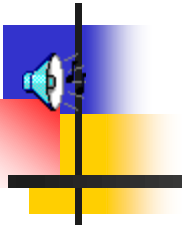


PIP Level II Presentation

Contract Financing

Contract Financing

Contract Financing



Part 2

Non-Commercial Item Purchase Financing

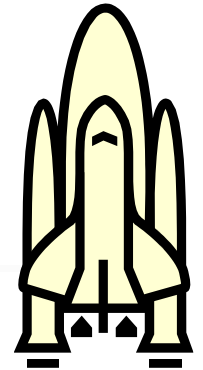
FAR Subpart 32.1



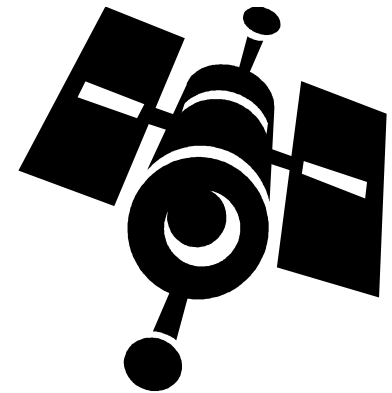
Theresa A. Stevens

March 12, 2007

What Is A Non-commercialized Acquisition



An acquisition where services or supplies are purchased by the government that are unique and uncommon to any other entity





What is Contract Financing?

Contract Financing is a “Payment”

It is an authorized Government disbursement of monies to a contractor prior to acceptance of supplies or services by the Government



Contract Financing “Payments” Do Not Include:

- Invoice Payments
- Payments For Partial Deliveries
- Lease And Rental Payments



Contract Financing

When? It is in the best interest of the government.

Why? It may be the demand of the market and without it the government may not be able to meet the requirement.



Conditions for Contract Financing

- Only to the extent actually needed for prompt and efficient performance
- Administer to aid the acquisition, not impede it
- Avoid any undue risk of monetary loss to the Government
- Include the form of contract financing deemed to be in the Government's best interest in the solicitation
- Monitor the contractor's use of the contract financing provided and the contractor's financial status



Need for Contract Financing Not a Deterrent

- The contracting officer shall not treat the contractor's need for contract financing as a handicap for a contract award, as a responsibility factor, or as an evaluation criterion
- The contractor should not be disqualified from contract financing solely because the contractor failed to indicate a need for contract financing before the contract was awarded



Conditions for Financing Noncommercial Purchases

The contractor must demonstrate an actual financial need or unavailability of private funding

	Large Business	Small Business	Small Disadvantage
Value of Contract	\$2.5M	\$100,000	\$50,000
Lead Time	6 Months	4 Months	4 Months
Payment Rates (Percentage of Cost)	80%	85%	90%

Risks



In establishing contract financing terms, the contracting officer must be aware of certain risks

When the Government decides to finance a procurement, it assumes both repayment and non-performance risks

Mitigate Risks



- Repayment Risks can be mitigated by using security provisions in the solicitation and clauses in the contract
- Nonperformance risks can be minimized by selecting the appropriate contractor and assuring that the financing method fits the procurement
- Repayment and nonperformance risks can be considerably lowered by requiring security

Types of Security



- The offeror's financial condition is a type of security
- Paramount lien on specified assets
- Irrevocable letters of credit from a Federally insured financial institution
- A bond from an acceptable surety
- Other assets described in **FAR parts 28.203-2, 28.203-3, and 28.204**



Types of Financing for Non-commercial Items

Order of Preference

- Private Funding without a Govt Guarantee
- Customary Contract Financing
- Loan Guarantees
- Unusual Contract Financing
- Advance Payments



Private Funding

The contractor secures his own financing without a government guarantee





Customary Contract Financing

- Performance-based Payments
- Progress Payments





Performance-Based Payments

Performance-based payments are customary contract financing payments made on the basis of:

- Performance measured by an objective, and/or quantifiable method
- Accomplishment of defined event(s)
- Other quantifiable measures of results

Progress Payments Based on Cost

Progress payments based on costs are made on the basis of costs incurred by the contractor as work progresses under the contract.





Progress Payments Based on Cost Do Not Include

- Payments based on the percentage or stage of completion accomplished
- Payments for partial deliveries accepted by the Government
- Partial payments for a contract termination proposal
- Performance-based payments



Progress Payments Based on a Percentage or Stage of Completion

- Authorized only for construction, shipbuilding and ship conversion, alteration or repair
- Basically the contractor does 25% of the work and is paid for that 25%, up to a cumulative amount of no more than 80% of the contract price for large businesses, 85% for small businesses and 90% for a small disadvantage business

Loan Guarantees

Are made by Federal Reserve banks, on behalf of designated guaranteeing agencies, to enable contractors to obtain financing from private sources under contracts for the acquisition of supplies or services for the national defense.



Unusual Contract Financing



- Any contract financing arrangement that deviates from customary contract financing is unusual contract financing
- Unusual contract financing shall be authorized only after approval by the head of the agency

Advance Payments

- Are advances of money by the Government to a prime contractor before, in anticipation of, and for the purpose of complete performance under one or more contracts
- Advance payments can be authorized for fixed-price or cost reimbursement contracts for supplies or services



**Determine Whether to
provide for financing
in the solicitation**

Requirement

Starts the process

**What does the market bare?
Is it necessary? What are the
risks, can they be mitigated?**

YES

NO

Is it in the best interest to the government?

**Determine whether to
restrict its availability
to small business
concerns**

**Select a Method of
Financing**

**Justify the Selected
Method**

**If No select and incorporate
nonfinancing provisions in the
solicitation**

**Incorporate provision to
solicit financing terms
from offerors in the
solicitation**

**52.232-31, Invitation to propose
financing terms**



More Clauses and Provisions for Noncommercial Items

- FAR 52.232-12, Advance Payments
- FAR 52.232-13, Notice of Progress Payments
- FAR 52.232-16, Progress Payments
- FAR 52.232-28, Invitation to Propose Performance-Based Payments
- FAR 52.232-32, Performance-Based Payments
- FAR 32.113, Customary Contract Financing
- FAR 52.232-31, Invitation to Propose Financing Terms

Questions?

