

LOGISTICS ENGINEERING CHANGE PROPOSAL PROGRAM
MEMORANDUM OF AGREEMENT

A. PARTIES TO THE MEMORANDUM OF AGREEMENT:

- | | |
|----------------------|---------------------------|
| 1. Commander, NAVAIR | 7. OPNAV-N88 |
| 2. Commander, NAVSUP | 8. OPNAV-N43 |
| 3. CINCLANTFLT-N41 | 9. HQ USMC, ADCS Aviation |
| 4. NAVSEA (SEA-04) | 10. SPAWAR, Code 05 |
| 5. CINCPACFLT-N4 | 11. OPNAV-N41 |
| 6. OPNAV-N80 | |

B. PURPOSE:

This Memorandum of Agreement is to formalize agreements among the parties regarding the business rules of the Logistics Engineering Change Proposal (LECP) Program and the facilitation of customer buyouts.

C. BACKGROUND:

1. NAVSUP initiated the LECP Program to enhance reliability and maintainability. A LECP is a reliability or maintainability related Engineering Change Proposal (ECP) for a NAVICP managed secondary item, sponsored and funded by NAVICP and designed to reduce support costs. In order to achieve benefits from the LECP, the material repaired or procured must be installed in Fleet applications.

2. Fleet installations continue to be hampered by budgetary and funding constraints. In an effort to ensure Fleet LECP installations and corresponding savings, OPNAV sponsors agreed to establish Fleet funding authorization to match the required buyout of approved LECPs.

3. The Fleet budgets were built using the net price of the item prior to a LECP implementation (assuming that the old item would be turned into supply and repaired). Normally, when a new LECP item is introduced, the Fleet must buy the new item at the full standard price, which is often much higher than the repair price of the old item. Consequently, the Fleet typically does not have sufficient funds to perform the buyout. During the POM 00 budget process, the Fleet budgets were increased to fund the higher costs of paying the standard price for the LECP; however, the increase does not occur until FY 00.

D. EXECUTION:

During FY 99, the Fleet will be charged the net price of the old item when requisitioning the new LECP item due to the aforementioned budgetary constraints. Beginning in FY 00, Fleet customers will pay the full standard price of the new, improved item. Since the resource sponsors have already taken the anticipated savings from the Fleet OPTARs through the FYDP, it is essential that Fleet buyout and LECP installation occur as

material becomes available in the supply system. To ensure savings materialize as projected, the Fleet will coordinate buy-out and installation schedules for each approved LECP component and update these schedules on a quarterly basis. Any deviation from established buyout schedule's must be reported and justified to the Spares Committee (SPARCOM).

This Memorandum of Agreement will be reviewed when designated appropriate by the SPARCOM.

E. RESPONSIBILITIES:

OPNAV N41: OPNAV N41 is responsible for broad program policy, goal approval, and programming of LECP savings and investment. OPNAV N41 will:

- Assess and validate LECP investment and savings during the Baseline Assessment Memorandum (BAM) process.
- Report results of LECP investment and savings to OPNAV resource sponsors and OPNAV N80 for use in OMN funds programming.
- Coordinate SPARCOM participation and SPARCOM approval of LECP candidates based on established guidance.

OPNAV RESOURCE SPONSORS: OPNAV resource sponsors are responsible for ensuring that Fleet operating accounts (Flying Hour Program, etc.) under their cognizance support the validated LECP investment and savings. Resource sponsors will:

- Program projected LECP investment and savings amounts provided by N41 and N80 into Sponsor Program Proposal (SPP).
- Identify LECP investment funds (i.e., buyout) separately within operating account budgets provided to the Fleet.

NAVSUP: The Naval Supply Systems Command is the functional/resource manager with direct oversight and budgetary responsibility for the LECP Program. NAVSUP will:

- Establish LECP Program goals and guidance.
- Actively monitor program execution to ensure full compliance with policy and goals.
- Coordinate and report to higher authorities as required.
- Submit and defend budgetary requests for obligation authority for the LECP Program.

