



Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress

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July 11, 2011

Congressional Research Service

7-5700

www.crs.gov

R41909

Summary

Multiyear procurement (MYP) and block buy contracting (BBC) are special contracting mechanisms that Congress permits the Department of Defense (DOD) to use for a limited number of defense acquisition programs. Compared to the standard or default approach of annual contracting, MYP and BBC have the potential for reducing weapon procurement costs by several percent.

Under annual contracting, DOD uses one or more contracts for each year's worth of procurement of a given kind of item. Under MYP, DOD instead uses a single contract for two to five years' worth of procurement of a given kind of item without having to exercise a contract option for each year after the first year. DOD needs congressional approval for each use of MYP. There is a permanent statute governing MYP contracting—10 U.S.C. 2306b. Under this statute, a program must meet several criteria to qualify for MYP.

Compared with estimated costs under annual contracting, estimated savings for programs being proposed for MYP have ranged from less than 5% to more than 15%, depending on the particulars of the program in question, with many estimates falling in the range of 5% to 10%. In practice, actual savings from using MYP rather than annual contracting can be difficult to observe or verify because of cost growth during the execution of the contract, resulting from changes in the program independent of the use of MYP rather than annual contracting.

BBC is similar to MYP in that it permits DOD to use a single contract for more than one year's worth of procurement of a given kind of item without having to exercise a contract option for each year after the first year. BBC is also similar to MYP in that DOD needs congressional approval for each use of BBC. BBC differs from MYP in the following ways:

- There is no permanent statute governing the use of BBC.
- There is no requirement that BBC be approved in both a DOD appropriations act and an act other than a DOD appropriations act.
- Programs being considered for BBC do not need to meet any legal criteria to qualify for BBC, because there is no permanent statute governing the use of BBC that establishes such criteria.
- A BBC contract can cover more than five years of planned procurements.
- Economic order quantity (EOQ) authority—the authority to bring forward selected key components of the items to be procured under the contract and purchase the components in batch form during the first year or two of the contract—does not come automatically as part of BBC authority because there is no permanent statute governing the use of BBC that includes EOQ authority as an automatic feature.
- BBC contracts are less likely to include cancellation penalties.

Potential issues for Congress concerning MYP and BBC include whether to use MYP and BBC in the future more frequently, less frequently, or about as frequently as they are currently used, and whether to create a permanent statute to govern the use of BBC, analogous to the permanent statute that governs the use of MYP.

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Introduction

Issues for Congress

This report provides background information and issues for Congress on multiyear procurement (MYP) and block buy contracting (BBC),¹ which are special contracting mechanisms that Congress permits the Department of Defense (DOD) to use for a limited number of defense acquisition programs. Compared to the standard or default approach of annual contracting, MYP and BBC have the potential for reducing weapon procurement costs by several percent.

Potential issues for Congress concerning MYP and BBC include whether to use MYP and BBC in the future more frequently, less frequently, or about as frequently as they are currently used, and whether to create a permanent statute to govern the use of BBC, analogous to the permanent statute (10 U.S.C. 2306b) that governs the use of MYP. Congress's decisions on these issues could affect defense acquisition practices, defense funding requirements, and the defense industrial base.

Terminology and Scope of Report

In discussing MYP and BBC, it can be helpful to distinguish funding approaches from contracting mechanisms. The two are often mixed together in discussions of DOD acquisition, sometimes leading to confusion. Stated briefly:

- **Funding approaches** are ways that Congress can appropriate funding for weapon procurement programs, so that DOD can then put them under contract. Examples of funding approaches include traditional full funding (the standard or default approach), incremental funding, and advance appropriations.² Any of these funding approaches might make use of advance procurement (AP) funding.³
- **Contracting mechanisms** are ways for DOD to contract for the procurement of weapons systems, once funding for those systems has been appropriated by Congress. Examples of contracting mechanisms include annual contracting (the standard or default approach), MYP, and BBC.

¹ MYP is an established acronym for multiyear procurement. BBC is not an established acronym for block buy contracting, but is used in this CRS report for purposes of convenience.

² For more on these three funding approaches, see CRS Report RL31404, *Defense Procurement: Full Funding Policy—Background, Issues, and Options for Congress*, by Ronald O'Rourke and Stephen Daggett, and CRS Report RL32776, *Navy Ship Procurement: Alternative Funding Approaches—Background and Options for Congress*, by Ronald O'Rourke. Advance appropriations, which are not to be confused with advance procurement (AP) funding (see footnote 3), are essentially a legislatively locked-in form of incremental funding. Unlike incremental funding, advance appropriations qualify under budgeting regulations as a form of full funding.

³ AP funding is provided in one or more years prior to the year of procurement of a weapon system for the procurement of long-leadtime components—components with long construction times. Such components must be funded prior to the procurement of the remainder of the weapon system if they are to be ready for installation in the weapon system at the appropriate point in the construction process. AP funding is a permitted exception to the full funding provision. AP funding is not to be confused with advance appropriations (see footnote 2).

The use of a particular funding approach in a defense acquisition program does not dictate the use of a particular contracting mechanism. Defense acquisition programs consequently can be implemented using various combinations of funding approaches and contracting mechanisms. Most DOD weapon acquisition programs use a combination of traditional full funding and annual contracting. A few programs, particularly certain Navy shipbuilding programs, use incremental funding as their funding approach. A limited number of DOD programs use MYP as their contracting approach, and to date at least two defense acquisition programs (both Navy shipbuilding programs) use or have used BBC as their contracting approach.

This report focuses on the contracting approaches of MYP and BBC and how they compare to annual contracting. Other CRS reports discuss the funding approaches of traditional full funding, incremental funding, and advance appropriations.⁴

Background

Multiyear Procurement (MYP)

MYP In Brief

What is MYP, and how does it differ from annual contracting? MYP, also known as multiyear contracting, is an alternative to the standard or default DOD approach of annual contracting. Under annual contracting, DOD uses one or more contracts for each year's worth of procurement of a given kind of item. Under MYP, DOD instead uses a single contract for two to five years' worth of procurement of a given kind of item, without having to exercise a contract option for each year after the first year. DOD needs congressional approval for each use of MYP.

