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DEC 21 1966

MEMORANDUM FOR THE DIRECTOR, MOL PROGRAM

SUBJECT: MOL Program Plan and Funding Requirements

The attached document is the updating of our Phase II Program Plan and financial requirements, and reflects the results of the negotiations completed with all of the major MOL contractors.

Dr. Flax was furnished a copy of the document and a copy is being sent, by him, to DDR&E with a covering memorandum which I proposed for his signature. Copies of my memorandum to Dr. Flax and the proposed memorandum to DDR&E are attached.

Mr. Marks, SAF-FM, has had an opportunity to review the document, and Mr. Charles, SAF-I&L has been provided a copy.

As a separate action, we are preparing a briefing which will present the MOL Phase II costs, and the incentive features which are part of the negotiated contracts. I will have this briefing ready for you in January.

The next MOL Management Meeting is on both your and Dr. Flax's calendar for January 5 here in the Pentagon. I will have a meeting agenda delivered to you by December 30.

L/C Kemp/21Dec66/rad - as you wish

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SIGNED

HARRY L. EVANS
Major General, USAF
Vice Director, MOL Program

3 Atchs
a/s

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MEMORANDUM FOR DR. FLAX

25018 236

SUBJECT: Release of FY 1967 MOL Funds

Attached is a proposed memorandum to DDR&E which forwards our updated MOL Program Plan and Funding Requirements Document and requests release of deferred FY 1967 funds in the amount of \$178.4 million. Early release of these funds are required to fund our negotiated Phase II contracts and I urge your approval and signature of the memorandum. You will recall I discussed our contract and funding position with Dr. Brown on Saturday, December 16. As I discussed with you later, the Secretary expressed his satisfaction with the results of our contract negotiations and indicated his concurrence in obtaining the release of the deferred funds.

There are also several related actions which require your attention in conjunction with the completion of contract negotiations. These are: (1) assignment of a DX priority to the MOL Program; (2) approval of a contracting warrant for General Berg to enable him to do his own black contracting; and (3) approval to provide a manned flight option on flights six and seven. Documentation on these subjects has been previously provided you.

I am available to provide you with any additional information or assistance you may require on any of the above items.

Col Randall/19Dec66/rad

SIGNED

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1 Atch

a/s

HARRY L. EVANS

Major General, USAF

Vice Director, MOL Program

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Typed
~~19 Dec 68~~
19 Dec 68

MEMORANDUM FOR DIRECTOR, DEFENSE RESEARCH AND
ENGINEERING

SUBJECT: Manned Orbiting Laboratory Program Plan and Funding
Requirements

On June 28, 1965 the Secretary of the Air Force requested approval to proceed with the development of the MOL Program and this authority was directed by Presidential announcement on August 25, 1965. The attached Program Plan and Funding Requirement document presents a summary description of the MOL Program which has evolved from the Definition Phase studies and design effort conducted since August of last year and requests a level of funding to support the technical baseline and schedule for that program.

The development costs for a program which best balance the date of the first reconnaissance flight with an orderly development program will cost approximately \$1.92 billion for the combined unmanned and manned options. This estimate has been developed and refined from detailed cost reviews, cost reduction exercises and completed Phase II contract negotiations. To help you better understand what has been accomplished in arriving at our total program estimate, a summary of the contract costs, fee and incentive arrangements for the recently negotiated contracts follows.

A cost plus fixed fee development contract was negotiated with Eastman Kodak in August of this year for a total price of \$258.5 million. The fee is 8.6 percent. However, when adjustment is made for certain non-fee bearing industrial facilities covered under this contract, the effective fee is 7.8 percent. Work under this contract is progressing essentially on schedule at this time.

Insofar as the Titan IIIM launch vehicle is concerned we have negotiated fixed price incentive fee contracts with two of the four associates involved. The contracts negotiated to date are with the

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Martin Company in the amount of \$157.8 million and the AC Electronics Division of General Motors in the amount of \$26.9 million. Target costs on these contracts are \$143.3 million and \$24.5 million respectively with cost sharing and incentive arrangements for variances from target costs. Negotiations are currently in progress with United Technology Center for the seven-segment solid rocket motor development and with Aerojet-General Corporation for development of the increased expansion ratio rocket engine and certain other developmental improvements. These two contracts will be fixed price incentive fee type.

