Payable Milestones

**Doing Business With ARPA-H Industry Day
Breakout Session**

November 13, 2024

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Why You're Here

- Understand the two types of payable milestone structures contemplated for Other Transactions (OTs)

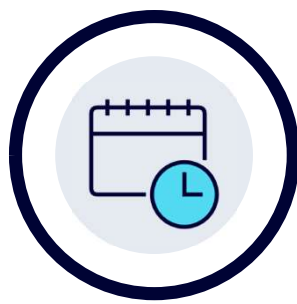   - Fixed milestones

    - Expenditure-based milestones

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Payable Milestones Overview

Payment structure considerations…

Nature of the agreement	State or phase of the project/program	Risk or complexity involved	Established milestones	Performer's accounting system

Consider the Performer's current accounting system capabilities

Avoid imposing system requirement that cause the Performer to revise and/or add system(s)

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Payable Milestones Overview (cont.)

Milestones must be clearly documented within each agreement.

Payment system developed to be more commercial- and industry-friendly

Adaptable and flexible (can be tailored to specifics of program or effort)

Great as an administrative tool for encouraging and tracking effort progress

May reduce administrative burden

Attractive to industry – may assist performers with cash flow

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Payable Milestones (cont.)

- **Milestones should typically reflect observable technical events or other key actions**
  - Generally quarterly events (i.e., kick-off, management reviews, technical reports, final report)
  - Some activity significant to the progress of the project/program
- **Each milestone has a value that is negotiated at the time of award**
  - Value typically based on a good faith estimate to reach the milestone
  - Milestones may have to be prospectively adjusted as project progresses
- **Payment is dependent on achieving the associated milestone**
  - Achievement of milestones does not necessarily mean the technology or event was successful
  - Establish exit criteria for each milestone
  - Focus on the necessary effort to reach the milestone and perform the event
  - Even if the event or technology is a failure, the Performer should still be paid if they put in the necessary effort to be fully prepared

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Payable Milestones (cont.)

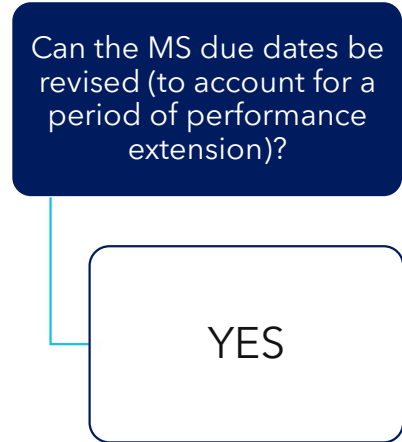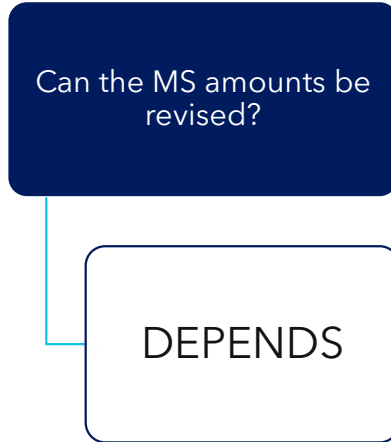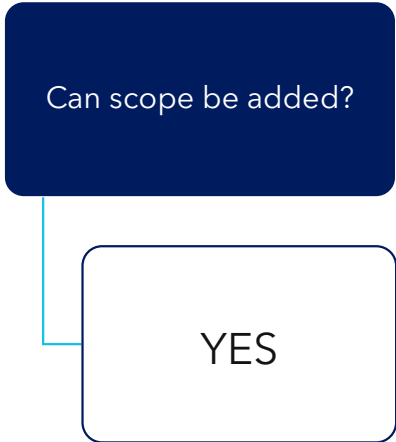| Fixed Milestones	Expenditure-based Milestones
• Each milestone amount is fixed at time of award • If the Performer achieves the milestone, it is paid the milestone amount (regardless of actual cost)	• Milestones have an estimated amount, but payment may be based on actual costs • If the Performer achieves the milestone, it is paid based on actual costs (actual payments may or may not match the milestone award amounts) • Milestone award amounts may not match actual expenditures at the time payment is made

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Milestone Payment Plan – Example

- Milestone plans may look identical (whether fixed or expenditure-based), but terms and conditions within agreements – specifically reporting requirements – will differ

- Expenditure-based approaches usually require the Performer to submit monthly status report on planned vs. actual expenditures, variation details, and "get-well" plans for large variations

- Throughout performance, both parties will need to meet periodically to adjust milestones – only future milestones – to ensure the project is on task

Milestone	Task(s)	Due Date (**Months after award**)	Milestone Definition	ARPA-H Payment
1	10	1	**Kickoff and Program Management** *Exit Criteria:* • Attend kick off meeting • Complete hiring of all required personnel; subcontract negotiations underway *Deliverables:* • Kickoff slides/materials • Project Plan for all tasks deliverables across milestones. • Report on progress of subcontract awards **(DATA RIGHTS)**	$50K
Appropriation Data/Funding amount:				
2	4	3	**Commercialization Plan** *Exit Criteria:* • Meeting to develop commercialization strategy • Up to date on technical status reporting requirements *Deliverables:* • Report detailing initial commercialization & marketing plan **(DATA RIGHTS)**	$100K
Appropriation Data/Funding amount:				

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Administration Questions: Fixed Milestones

Can scope be added?	Can scope be deleted?	Can the MS amounts be revised?	Can the MS due dates be revised (to account for a period of performance extension)?
YES	YES	DEPENDS	YES

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Administration of Expenditure-Based Milestones

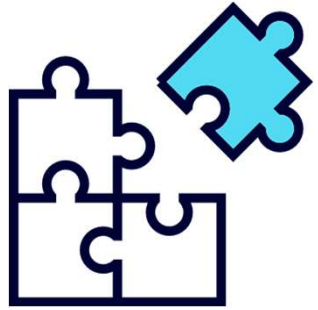| Milestone	Months After Award	Milestone Amount (Estimated at Award)	Planned Expenditures (Total)	Actual Expenditures (Total)	Amount Invoiced to Date
1	1	$100	$100	$90	$100
2	4	$500	$600	$550	$600
3	6	$400	$1,000	$1,200	$1,000
4	9	$500	$1,500	$1,600	$1,500
5	12	$500	$2,000		

Periodically, the government and performer should meet (regular and situational, if needed) to discuss payments and expenditures.

Find a way to ensure administration is not overly burdensome (for both the government and Performer). We recommend not adjusting milestone amounts at every milestone.

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Session Takeaways

- There are key differences between fixed milestones and expenditure-based milestones

- Milestones should be tailored to the specific program or effort

- Milestones typically reflect observable technical events or other key actions (generally quarterly events like kick-off, management reviews, and technical reports)

- Milestone values are negotiated at time of award

- Payments are dependent on performers achieving milestones (focus is on the necessary effort to achieve the milestone)

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Q&A