To illustrate the basic difference between MYP and annual contracting, consider a hypothetical DOD program to procure 20 single-engine aircraft of a certain kind over the five-year period FY2012-FY2016, at a rate of four aircraft per year:

- **Under annual contracting**, DOD would issue one or more contracts for each year's procurement of four aircraft. After Congress funds the procurement of the first four aircraft in FY2012, DOD would issue one or more contracts (or exercise a contract option) for those four aircraft. The next year, after Congress funds the procurement of the next four aircraft in FY2013, DOD would issue one or more contracts (or exercise a contract option) for those four aircraft, and so on.
- **Under MYP**, DOD would issue one contract covering all 20 aircraft to be procured during the five-year period FY2012-FY2016. DOD would award this contract in FY2012, at the beginning of the five-year period, following congressional approval to use MYP for the program, and congressional appropriation of the FY2012 funding for the program. To continue the implementation of the contract over the next four years, DOD would request the

⁴ See footnote 2 for citations to these reports. Appropriating funding for a program and placing a program under contract are steps in a larger sequence of budget-related events that includes authorization, appropriation, obligation, and outlays. For a general discussion of this sequence, see CRS Report 98-721, *Introduction to the Federal Budget Process*, coordinated by Bill Heniff Jr.

FY2013 funding for the program as part of DOD's proposed FY2013 budget, the FY2014 funding as part of DOD's proposed FY2014 budget, and so on.

Potential Savings Under MYP

How much can MYP save? Compared with estimated costs under annual contracting, estimated savings for programs being proposed for MYP have ranged from less than 5% to more than 15%, depending on the particulars of the program in question, with many estimates falling in the range of 5% to 10%. In practice, actual savings from using MYP rather than annual contracting can be difficult to observe or verify because of cost growth during the execution of the contract, resulting from changes in the program independent of the use of MYP rather than annual contracting.⁵

How does MYP potentially save money? Compared to annual contracting, using MYP can in principle reduce the cost of the weapons being procured in two primary ways:

- **Contractor optimization of workforce and production facilities.** An MYP contract gives the contractor (e.g., an airplane manufacturer or shipbuilder) confidence that a multiyear stream of business of a known volume will very likely materialize. This confidence can permit the contractor to make investments in the firm's workforce and production facilities that are intended to optimize the facility for the production of the items being procured under the contract. Such investments can include payments for retaining or training workers, or for building, expanding, or modernizing production facilities. Under annual contracting, the manufacturer might not have enough confidence about its future stream of business to make these kinds of investments, or might be unable to convince its parent firm to finance them.
- **Economic order quantity (EOQ) purchases of selected long-leadtime components.** Under an MYP contract, DOD is permitted to bring forward selected key components of the items to be procured under the contract and to purchase the components in batch form during the first year or two of the contract. In the hypothetical example introduced earlier, using MYP could permit DOD to purchase, say, the 20 engines for the 20 aircraft in the first year or two of the five-year contract. Procuring selected components in this manner under an MYP contract is called an economic order quantity (EOQ) purchase.⁶ EOQ purchases can reduce the procurement cost of the weapons being procured under the MYP contract by allowing the manufacturers of components to take

⁵ A 2008 Government Accountability Office (GAO) report stated that

DOD does not have a formal mechanism for tracking multiyear results against original expectations and makes few efforts to validate whether actual savings were achieved by multiyear procurement. It does not maintain comprehensive central records and historical information that could be used to enhance oversight and knowledge about multiyear performance to inform and improve future multiyear procurement (MYP) candidates. DOD and defense research centers officials said it is difficult to assess results because of the lack of historical information on multiyear contracts, comparable annual costs, and the dynamic acquisition environment.

Government Accountability Office, *Defense Acquisitions[:] DOD's Practices and Processes for Multiyear Procurement Should Be Improved*, GAO-08-298, February 2008, p. 3.

⁶ The term EOQ is occasionally used in discussions of defense acquisition, somewhat loosely, to refer to any high-quantity or batch order of items, even those that do not take place under MYP or BBC. As a general matter, however, EOQs as described here occur only within MYP and block buy contracts.

maximum advantage of production economies of scale that are possible with batch orders.⁷

What gives the contractor confidence that the multiyear stream of business will materialize? At least two things give the contractor confidence that DOD will not terminate an MYP contract and that the multiyear stream of business consequently will materialize:

- For a program to qualify for MYP, DOD must certify, among other things, that the minimum need for the items to be purchased is expected to remain substantially unchanged during the contract in terms of production rate, procurement rate, and total quantities.
- Perhaps more important to the contractor, MYP contracts include a cancellation penalty intended to reimburse a contractor for costs that the contractor has incurred (i.e., investments the contractor has made) in anticipation of the work covered under the MYP contract. The undesirability of paying a cancellation penalty acts as a disincentive for the government against canceling the contract. (And if the contract is canceled, the cancellation penalty helps to make the contractor whole.)⁸

Permanent Statute Governing MYP

Is there a permanent statute governing MYP contracting? There is a permanent statute governing MYP contracting—10 U.S.C. 2306b. The statute was created by Section 909 of the FY1982 Department of Defense Authorization Act (S. 815/P.L. 97-86 of December 1, 1981), revised and reorganized by Section 1022 of the Federal Acquisition Streamlining Act of 1994 (S. 1587/P.L. 103-355 of October 13, 1994), and further amended on several occasions since. DOD's use of MYP contracting is further governed by DOD acquisition regulations.