We have recently completed our negotiations with the General Electric Company for a cost plus incentive fee contract. Target cost is \$157.4 million. Fee for target cost is at 8 percent, or \$12.6 million, and performance incentives provide for an additional 6 percent fee. The cost sharing on overruns or underruns amounts to 85/15, with zero fee being attained at \$173.1 million.

The McDonnell Aircraft Company has entered into a fixed price incentive fee agreement with the Government for a contract price of \$180.0 million. Target cost is \$163.0 million with an associated fee of 10-1/4 percent, or \$17.0 million, for par performance.

The Douglas Aircraft Company contract is, of course, the largest. We have spent considerable time to define a contract which recognizes the development nature of the laboratory and at the same time provides suitable incentives to the contractor to encourage his effective management. To this end we have arrived at a fixed price incentive contract with Douglas in the amount of \$687.8 million. The target cost is \$625.6 million for which the contractor will receive a 9-1/2 percent fee. We have provided for an incentive structure which will limit the Government's liability, including deferrals of approximately \$125.4 million, to not more than \$875.0 million. This ceiling includes all of the cost and performance incentives which he can possibly achieve. These incentives can add as much as \$38.2 million in addition to target cost profit, or can cost the contractor as much as \$34.9 million for less than par performance.

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Based on these negotiated figures, the Fiscal Year RDT&E fund levels which are judged to be best phased with baseline program objectives and schedules are summarized as follows:

	<u>FY 1967</u>	<u>FY 1968</u>	<u>FY 1969</u>	<u>FY 1970</u>	<u>FY 1971</u>	<u>TOTAL</u>
Negotiated Contract	214.0	508.5	552.5	261.4	90.2	1626.6
Deferrals	<u>14.0</u>	<u>78.5</u>	<u>97.0</u>	<u>82.1</u>	<u>26.5</u>	<u>295.1</u>
TOTAL	228.0	587.0	646.5	343.5	116.7	1921.7

You will note that insofar as the contracts negotiated to date, we have not contracted for the total program. In the case of each of the contractors, we have deferred from the current negotiations certain items of services and equipments pending improved definition of our requirements. However, these deferrals are an integral part of the baseline program and must be funded on a fiscal year schedule consistent with the contracted effort. These include the manpower requirements to support mission training and the factory-to-pad test flow for all of the contracts concerned. Other examples of deferred equipment include the improved resolution Acquisition Tracking Scope, Automatic Support Module, V/R Sensor, Data Readout System and various spares. The total amount of these deferrals is estimated at \$295.0 million.

It is readily apparent that the FY 1968 requirement exceeds the \$510.0 million the Air Force recommended in October. The \$587.0 million requirement is our developed estimate of contractors' needs based on negotiated target prices together with allowances for deferred items of services and equipment. Since the FY 1967 program requirement resulting from contract negotiations is consistent with budgeted funding levels, I recommend the program continue throughout the remainder of FY 1967 on the baseline schedule contained in the MOL Program Plan and Funding Requirements document. During this period we will exploit all lawful measures to minimize FY 1968 obligations to the previously recommended level of \$510.0 million and will continually track and evaluate program progress against established fiscal and development milestones. Then in early FY 1968, with the

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benefit of more development experience, the program fund requirements will be thoroughly reviewed to determine whether available funds are adequate, whether additional funds can be reprogrammed, or the development and flight schedules adjusted to bring fund requirements in line with fund availability.

With your approval and release of the deferred \$178.4 million for FY 1967, I will continue with the Engineering Development Phase, holding funding to a minimum consistent with meeting the schedule and primary objective for the first manned flight and advise you in early FY 1968 of any disparity that might exist between fund availability and requirements.

1 Atch
a/s

SAF-SLP/Col Randall/53889/19Dec66/rad

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