NAVICP: The Naval Inventory Control Point (NAVICP) is the program manager and is responsible for program implementation and operation following the program goals and guidance. At a minimum, NAVICP will:

- Maintain all metrics including actual investment, the projected savings stream (by account, by resource sponsor, by year, by type/model/series where available), and actual savings after LECP implementation.
- Maintain a running record of LECP candidates reviewed, noting whether the candidate was accepted, rejected, or placed in a hold status. Reject and hold status require additional clarifying information that supports the decision.
- Generate an LECP Execution Plan that incorporates the buyout and implementation schedule of all approved LECPs. The execution plan should directly correspond to the investment and savings plans outlined the program "waterfall" (program waterfall is outlined in the appendix). Present quarterly updates of the LECP Execution Plan to the SPARCOM, showing deviations from customer buyout, customer implementation, and savings projections.
- Pursue LECP candidates resulting from high cost reviews, Fleet top 50 items, and the NAVICP opportunity index.
- Provide NAVSUP 41 and OPNAV N41 sufficient information to coordinate programming of LECP investment and savings in concert with all resource sponsors, OPNAV N41 and N80.
- Prepare, submit and defend budgetary investment and savings requirements.

FLTCINCs: The Fleet Commanders will play an active role in the LECP selection and approval process. Fleet CINCs will:

- Participate in the SPARCOM LECP approval process.
- Execute funding provided by OPNAV to support implementation of LECPs where appropriate.
- On a quarterly basis, assist NAVICP in the validation and update of the LECP implementation schedule to reflect any deviations from that plan.

TYCOMs: The Type Commanders will:

- Execute funding provided by FLTCINCs to support buyout of approved LECPs.
- Assist FLTCINCs in the monitoring of LECP implementation relative to the NAVICP LECP implementation plan.

SYSCOMs: The Hardware Systems Command and their respective Program Offices have technical responsibility for ECPs and will:

- Review and approve all LECPs

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Agreed to by the
Chief of Naval Operations, OPNAV (N41)

(Signed By)
RADM(S) MICHAEL E. FINLEY, SC, USN

Agreed to by the
Space and Naval Warfare Systems Command (Code 05)

(Signed By)
RADM(S) ANTHONY W. LENGERICH, ED, USN

Agreed to by the
Headquarters United States Marine Corps
Assistant Deputy Chief of Staff, Aviation

(Signed By)
BGEN EMERSON N. GARDNER, JR.

Agreed to by the
Chief of Naval Operations, OPNAV (N43)

(Signed By)
RADM WILLIAM R. KLEMM, ED, USN

Agreed to by the
Chief of Naval Operations, OPNAV (N88)

(Signed By)
RADM JOHN B. NATHMAN, USN

Agreed to by the
Chief of Naval Operations, OPNAV (N80)

(Signed By)
RADM JOHN J. GROSSENBACHER, USN

Agreed to by the
Commander in Chief, Pacific Fleet (N4)

(Signed By)
RADM JUSTIN D. MCCARTHY, SC, USN

Agreed to by the
Naval Sea Systems Command (SEA-04)

(Signed By)
RADM OSIE V. COMBS JR., ED, USN

Agreed to by the
Commander in Chief, Atlantic Fleet (N41)

(Signed By)
RADM PAUL O. SODERBERG, SC, USN

Agreed to by the
Naval Supply Systems Command

(Signed By)
RADM DONALD E. HICKMAN, SC, USN

Agreed to by the
Naval Air Systems Command

(Signed By)
VADM JOHN A. LOCKARD, USN

APPENDIX - BUSINESS RULES AND DEFINITIONS

1. CALCULATION OF RETURN ON INVESTMENT (ROI): Only Navy Working Capital Fund (NWCF) investment costs will be included in the ROI calculation. NWCF costs are the only funds that must be recouped in the ROI calculation. The following is a list of valid costs:

NONRECURRING COSTS:

Contractor Costs -

Design	Engineering Development Models (EDMs)
Engineering	Data Revision
Training	ECP Preparation
Drawings	Supply/Provisioning Data
Tech Pubs	Technical Manual Change Requests
Tooling	Systems Integration
Support Equipment	Software and Test Equipment
Other (specific applicable to unique LECP)	