⁷ A 2008 Government Accountability Office (GAO) report on multiyear contracting lists five areas of savings, most of which are covered in the two general areas of savings outlined above. One of GAO's five areas of savings—limited engineering changes due to design stability—can also occur in programs that use annual contracting. The GAO report states:

Multiyear procurement can potentially save money and improve the defense industrial base by permitting the more efficient use of a contractor's resources. Multiyear contracts are expected to achieve lower unit costs compared to annual contracts through one or more of the following sources: (1) purchase of parts and materials in economic order quantities (EOQ), (2) improved production processes and efficiencies, (3) better utilized industrial facilities, (4) limited engineering changes due to design stability during the multiyear period, and (5) cost avoidance by reducing the burden of placing and administering annual contracts. Multiyear procurement also offers opportunities to enhance the industrial base by providing defense contractors a longer and more stable time horizon for planning and investing in production and by attracting subcontractors, vendors, and suppliers. However, multiyear procurement also entails certain risks that must be balanced against potential benefits, such as the increased costs to the government should the multiyear contract be changed or canceled and decreased annual budget flexibility for the program and across DOD's portfolio of weapon systems. Additionally, multiyear contracts often require greater budgetary authority in the earlier years of the procurement to economically buy parts and materials for multiple years of production than under a series of annual buys.

Government Accountability Office, *Defense Acquisitions[:] DOD's Practices and Processes for Multiyear Procurement Should Be Improved*, GAO-08-298, February 2008, pp. 4-5.

⁸ Annual contracts can also include cancellation penalties.

Under this statute, what criteria must a program meet to qualify for MYP? 10 U.S.C. 2306b(a) states that to qualify for MYP, a program must meet several criteria, including the following.

- **Substantial savings.** DOD must estimate that using an MYP contract would result in “substantial savings” compared with using annual contracting.
- **Realistic cost estimates.** DOD’s estimates of the cost of the MYP contract and the anticipated savings must be realistic.
- **Stable need for the items.** DOD must expect that its minimum need for the items will remain substantially unchanged during the contract in terms of production rate, procurement rate, and total quantities.
- **Stable design for the items.** The design for the items to be acquired must be stable, and the technical risks associated with the items must not be excessive.

Section 811 of the FY2008 National Defense Authorization Act (H.R. 4986/P.L. 110-181 of January 28, 2008) amended 10 U.S.C. 2306b to require the Secretary of Defense to certify in writing, by no later than March 1 of the year in which DOD requests MYP authority for a program, that these and certain other criteria have been met. It also requires that the Secretary provide the congressional defense committees with the basis for this determination, as well as a cost analysis performed by DOD’s office of Cost Assessment and Program Evaluation (CAPE) that supports the findings.⁹ Section 811 further amended 10 U.S.C. 2306b to require the following:

- **Sufficient prior deliveries to determine whether estimated unit costs are realistic.** A sufficient number of the type of item to be acquired under the proposed MYP contract must have been delivered under previous contracts at or within the most current estimates of the program acquisition unit cost or procurement unit cost to determine whether current estimates of such unit costs are realistic.
- **No Nunn-McCurdy critical cost growth breaches within the last five years.** The system being proposed for an MYP contract must not have experienced within five years of the anticipated award date of the MYP contract a critical cost growth breach as defined under the Nunn-McCurdy act (10 U.S.C. 2433).¹⁰
- **Fixed-price type contract.** The proposed MYP contract must be a fixed-price type contract.

What is meant by “substantial savings”? The meaning of “substantial savings” is open to interpretation and might depend on the circumstances of the program in question. In practice, estimated savings of at least 5% might be judged substantial, and estimated savings in the range of 10% (or more) are more likely to be judged substantial. The amount of savings required under 10 U.S.C. 2306b to qualify has changed over time; the requirement for “substantial savings” was

⁹ Section 811 states that the cost analysis is to be performed by DOD’s Cost Analysis Improvement Group (CAIG). In a subsequent DOD reorganization, CAIG was made part of CAPE.

¹⁰ For more on the Nunn-McCurdy provision, see CRS Report R41293, *The Nunn-McCurdy Act: Background, Analysis, and Issues for Congress*, by Moshe Schwartz.

established by Section 808(a)(2) of the FY1991 National Defense Authorization Act (H.R. 4739/P.L. 101-510 of November 5, 1990), which amended 10 U.S.C. 2306b in this regard.¹¹

What is meant by “stable design”? The term “stable design” is generally understood to mean that the design for the items to be procured is not expected to change substantially during the period of the contract. Having a stable design is generally demonstrated by having already built at least a few items to that design (or in the case of a shipbuilding program, at least one ship to that design) and concluding, through testing and operation of those items, that the design does not require any substantial changes during the period of the contract.

Potential Consequences of Not Fully Funding an MYP Contract

What happens if Congress does not provide the annual funding requested by DOD to continue the implementation of the contract? If Congress does not provide the funding requested by DOD to continue the implementation of an MYP contract, DOD would be required to renegotiate, suspend, or terminate the contract. Terminating the contract could require the government to pay a cancellation penalty to the contractor. Renegotiating or suspending the contract could also have a financial impact.

Effect on Flexibility for Making Procurement Changes

What effect does using MYP have on flexibility for making procurement changes? A principal potential disadvantage of using MYP is that it can reduce Congress’s and DOD’s flexibility for making changes (especially reductions) in procurement programs in future years in response to changing strategic or budgetary circumstances, at least without incurring cancellation penalties. In general, the greater the portion of DOD’s procurement account that is executed under MYP contracts, the greater the potential loss of flexibility. The use of MYP for executing some portion of the DOD procurement account means that if policymakers in future years decide to reduce procurement spending below previously planned levels, the spending reduction might fall more heavily on procurement programs that do not use MYP, which in turn might result in a less-than-optimally balanced DOD procurement effort.

Congressional Approval

How does Congress approve the use of MYP? Congress approves the use of MYP on a case-by-case basis, typically in response to requests by DOD.¹² Congressional approval for MYP contracts with a value of more than \$500 million must occur in two places: an annual DOD appropriations act¹³ and an act other than the annual DOD appropriations act.¹⁴

¹¹ For a discussion of the evolution of the savings requirement under 10 U.S.C. 2306b, including a figure graphically summarizing the legislative history of the requirement, see Government Accountability Office, *Defense Acquisitions[:] DOD’s Practices and Processes for Multiyear Procurement Should Be Improved*, GAO-08-298, February 2008, pp. 21-22, including Figure 3 on p. 22.

