



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

ACQUISITION,  
TECHNOLOGY,  
AND LOGISTICS

JUN 09 2017

The Honorable Charles W. Dent  
Chairman  
Subcommittee on Military Construction,  
Veterans Affairs, and Related Agencies  
Committee on Appropriations  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

In the report accompanying H.R. 5325, the Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017 and the Zika Response and Preparedness Act (Public Law 114-223), page 69, the Committee of Conference requests the Secretary of Defense to review the construction cost formulas used to develop military construction appropriation requests, to assess the reliability of the formulas, and to report its findings to the congressional defense committees. This letter provides the Department's response.

The Department of Defense (DoD) considers the construction cost estimating formulas used in parametric estimates for appropriation requests to be generally reliable but subject to inherent limitations. The formulas apply costs representing generic facilities and features without many project-specific details due to the fact that designs are typically not complete until 18 to 24 months after budget estimates are required. The Department's need for specialized facilities adds further risk. A related limitation is reliance upon generic nationwide economic assumptions to represent expected cost growth over the same time period (between the cost estimate and the award of the construction contract), during which actual costs can vary significantly, particularly for specific locations experiencing greater construction market activity.

DoD is implementing or considering several strategies to mitigate these limitations. In order to improve the reliability of parametric estimates, we are enhancing the resolution and specificity of parametric cost data derived from awarded military construction projects and fielding a new parametric cost estimating tool, which will feature more robust DoD-specific building models shared across a common DoD-wide platform. To better account for remaining uncertainties, we are looking to incorporate a risk analysis methodology that will add design contingency to the estimate based upon project size, complexity, location, and unknowns. Thank you for your continued support of our military construction program. An identical letter has been sent to the other congressional defense committees.

Sincerely,

James A. MacStravic  
Performing the Duties of the  
Under Secretary of Defense  
for Acquisition, Technology,  
and Logistics

cc: The Honorable Debbie Wasserman Schultz  
Ranking Member



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

ACQUISITION,  
TECHNOLOGY,  
AND LOGISTICS

JUN 09 2017

The Honorable William M. "Mac" Thornberry  
Chairman  
Committee on Armed Services  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

In the report accompanying H.R. 5325, the Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017 and the Zika Response and Preparedness Act (Public Law 114-223), page 69, the Committee of Conference requests the Secretary of Defense to review the construction cost formulas used to develop military construction appropriation requests, to assess the reliability of the formulas, and to report its findings to the congressional defense committees. This letter provides the Department's response.

The Department of Defense (DoD) considers the construction cost estimating formulas used in parametric estimates for appropriation requests to be generally reliable but subject to inherent limitations. The formulas apply costs representing generic facilities and features without many project-specific details due to the fact that designs are typically not complete until 18 to 24 months after budget estimates are required. The Department's need for specialized facilities adds further risk. A related limitation is reliance upon generic nationwide economic assumptions to represent expected cost growth over the same time period (between the cost estimate and the award of the construction contract), during which actual costs can vary significantly, particularly for specific locations experiencing greater construction market activity.

DoD is implementing or considering several strategies to mitigate these limitations. In order to improve the reliability of parametric estimates, we are enhancing the resolution and specificity of parametric cost data derived from awarded military construction projects and fielding a new parametric cost estimating tool, which will feature more robust DoD-specific building models shared across a common DoD-wide platform. To better account for remaining uncertainties, we are looking to incorporate a risk analysis methodology that will add design contingency to the estimate based upon project size, complexity, location, and unknowns. Thank you for your continued support of our military construction program. An identical letter has been sent to the other congressional defense committees.

Sincerely,

James A. MacStravic  
Performing the Duties of the  
Under Secretary of Defense  
for Acquisition, Technology,  
and Logistics

cc: The Honorable Adam Smith  
Ranking Member



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

ACQUISITION,  
TECHNOLOGY,  
AND LOGISTICS

JUN 09 2017

The Honorable Jerry Moran  
Chairman  
Subcommittee on Military Construction,  
Veterans Affairs, and Related Agencies  
Committee on Appropriations  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

In the report accompanying H.R. 5325, the Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017 and the Zika Response and Preparedness Act (Public Law 114-223), page 69, the Committee of Conference requests the Secretary of Defense to review the construction cost formulas used to develop military construction appropriation requests, to assess the reliability of the formulas, and to report its findings to the congressional defense committees. This letter provides the Department's response.

The Department of Defense (DoD) considers the construction cost estimating formulas used in parametric estimates for appropriation requests to be generally reliable but subject to inherent limitations. The formulas apply costs representing generic facilities and features without many project-specific details due to the fact that designs are typically not complete until 18 to 24 months after budget estimates are required. The Department's need for specialized facilities adds further risk. A related limitation is reliance upon generic nationwide economic assumptions to represent expected cost growth over the same time period (between the cost estimate and the award of the construction contract), during which actual costs can vary significantly, particularly for specific locations experiencing greater construction market activity.

DoD is implementing or considering several strategies to mitigate these limitations. In order to improve the reliability of parametric estimates, we are enhancing the resolution and specificity of parametric cost data derived from awarded military construction projects and fielding a new parametric cost estimating tool, which will feature more robust DoD-specific building models shared across a common DoD-wide platform. To better account for remaining uncertainties, we are looking to incorporate a risk analysis methodology that will add design contingency to the estimate based upon project size, complexity, location, and unknowns. Thank you for your continued support of our military construction program. An identical letter has been sent to the other congressional defense committees.

Sincerely,

James A. MacStravic  
Performing the Duties of the  
Under Secretary of Defense  
for Acquisition, Technology,  
and Logistics

cc: The Honorable Brian Schatz  
Ranking Member



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

ACQUISITION,  
TECHNOLOGY,  
AND LOGISTICS

JUN 09 2017

The Honorable John McCain  
Chairman  
Committee on Armed Services  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

In the report accompanying H.R. 5325, the Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017 and the Zika Response and Preparedness Act (Public Law 114-223), page 69, the Committee of Conference requests the Secretary of Defense to review the construction cost formulas used to develop military construction appropriation requests, to assess the reliability of the formulas, and to report its findings to the congressional defense committees. This letter provides the Department's response.

The Department of Defense (DoD) considers the construction cost estimating formulas used in parametric estimates for appropriation requests to be generally reliable but subject to inherent limitations. The formulas apply costs representing generic facilities and features without many project-specific details due to the fact that designs are typically not complete until 18 to 24 months after budget estimates are required. The Department's need for specialized facilities adds further risk. A related limitation is reliance upon generic nationwide economic assumptions to represent expected cost growth over the same time period (between the cost estimate and the award of the construction contract), during which actual costs can vary significantly, particularly for specific locations experiencing greater construction market activity.

DoD is implementing or considering several strategies to mitigate these limitations. In order to improve the reliability of parametric estimates, we are enhancing the resolution and specificity of parametric cost data derived from awarded military construction projects and fielding a new parametric cost estimating tool, which will feature more robust DoD-specific building models shared across a common DoD-wide platform. To better account for remaining uncertainties, we are looking to incorporate a risk analysis methodology that will add design contingency to the estimate based upon project size, complexity, location, and unknowns. Thank you for your continued support of our military construction program. An identical letter has been sent to the other congressional defense committees.

Sincerely,

James A. MacStravic  
Performing the Duties of the  
Under Secretary of Defense  
for Acquisition, Technology,  
and Logistics

cc: The Honorable Jack Reed  
Ranking Member