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28 September 2010

MEMORANDUM FOR: Defence Materiel Organisation
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FROM: Joint Strike Fighter Program Office
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SUBJECT: JSF Program Office (JPO) Cost Estimates: Ground Rules and Assumptions

The F-35 Joint Strike Fighter Program Office (JPO) has conducted an analysis of the differences between JPO's estimates as reflected in the Selected Acquisition Review 2009 (SAR 09) and the Cost Assessment and Program Evaluation (CAPE) office's estimates. This letter serves to explain the underlying ground rules and assumptions for each estimate:

- The JPO assumed multi-year procurement (MYP) savings of 5%, whereas the CAPE assumed 1% savings.
- JPO estimates were based on a profit margin of 13%, versus 15% for CAPE estimates. JPO margins were base on LRIP I, II, and III contracts and negotiations for LRIP IV.
- The JPO's inflation index was based on a Global Insight inflation index of 4% through 2017. After 2017, the JPO used lower inflation indices as mandated by the Office of the Secretary of Defense. The CAPE estimates were based on a Global Insight index of 4% for the entire procurement.
- Both estimates agreed on the total manpower costs. However, the CAPE assigned more costs to production relative to the JPO.
- The JPO's SAR 09 estimates were based on 2009 labor rates, whereas CAPE estimates were based on the higher, more recent rates of 2010.
- Assumptions affecting the Unit Recurring Flyaway (URF) costs also impacted estimates for spares. The assumptions of lower MYP savings, higher profit margins and higher labor rates also increased the CAPE's estimates for initial spares.
- The JPO based its initial spares consumption rates on sortie generation and duration numbers from the most recent bed-down plans. The CAPE used sortie generation and duration numbers from the 2001 Operational Requirements Document, resulting in larger estimates for initial spares packages.

In summary, both estimates apply similar methodologies, but the CAPE estimate follows a more conservative approach in assessing the available cost information.

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