¹² The Anti-Deficiency Act (31 U.S.C. 1341) prohibits the making of contracts in advance of appropriations. A multiple-year commitment may be made when authorized by Congress by entering into a firm commitment for one year and making the government’s liability for future years contingent on funds becoming available.

¹³ Paragraph (3) of subsection (l) of 10 U.S.C. 2306b states, “The head of an agency may not initiate a multiyear procurement contract for any system (or component thereof) if the value of the multiyear contract would exceed \$500,000,000 unless authority for the contract is specifically provided in an appropriations Act.”

In annual DOD appropriations acts, the provision permitting the use of MYP for one or more defense acquisition programs is typically included in the title containing general provisions, which typically is Title VIII.

An annual defense authorization act is usually the act other than an appropriations act in which provisions granting authority for using MYP contracting on individual defense acquisition programs are included. Such provisions typically occur in Title I of the defense authorization act, the title covering procurement programs.

Provisions in which Congress approves the use of MYP for a particular defense acquisition program may include specific conditions for that program in addition to the requirements and conditions of 10 U.S.C. 2306b.

How often is MYP used? MYP is used for a limited number of DOD acquisition programs. A 2008 Government Accountability Office (GAO) report stated:

Although DOD had been entering into multiyear contracts on a limited basis prior to the 1980s, the Department of Defense Authorization Act, [for fiscal year] 1982,¹⁵ codified the authority for DOD to procure on a multiyear basis major weapon systems that meet certain criteria. Since that time, DOD has annually submitted various weapon systems as multiyear procurement candidates for congressional authorization. Over the past 25 years, Congress has authorized the use of multiyear procurement for approximately 140 acquisition programs, including some systems approved more than once.¹⁶

The GAO report stated that the total dollar value of MYP contracts remained more or less stable between FY2000 and FY2007 at about \$10 billion per year. The report also showed that since the total size of DOD's procurement budget increased during this period, the portion of DOD's total procurement budget accounted for by programs using MYP contracts declined from about 17% in FY2000 to about 11% in FY2007.¹⁷

As shown in the **Appendix**, annual DOD appropriations acts since FY1990 typically have approved the use of MYP for one or a few DOD programs each year. The three most recent DOD appropriations acts (for FY2009, FY2010, and FY2011) have each approved one DOD program for MYP.

(...continued)

¹⁴ Paragraph (3) of subsection (i) of 10 U.S.C. 2306b states, "In the case of the Department of Defense, a multiyear contract in an amount equal to or greater than \$500,000,000 may not be entered into for any fiscal year under this section unless the contract is specifically authorized by law in an Act other than an appropriations Act."

¹⁵ S. 815/P.L. 97-86 of December 1, 1981, Section 909.

¹⁶ Government Accountability Office, *Defense Acquisitions[:] DOD's Practices and Processes for Multiyear Procurement Should Be Improved*, GAO-08-298, February 2008, p. 5.

¹⁷ Government Accountability Office, *Defense Acquisitions[:] DOD's Practices and Processes for Multiyear Procurement Should Be Improved*, GAO-08-298, February 2008, p. 7, including Figure 1. The GAO report says \$10 million rather than \$10 billion, but this appears to be a typo, as shown by Y-axis dollar scale of Figure 1.

Block Buy Contracting (BBC)

BBC In Brief

What is BBC, and how does it compare to MYP? BBC is similar to MYP in that it permits DOD to use a single contract for more than one year's worth of procurement of a given kind of item without having to exercise a contract option for each year after the first year.¹⁸ BBC is also similar to MYP in that DOD needs congressional approval for each use of BBC.

BBC differs from MYP in the following ways:

- There is no permanent statute governing the use of BBC.
- There is no requirement that BBC be approved in both a DOD appropriations act and an act other than a DOD appropriations act.
- Programs being considered for BBC do not need to meet any legal criteria to qualify for BBC because there is no permanent statute governing the use of BBC that establishes such criteria.
- A BBC contract can cover more than five years of planned procurements. The BBC contracts currently being used by the Navy for procuring Littoral Combat Ships (LCSs), for example, cover a period of six years (FY2011-FY2016).
- Economic order quantity (EOQ) authority does not come automatically as part of BBC authority because there is no permanent statute governing the use of BBC that includes EOQ authority as an automatic feature. To provide EOQ authority as part of a BBC contract, the provision granting authority for using BBC in a program may need to state explicitly that the authority to use BBC includes the authority to use EOQ.
- BBC contracts are less likely to include cancellation penalties.

Given the one key similarity between BBC and MYP (the use of a single contract for more than one year's worth of procurement), and the various differences between BBC and MYP, BBC might be thought of as a less formal stepchild of MYP.

When and why was BBC invented? BBC was invented by Section 121(b) of the FY1998 National Defense Authorization Act (H.R. 1119/P.L. 105-85 of November 18, 1997), which granted the Navy the authority to use a single contract for the procurement of the first four Virginia (SSN-774) class attack submarines. The four boats were scheduled to be procured during the five-year period FY1998-FY2002 in annual quantities of 1-1-0-1-1. Congress provided the authority granted in Section 121(b) at least in part to reduce the combined procurement cost of the four submarines. Using MYP was not an option for the Virginia-class program at that time

¹⁸ Using the hypothetical example introduced earlier involving the procurement of 20 aircraft over the five-year period FY2012-FY2016, DOD would follow the same general path as it would under MYP: DOD would issue one contract covering all 20 aircraft in FY2012, at the beginning of the five-year period, following congressional approval to use BBC for the program, and congressional appropriation of the FY2012 funding for the program. To continue the implementation of the contract over the next four years, DOD would request the FY2013 funding for the program as part of DOD's proposed FY2013 budget, the FY2014 funding as part of DOD's proposed FY2014 budget, and so on.

because the Navy had not even begun, let alone finished, construction of the first Virginia-class submarine, and consequently could not demonstrate that it had a stable design for the program.

