

DEPARTMENT OF THE AIR FORCE  
DIRECTORATE OF SPECIAL PROJECTS (OSAF)  
AF UNIT POST OFFICE, LOS ANGELES, CALIFORNIA 90045



REPLY TO  
ATTN OF: SP-1

27 April 1966

SUBJECT: Request for Authority to Use Special Incentive Features

TO: SAFRD (Dr Flax)

1. Because of the extremely critical nature of Special Projects Programs, I believe it necessary to offer the contractors the highest possible incentive to perform. Accordingly, I plan to negotiate all critical contracts using a special incentive approach tailored to fit these programs rather than the conventional multiple incentive formula. A description of the incentive approach I plan to use is attached, entitled "A Specialized Incentive Structure for Satellite Projects", Ref No SP 142866, (Atch 1).

2. In December I obtained full agreement with Hilly Paige on the approach described in para 4, and negotiated a supplemental agreement incorporating this incentive structure into my basic contract with his company. I have subsequently reached agreement with [redacted] on the variation described in para 6. b. for a major follow-on contract, and have reached substantial agreement with [redacted] along the lines of the illustration in para 6. e.

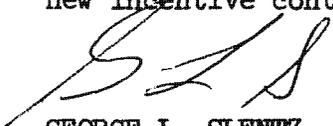
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3. I am convinced that this approach will result in attaining and maintaining better performance and is in the best interest of the government. Although it has required my direct negotiation with top company management to obtain agreement, the success I have had in my efforts so far has convinced me that the concept can be implemented on all of my programs, and I plan to do so on a systematic basis. However, while the overall concept is clearly within the intent of incentive contracting as outlined, for instance in the DOD Incentive Contracting Guide, it has become clear that some provisions or inferences of the ASPR can be interpreted to either prevent some of the proposed features or require time consuming justification and approvals on an individual basis. To apply the proposed concept without such continuing actions, I am advised that authorization to deviate from several provisions of the ASPR will be required. I attach a summary of these ASPR conflicts for illustration (Atch 2).

we did not incur large additional overruns under this new exhibit. I pointed out that on a total program basis covering the last 3 years we had experienced overruns of only 3.8% on our total business. This, we felt, was a very good record considering that most of our contracts involved extensive R&D effort and were almost all cost type contracts.

6. Mr. Racusin asked if we had applied this incentive formula to the incentive trade-off structure and procedure that had recently been developed by the Air Force Academy. I told him that we had reviewed the Air Force Academy plan and had considered it to some degree but that we ~~did~~<sup>had</sup> not in fact used it to measure the effectiveness of the incentive plan that we proposed. He asked that we do this upon our return and I assured him that we would.\*

7. At the completion of the meeting Mr. Racusin stated that he was satisfied with the discussion that had taken place and that we had cleared up all of the reservations that he had in mind. I pointed out that the letter which he had signed dated 28 September mentioned reservations about the exhibit that I felt would cause us problems if it were not amended. He agreed and on the face of the letter made a notation which indicated that any reservations which he initially had were now satisfied. On the basis of this meeting and the letter signed by Mr. Racusin we are implementing the new incentive contracting structure on all of our new programs.



GEORGE L. SLENTZ, Colonel, USAF  
Deputy Director for Procurement

\* We have since applied our exhibit to the Air Force Academy formula. Because by definition there is no trade-off between cost and performance in our exhibit there is no possibility of making the Air Force Academy formula applicable.