Field Activity Costs -

- Design Change Notices (DCNs)
- Technical Publications (Printing & Distribution)
- Testing
- Technical Manual Revisions
- Support Equipment
- Software and Test Equipment
- Other (specific applicable to unique LECP)

RECURRING COSTS:

Equipment/Materials -

- Installs (Mod Kits and Installation Costs)
- Wholesale Spares
- Retail Spares
- Inventory Obsolescence

The following savings can be included in the ROI calculation:

NWCF Savings:

- Savings in annual procurement costs
- Savings in annual repair costs

Fleet Savings:

- Savings in Fleet burdened labor rate (if approved by the Fleet)
- DLA piece part savings

Other Savings:

- Cost Savings/Avoidance in obsolescence redesign costs
- Fuel savings
- FMS sales of equipment replaced
- NAVAIR or NAVSEA cost savings on future procurements

2. ROI VERSUS NET PRESENT VALUE (NPV): Each LECP spreadsheet will include an ROI analysis and an NPV analysis; however, approval of the LECP will be based solely upon ROI. ROI is a calculation of gross savings divided by investment. An

NPV cost analysis is done following OMB Circular A-94 and takes into account discounting investments. The current discount rate is displayed in the OMB Circular A-94, Appendix C, (revised yearly) and is available at World Wide Web address: http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html.

3. MONITORING: The NAVICP BOSS III Program Office is responsible for the comprehensive monitoring of each LECP initiative. All changes in all elements must be incorporated into the ROI calculation. Prior to the LECP award, NAVICP will revalidate the ROI calculation and determine how any changes impact the total LECP Program's ROI. NAVICP is responsible for achieving/maintaining a total program ROI of 2 to 1 in 5 years (beginning with first installation). Additionally, LECP initiatives will be monitored for the duration of their forecasted program life or 10 years, whichever is less. At that point, monitoring of the initiative will cease. The objective of LECP monitoring is to ensure implementation of the LECP as planned and to document actual performance for all parties.

4. SAVINGS:

a. The appropriate OPNAV resource sponsor will approve all savings used in the calculation of the ROI. Questionable savings projections will be noted with the resource sponsor's rationale for disapproval in the LECP documentation. Savings not approved by the appropriate resource sponsor will not be used in ROI calculations. (Communications with resource sponsors will be documented and retained in files to justify program marks resulting from the LECP initiative.)

b. All savings must be quantifiable, trackable and programmable. LECP documentation will identify the method of tracking all savings identified. The appropriate 3M system can be used to track Mean Time Between Failure (MTBF)/Depot Actions (MTDA). A savings in repair/depot actions can be shown by a decrease in demand data/BCMs. To ensure consistency, the same source of savings will be used to track projections and actual results.

c. All savings will be exclusively attributed to the operating and support costs of a NAVICP managed secondary item. LECPs must generate an ROI of at least 2 to 1 in 5 years at the program level, considering NWCF investment and all documented savings. Additionally, the NWCF investment must break even in 5 years when using NWCF savings.

d. LECP initiatives will be periodically reviewed to preclude double counting of savings across multiple NAVICP programs.

5. SURCHARGE: The surcharge will influence customer savings calculations but will not be included in the calculation of ROI. Actual surcharges will be used when established, and an average surcharge will be applied in the out-years.

6. RECOVERY OF NONRECURRING COSTS: Nonrecurring costs will be recovered by burdening the NIIN or a related grouping of NIIN prices in the year after the investment. This methodology is necessary to preclude negative cash impacts on the NWCF. Customer accounts are balanced to NWCF rates, thereby ensuring buy-out dollars are available to cover nonrecurring costs.

7. SOURCE DATA: The most current source data will be used in all LECP calculations. The data will be validated as the last action prior to the convening of the NAVICP LECP Board for approval of the initiative. Specifically, demand and population data will be validated. Exceptions will be considered when the current source data has been impacted by special circumstances, and the impact can be quantified.