When Section 121(b) was enacted, there was no name for the contracting authority it provided. The term block buy contracting came into use later, when observers needed a term to refer to the kind of contracting authority that Congress authorized in Section 121(b). As discussed in the next section, this can cause confusion, because the term block buy was already being used in discussions of DOD acquisition to refer to something else.

Terminology Alert: Block Buy Contracting vs. Block Buys

What's the difference between block buy contracting and block buys? In discussions of defense procurement, the term “block buy” by itself (without “contracting” at the end) is sometimes used to refer to something quite different from block buy contracting—namely, the simple act of funding the procurement of more than one copy of an item in a single year, particularly when no more than one item of that kind might normally be funded in a single year. For example, when Congress funded the procurement of two aircraft carriers in FY1983, and another two in FY1988, these acts were each referred to as block buys, because aircraft carriers are normally procured one at a time, several years apart from one another. This alternate meaning of the term block buy predates by many years the emergence of the term block buy contracting.

The term block buy is still used in this alternate manner, which can lead to confusion in discussions of defense procurement. For example, as part of its FY2012 budget submission, the Air Force is requesting funding for the procurement of two Advanced Extremely High Frequency (AEHF) satellites in FY2012, rather than one such satellite in FY2012 and the other in a subsequent year. The Air Force is referring to this proposal as a block buy—which it is, under the older use of the term. But it is not an example of block buy *contracting*. At the same time, Navy officials sometimes refer to the use of block buy contracts for the first four Virginia-class submarines, and currently in the LCS program, as block buys, when they might be more specifically referred to as instances of block buy *contracting*.

Potential Savings Under BBC

How much can BBC save, compared with MYP? Potential savings under BBC can be less than those under MYP, for at least two reasons:

- The authority to use BBC might not include authority to use EOQ purchasing, which, as discussed earlier (see “Potential Savings Under MYP”), is one of the two principal sources of savings under an MYP contract. The block buy contract for the first four Virginia-class boats and the current block buy contracts for the LCS program do not include authority for EOQ purchasing.
- A BBC contract might not include a cancellation penalty (or might include a more limited one). This can give the contractor less confidence than would be the case under an MYP contract that the future stream of business will materialize as planned, which in turn might reduce the amount of money the contractor invests to optimize its workforce and production facilities for producing the items to be procured under the contract.

Frequency of Use of BBC

How frequently has BBC been used? Since its use at the start of the Virginia-class program, BBC has been used very rarely. The Navy did not use it again in a shipbuilding program until December 2010, when it awarded two block buy contracts, each covering 10 LCSs to be procured over the six-year period FY2011-FY2016, to the two LCS builders.¹⁹

Using BBC Rather than MYP

When might BBC be suitable as an alternative to MYP? BBC might be particularly suitable as an alternative to MYP in cases where using a multiyear contract can reduce costs, but the program in question cannot meet all the statutory criteria needed to qualify for MYP. As shown in the case of the first four Virginia-class boats, this can occur at or near the start of a procurement program, when design stability has not been demonstrated through the production of at least a few of the items to be procured (or, for a shipbuilding program, at least one ship).

Issues for Congress

Potential issues for Congress concerning MYP and BBC include whether to use MYP and BBC in the future more frequently, less frequently, or about as frequently as they are currently used, and whether to create a permanent statute to govern the use of BBC, analogous to the permanent statute that governs the use of MYP.

Frequency of Using MYP and BBC

Should MYP and BBC in the future be used more frequently, less frequently, or about as frequently as they are currently used? Supporters of using MYP and BBC more frequently in the future might argue the following:

- Since MYP and BBC can reduce procurement costs, making greater use of MYP and BBC can help DOD get more value out of its available procurement funding. This can be particularly important if DOD's budget in real (i.e., inflation-adjusted) terms remains flat or declines in coming years, as many observers anticipate.
- The risks of using MYP have been reduced by Section 811 of the FY2008 National Defense Authorization Act (H.R. 4986/P.L. 110-181 of January 28, 2008), which amended 10 U.S.C. 2306b to strengthen the process for ensuring that programs proposed for MYP meet certain criteria (see "Permanent Statute Governing MYP").

Supporters of using MYP and BBC less frequently in the future, or at least no more frequently than now, might argue the following:

¹⁹ For further discussion, see CRS Report RL33741, *Navy Littoral Combat Ship (LCS) Program: Background, Issues, and Options for Congress*, by Ronald O'Rourke.

- Using MYP and BBC more frequently would further reduce Congress's and DOD's flexibility for making changes in DOD procurement programs in future years in response to changing strategic or budgetary circumstances. The risks of reducing flexibility in this regard are increased now because of uncertainties in the current strategic environment and because efforts to reduce federal budget deficits could include reducing DOD spending, which could lead to a reassessment of U.S. defense strategy and associated DOD acquisition programs.
- Since actual savings from using MYP and BBC rather than annual contracting can be difficult to observe or verify, it is not clear that the financial benefits of using MYP or BBC more frequently in the future would be worth the resulting further reduction in Congress's and DOD's flexibility for making changes in procurement programs in future years in response to changing strategic or budgetary circumstances.

Permanent Statute for BBC

Should Congress create a permanent statute to govern the use of BBC, analogous to the permanent statute (10 U.S.C. 2306b) that governs the use of MYP? Supporters of creating a permanent statute to govern the use of BBC might argue the following:

- Such a statute could encourage greater use of BBC, and thereby increase savings in DOD procurement programs by giving BBC contracting a formal legal standing and by establishing a clear process for DOD program managers to use in assessing whether their programs might be considered suitable for BBC.
- Such a statute could make BBC more advantageous by including a provision that automatically grants EOQ authority to programs using BBC, as well as provisions establishing qualifying criteria and other conditions intended to reduce the risks of using BBC.

