed to ensure that the executive agency has continued access to needed skills and capabilities."

The DP memo informs the DoD contracting community that contractors may use blended rates to implement the above statutory requirement, effective for contracts subject to FAR Part 31.2 that are entered into on or after June 24, 2014. Unlike earlier statutes limiting allowable contractor compensation, the timing of cost incurrence is not relevant. Compensation costs under covered contracts awarded prior to June 24, 2014 will be subject to caps based on when the costs are/were incurred. It will not be unusual for a contractor to have contracts that are subject to different compensation limits. Therefore, the use of blended rates by contractors is deemed practical and cost efficient.

The DP memo contains additional details. My point of contact is
703-693-4076.

A handwritten signature in black ink, reading "John F. Couture".

John F. Couture
CAPT, SC, USN
Executive Director (Acting)
DASN (AP)

SUBJECT: Integrated Cost Analysis Team Support to Major Proposals



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

OCT 24 2014

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION AND PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Use of Blended Rates to Implement Multiple Compensation Caps

The Federal Acquisition Regulation Council issued an interim rule effective on June 24, 2014, revising FAR 31.205-6(p) to establish new allowable cost limitations, initially \$487,000, for annual compensation costs incurred on contracts awarded on or after June 24, 2014. The interim rule requirements were established in statute by the Bipartisan Budget Act of 2013. The interim rule is effective for new contracts subject to FAR 31.2 which are awarded on or after June 24, 2014. As required by FAR 52.216-7, contracts subject to FAR 31.2 and awarded prior to this date continue to follow the compensation cap at FAR 31.205-6(p) in effect at the time of contract award.

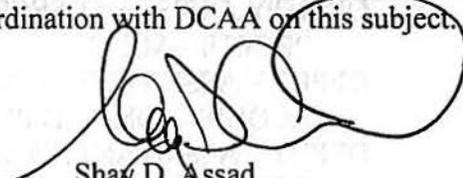
Many contractors will have contracts subject to both the current and earlier compensation limit provisions in FAR 31.205-6(p), causing the potential for undue complexity and related costs to implement multiple rates to accommodate these revisions. After careful review and consideration of the law and regulations, contractors' use of a "blended rate" approach is deemed as a practical and cost efficient solution to implement these requirements.

Blended rates will be calculated by each individual contractor as a weighted average composite cap amount specific to their contract volume prior to June 24, 2014, and on or after June 24, 2014. Contractors may elect, but are not required, to use the blended rate approach. Depending upon their circumstances, contractors may elect another compliant method (e.g., using the new \$487,000 cap for all contracts regardless of award date).

If a contractor proposes to use the blended rate method to cost and propose, the contractor will initially calculate and use a blended rate for interim billing. Subsequently, for the purpose of establishing final overhead rates, contractors will calculate blended rates reflecting actual proportion of contract costs for the current year for contracts prior to and after June 24, 2014. The contractors' final overhead submission for the completed fiscal year must include auditable

substantiation of the calculation of the actual blended rates. An audit will ensure that only the total allowable compensation is billed to the Government for the fiscal year based on the different authorized caps. The objective is to simplify compliance while continuing to protect the interests of the Government.

Contract administration office contracting officers and contractors will execute an advance agreement in accordance with FAR 31.109 with each contractor that chooses to employ the blended rate method. The advance agreement will outline the agreed-to process, auditable data submission and expiration for the application of the blended rates. Additionally, DCMA will issue implementation guidance in coordination with DCAA on this subject.



Shay D. Assad
Director, Defense Pricing