8. APPROVAL OF LECP INITIATIVES: The NAVICP LECP Investment Board, chaired by the BOSS III Program Office, will approve all LECPs. Approved LECPs will be forwarded to OPNAV (N41), where the OPNAV SPARCOM will review and provide concurrence. Fleet representatives are included on the SPARCOM. The single points of contact associated with LECP approval are:

NAVICP:	BOSS III Program Office
CINCLANTFLT:	N41
CINCPACFLT:	N4
OPNAV:	N41

Each party is required to sign off on an LECP before it is implemented.

9. CUSTOMER BUYOUT: Fleet buyout will be accomplished according to a schedule that maximizes Total Navy ROI. Buy-out alternatives will be by either attrition demand or by forced retrofit. The Fleet, as a part of the LECP approval process, will approve each buy-out plan and provide a copy of the approval to the appropriate resource sponsor.

10. BUDGETING METHODOLOGY:

a. NWCF savings are the decreases in annual procurement and repair actions due to the implementation of the LECP. They are equal to the difference in NWCF procurement and repair costs associated with the current system without the LECP and the new system with the LECP. Once the LECP is installed, the savings become cost avoidance.

b. Customer savings: Customer savings are measured by the reduction in procurement, repair actions and all other cost reductions associated with the reduced demand under the new LECP item. Comparisons will be made between the current system without the LECP and the new system with the LECP. Customer savings will be provided to the resource sponsors for action as appropriate.

c. NWCF Program update: The LECP budget update will occur during the March and September Stratification process, using currently available savings projections and planned investment levels.

d. FYDP/BAM update: LECP customer investments and savings will be provided as required to support BAM submits.

11. CURRENT SAVINGS STREAM: Net customer savings will be displayed in the 'Customer Cash Status (Waterfall)' spreadsheets. Net savings will be further broken down by SYSCOM/claimant and type/model/series where available.

Factors to be addressed in developing savings streams:

a. For FY 98 and FY 99, the Fleet will be charged the net price of the old item when requisitioning the new item, due to Fleet budgetary constraints. For FY 98 and FY 99, the established surcharge will be used.

b. Inventory obsolescence will be accounted for in savings calculations.

c. Nonrecurring costs will be recovered by burdening the NIIN or a related grouping of NIIN prices in the year after the investment.

d. Use the FY 99 budgeted level of LECP Obligational Authority to project future level of investment. Total new investment will be reduced by prior year investment tails.

e. Identify the source of the savings (resource sponsor, etc.).

Navy Working Capital Fund (Budget Years)

Projections

Investment

Savings (Gross)

Cost Avoidance (Gross)

Savings (Net)

Savings and Cost Avoidance (Net)

Actuals

Investment

Savings (Gross)

Cost Avoidance (Gross)

Savings (Net)

Savings and Cost Avoidance (Net)

Customer (FYDP)

Projections

Savings (Gross)

Cost Avoidance (Gross)

Savings (Net)

Savings and Cost Avoidance (Net)

Actuals
Savings (Gross)
Cost Avoidance (Gross)
Savings (Net)
Savings and Cost Avoidance (Net)

Other Savings (FYDP)
Projections
Investment
Savings (Gross)
Cost Avoidance (Gross)
Savings (Net)
Savings and Cost Avoidance (Net)
Actuals
Investment
Savings (Gross)
Cost Avoidance (Gross)
Savings (Net)
Savings and Cost Avoidance (Net)

12. LECP DATA:

a. LECP data/metrics updates will be held quarterly. As changes occur, program impacts will be quantified and compiled for inclusion in the next quarterly update. This approach addresses perceived inconsistencies in the presentation of LECP data which are attributable to the simple timing of data display. (Note: As described previously, LECP budget data will be updated during the March and September NAVICP STRAT cycles.)

b. Location of LECP data repository: NAVICP World Wide Web Page, MASS database and written reports as required.

c. Point of Contact (POC) is the BOSS III Office.
NAVICP-P
215-697-5740

d. Scope of LECP data available:
MTBF
Savings and investment streams
Other data as required

e. Access to LECP data: The NAVICP BOSS III Website is found on the NAVSUP Portal Page and can be reached by clicking this link: [BOSS III Website](#)