Opponents of creating a permanent statute to govern the use of BBC might argue the following:

- A key advantage of BBC is that it is *not* governed by a permanent statute. The lack of such a statute gives DOD and Congress full flexibility in determining when and how to use BBC for programs that may not qualify for MYP, but for which a multiyear contract of some kind might produce substantial savings.
- Such a statute could encourage DOD program managers to pursue their programs using BBC rather than MYP. This could reduce discipline in DOD multiyear contracting if the qualifying criteria in the BBC statute are less demanding than the qualifying criteria in 10 U.S.C. 2306b.

Legislative Activity for FY2012

FY2012 National Defense Authorization Act (H.R. 1540/S. 1253)

House

Sections 113, 122, and 123 of H.R. 1540, as reported by the House Armed Services Committee (H.Rept. 112-78 of May 17, 2011), provide authority for MYP contracts beginning in FY2012 for airframes for Army UH-60M/HH-60M and Navy MH-60R/MH-60S helicopters, for Navy Arleigh Burke (DDG-51) class destroyers, and for mission avionics and common cockpits for Navy MH-60R/S helicopters, respectively. The title of Section 122 uses the term “multiyear funding” but nevertheless provides authority for an MYP contract.

The text of Section 113 is as follows:

SEC. 113. MULTIYEAR PROCUREMENT AUTHORITY FOR AIRFRAMES FOR ARMY UH-60M/HH-60M HELICOPTERS AND NAVY MH-60R/MH-60S HELICOPTERS.

(a) Authority for Multiyear Procurement- Subject to section 2306b of title 10, United States Code, the Secretary of the Army may enter into one or more multiyear contracts, beginning with the fiscal year 2012 program year, for the procurement of airframes for UH-60M/HH-60M helicopters and, acting as the executive agent for the Department of the Navy, for the procurement of airframes for MH-60R/S helicopters.

(b) Condition for Out-year Contract Payments- A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2012 is subject to the availability of appropriations for that purpose for such later fiscal year.

The text of Section 122 is as follows:

SEC. 122. MULTIYEAR FUNDING FOR PROCUREMENT OF ARLEIGH BURKE-CLASS DESTROYERS.

(a) Authority for Multiyear Procurement- Notwithstanding paragraphs (1) and (7) of section 2306b(i) of title 10, United States Code, the Secretary of the Navy may enter into a multiyear contract, beginning with the fiscal year 2012 program year, for the procurement of DDG-51 Arleigh Burke-class destroyers and Government-furnished equipment associated with such destroyers.

(b) Report of Findings-

(1) IN GENERAL- Not later than 30 days before the date on which a contract is awarded under subsection (a), the Secretary shall submit to the congressional defense committees a report on such contract containing the findings required under subsection (a) of section 2306b of title 10, United States Code, including the analysis described in paragraph (2) of this subsection.

(2) DETERMINATION OF SUBSTANTIAL SAVINGS- In conducting an analysis of substantial savings pursuant to subsection (a)(1) of such section 2306b, the Secretary shall

employ a full-scale analysis of the anticipated cost avoidance resulting from the use of multiyear procurement and the potential benefit that any accrued savings might have to future shipbuilding programs if such savings are used for further ship construction.

(c) Condition of Out-year Contract Payments- A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract is subject to the availability of appropriations for that purpose.

The text of Section 123 is as follows:

SEC. 123. MULTIYEAR PROCUREMENT AUTHORITY FOR MISSION AVIONICS AND COMMON COCKPITS FOR NAVY MH-60R/S HELICOPTERS.

(a) Authority for Multiyear Procurement- Subject to section 2306b of title 10, United States Code, the Secretary of the Navy may enter into one or more multiyear contracts, beginning with the fiscal year 2012 program year, for the procurement of mission avionics and common cockpits for MH-60R/S helicopters.

(b) Condition for Out-year Contract Payments- A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2012 is subject to the availability of appropriations for that purpose for such later fiscal year.

The committee's report also states the following:

CH-47F Chinook helicopter

The fiscal year 2012 budget request for the CH-47F Chinook helicopter includes funding for the fifth year of a 5-year multiyear procurement contract. The committee notes that this contract has provided stability to the program and savings to the taxpayer of over \$450.0 million. In view of the continuing need for sustained procurement of the CH-47F, the Army's acquisition strategy calls for a second 5-year multiyear contract beginning in fiscal year 2013. The committee agrees with the Army strategy to continue procurement with substantial cost savings for the CH-47F, and encourages the Department of Defense to include a request for authority for a new multiyear contract in the fiscal year 2013 budget submission. (p. 22)

Senate

Sections 121 and 154 of S. 1253, as reported by the Senate Armed Services Committee (S.Rept. 112-26 of June 22, 2011), provide authority for MYP contracts beginning in FY2012 for mission avionics and common cockpits for Navy MH-60R/S helicopters and for airframes for Army UH-60M/HH-60M and Navy MH-60R/MH-60S helicopters, respectively.

The text of Section 121 is as follows:

SEC. 121. MULTIYEAR PROCUREMENT AUTHORITY FOR MISSION AVIONICS AND COMMON COCKPITS FOR NAVY MH-60R/S HELICOPTERS.

(a) Authority for Multiyear Procurement- Subject to section 2306b of title 10, United States Code, the Secretary of the Navy may enter into a multiyear contract or contracts, beginning with the fiscal year 2012 program year, for the procurement of mission avionics and common cockpits for MH-60R/S helicopters.

(b) Condition for Out-Year Contract Payments- A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2012 is subject to the availability of appropriations for that purpose for such later fiscal year.

Regarding Section 121, the committee's report states the following:

Multiyear procurement authority for mission avionics and common cockpits for Navy MH-60R/S helicopters (sec. 121)

The committee recommends a provision that would authorize the Secretary of the Navy to enter into a multiyear contract to purchase mission avionics and common cockpits for Navy MH-60R/S helicopters, subject to the Secretary providing a certification that all of the criteria in section 2306b of title 10, United States Code, have been met.

The Department of the Navy is projecting that contracting for mission avionics and common cockpits under a multiyear contract would allow the Federal Government to achieve roughly 11.8 percent savings when compared to acquiring the same systems for MH-60 helicopters using annual contracts. (p. 10)

The text of Section 154 is as follows:

SEC. 154. MULTIYEAR PROCUREMENT AUTHORITY FOR AIRFRAMES FOR ARMY UH-60M/HH-60M HELICOPTERS AND NAVY MH-60R/MH-60S HELICOPTERS.

(a) Authority for Multiyear Procurement- Subject to section 2306b of title 10, United States Code, the Secretary of the Army may enter into one or more multiyear contracts, beginning with the fiscal year 2012 program year, for the procurement of airframes for UH-60M/HH-60M helicopters and, acting as the executive agent for the Department of the Navy, for the procurement of airframes for MH-60R/MH-60S helicopters.

(b) Condition for Out-year Payments- A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2012 is subject to the availability of appropriations for that purpose for such later fiscal year.

Regarding Section 154, the committee's report states the following:

Multiyear procurement authority for airframes for Army UH-60M/HH-60M helicopters and Navy MH-60R/MH-60S helicopters (sec. 154)

The committee recommends a provision that would authorize the Secretary of the Army to enter a multiyear procurement contract in accordance with section 2306b of title 10, United States Code, for up to 5 years for Army UH-60M/HH-60M airframes and, acting as executive agent for the Department of the Navy, for MH-60R/ MH-60S airframes.

The committee notes that this would be the eighth multiyear procurement contract over the long life of the H-60 helicopter program. The committee believes the program continues to meet the criteria for multiyear procurement. The committee is concerned, however, that the current multiyear contract, awarded in 2007, failed to achieve the savings projected at the time of approval of that contract. When the Department sought authorization for the 2007 multiyear contract, the Army estimated savings of 5.5 percent versus annual procurements.

In retrospect, the Army now estimates that the contract only achieved savings of 4 percent. This is not encouraging.

The committee expects that committing future Department leaders, Congress, and taxpayers to multiyear contracts is justified by the substantial savings that would not be achieved by annual contracts. The Army is projecting savings for this next multiyear contract, if authorized, to be 10 percent. This projection may be overly optimistic given the performance of the last multiyear contract. The committee recommends supporting the Department's request for multiyear contract authority, but directs the Secretary of the Army to provide the congressional defense committees with an annual briefing during the execution of this contract on progress achieved in meeting or exceeding the projected savings used to justify granting this authority. This briefing shall accompany the Army's annual budget request. (p. 15)

The committee's report also states the following:

The committee notes the Air Force originally proposed to buy the two AEHF [Advanced Extremely High Frequency] satellites [that are proposed for procurement in FY2012] using multiyear procurement authority but withdrew this request shortly after the budget was submitted. Multiyear authority is not suitable for the AEHF proposal, which did not meet the statutory requirements for multiyear procurement. (p. 11)

The committee's report also states, in connection with the acquisition of Defense Information Systems Agency (DISA) satellites, that

[t]he committee believes that before committing to a single satellite for a single theater, in a purchase or capital lease arrangement, DISA should conduct an Analysis of Alternatives (AoA) that looks at the possibility of purchasing services on multiple satellites in a multiyear type approach to ensure lower cost and increased flexibility or other creative approaches to providing reliable communications. Before entering into a contract to buy or a capital lease for a single satellite, the committee directs DISA to report on the results of the AoA, and to provide the analytic basis for the preferred option. (p. 25)

The committee's report also states the following:

Multiyear procurement savings estimates

The committee has been supportive of the Department's ability to enter into multiyear procurement contracts when all of the criteria in section 2306b of title 10, United States Code, are met. The committee wants to clarify that, in determining "substantial savings" under the meaning of section 2306b, the Department should be careful to filter claims of "cost avoidance" that would tend either to: (1) inflate the costs associated with executing annual procurement contracts; or (2) understate the costs executing multiyear procurement contracts. The concern is that analysts could use inappropriate optimism to estimate savings on a multiyear contract, or could overstate the costs of executing an annual procurement strategy. In either circumstance, the estimated savings could present an erroneous picture of the potential rewards of approving multiyear authority.

This year, in the case of the request for multiyear procurement authority for mission avionics and common cockpits for Navy MH-60R/S helicopters, the Navy estimated that the cost of procuring the MH-60R/S cockpits and mission avionics under a single 5-year multiyear procurement contract, as compared to five successive single-year procurements, would save 11.2 percent. The Cost Assessment and Program Evaluation (CAPE) directorate agreed with that estimate.

After further review, the committee determined that this savings estimate depends on congressional approval of a follow-on multiyear procurement in fiscal year 2017. If Congress were to fail to approve that follow-on multiyear procurement, the Navy would have to find additional funding to reimburse the contractor team for purchase in each of the 5 years comprising the proposed multiyear procurement. While the committee agrees that, in this limited sense, “cost avoidance” can demonstrate “substantial savings” for purposes of section 2306b of title 10, United States Code, the use of other more nebulous kinds of cost avoidance for the same purpose would not be appropriate.

If the case is strong for multiyear procurement without a finding of “substantial saving,” Congress can make exceptions. As provided in report language accompanying section 811 of the Fiscal Year 2008 National Defense Authorization Act for Fiscal year 2008 (Public Law 110–181), multiyear procurement proposals unsupported by a finding of “substantial savings” may still be approved on the basis of an “exceptionally strong case” that the proposal meets the other requirements of subsection (a) of section 2306b of title 10, United States Code. However, actions to inflate the savings estimates that do not bear up under scrutiny could actually result in denial of multiyear authority when all other requirements could be met. (Pages 30-31)

FY2012 DOD Appropriations Act (H.R. 2219)

House

Section 8010 of H.R. 2219, as reported by the House Appropriations Committee (H.Rept. 112-110 of June 16, 2011), provides authority for MYP contracts for UH-60M/HH-60M and MH-60R/MH-60S helicopter airframes and MH-60R/S mission avionics and common cockpits. The text of Section 8010 is as follows:

Sec. 8010. None of the funds provided in this Act shall be available to initiate: (1) a multiyear contract that employs economic order quantity procurement in excess of \$20,000,000 in any one year of the contract or that includes an unfunded contingent liability in excess of \$20,000,000; or (2) a contract for advance procurement leading to a multiyear contract that employs economic order quantity procurement in excess of \$20,000,000 in any one year, unless the congressional defense committees have been notified at least 30 days in advance of the proposed contract award: Provided, That no part of any appropriation contained in this Act shall be available to initiate a multiyear contract for which the economic order quantity advance procurement is not funded at least to the limits of the Government’s liability: Provided further, That no part of any appropriation contained in this Act shall be available to initiate multiyear procurement contracts for any systems or component thereof if the value of the multiyear contract would exceed \$500,000,000 unless specifically provided in this Act: Provided further, That no multiyear procurement contract can be terminated without 10-day prior notification to the congressional defense committees: Provided further, That the execution of multiyear authority shall require the use of a present value analysis to determine lowest cost compared to an annual procurement: Provided further, That none of the funds provided in this Act may be used for a multiyear contract executed after the date of the enactment of this Act unless in the case of any such contract—

(1) the Secretary of Defense has submitted to Congress a budget request for full funding of units to be procured through the contract and, in the case of a contract for procurement of aircraft, that includes, for any aircraft unit to be procured through the contract for which procurement funds are requested in that budget request for production beyond advanced procurement activities in the fiscal year covered by the budget, full funding of procurement of such unit in that fiscal year;

(2) cancellation provisions in the contract do not include consideration of recurring manufacturing costs of the contractor associated with the production of unfunded units to be delivered under the contract;

(3) the contract provides that payments to the contractor under the contract shall not be made in advance of incurred costs on funded units; and

(4) the contract does not provide for a price adjustment based on a failure to award a follow-on contract.

Funds appropriated in title III of this Act may be used for a multiyear procurement contract as follows:

UH-60M/HH-60M and MH-60R/MH-60S Helicopter Airframes; and MH-60R/S Mission Avionics and Common Cockpits.

The committee's report states the following:

V-22 OSPREY

Fiscal year 2012 marks the final year of the successful V-22 multiyear procurement effort conducted by the Navy and Air Force. Multiyear procurements are advantageous in that they provide savings and program stability to platforms when compared to annual procurements. The drawback is that they reduce available budgetary flexibility. The Committee believes that if a platform meets the established criteria for a multiyear procurement and there is a high probability that the platform will be purchased for the period of the multiyear procurement, a multiyear procurement provides the best value for the taxpayer. The Committee believes that the performance of the V-22 Osprey aircraft has laid to rest all doubts about its operational effectiveness. The aircraft has been successfully deployed to forward operating areas since 2007 and most recently was instrumental in the recovery of a downed Air Force pilot during the Libya conflict. In view of the continuing need for sustained procurement of the V-22, the Committee urges the Department of Defense to consider a request for authority for a new multiyear procurement contract in the fiscal year 2013 budget. (p. 143)

Appendix. Programs Approved for MYP in Annual DOD Appropriations Acts Since FY1990

Table A-I. Programs Approved for MYP in Annual DOD Appropriations Acts Since FY1990

Fiscal Year	Bill/Law	Section on MYP	Program(s) Approved for MYP
2011	H.R. 1473/P.L. 112-10	Section 8010 of Division A	Navy MH-60R/S helicopter systems
2010	H.R. 3326/P.L. 111-118	Section 8011 of Division A	F-18 aircraft variants
2009	H.R. 2638/P.L. 110-329	Section 8011 of Division C	SSN Virginia class submarine
2008	H.R. 3222/P.L. 110-116	Section 8010 of Division A	Army CH-47 Chinook helicopter M1A2 Abrams System Enhancement Package upgrades M2A3/M3A3 Bradley upgrades SSN Virginia Class submarine
2007	H.R. 5631/P.L. 109-289	Section 8008 of Division A	C-17 Globemaster F-22A MH-60R Helicopters MH-60R Helicopter mission equipment V-22 Osprey
2006	H.R. 2863/P.L. 109-148	Section 8008 of Division A	UH-60/MH-60 helicopters C-17 Globemaster Apache Block II Conversion Modernized Target Acquisition Designation Sight/Pilot Night Vision Sensor (MTADS/PNVS)
2005	H.R. 4613/P.L. 108-287	Section 8008	Lightweight 155mm Howitzer
2004	H.R. 2658/P.L. 108-87	Section 8008	F/A-18 aircraft E-2C aircraft Tactical Tomahawk missile Virginia Class submarine
2003	H.R. 5010/P.L. 107-248	Section 8008	C-130 aircraft FMTV F/A-18E and F engine
2002	H.R. 3338/P.L. 107-117	Section 8008 of Division A	UH-60/CH-60 aircraft C-17 F/A-18E and F engine

Fiscal Year	Bill/Law	Section on MYP	Program(s) Approved for MYP
2001	H.R. 4576/P.L. 106-259	Section 8008	Javelin missile M2A3 Bradley fighting vehicle DDG-51 destroyer UH-60/CH-60 aircraft
2000	H.R. 2561/P.L. 106-79	Section 8008	Longbow Apache helicopter Javelin missile Abrams M1A2 Upgrade F/A-18E/F aircraft C-17 aircraft F-16 aircraft
1999	H.R. 4103/P.L. 105-262	Section 8008	E-2C aircraft Longbow Hellfire missile Medium Tactical Vehicle Replacement (MTVR)
1998	H.R. 2266/P.L. 105-56	Section 8008	Apache Longbow radar AV-8B aircraft Family of Medium Tactical Vehicles
1997	H.R. 3610/P.L. 104-208	Section 8009 of Section 101(b) of Title I of Division A	Javelin missiles Army Tactical Missile System (ATACMS) Mk19-3 grenade machine guns M16A2 rifles M249 Squad Automatic Weapons M4 carbine rifles M240B machine guns Arleigh Burke (DDG-15 [sic:51] class destroyers
1996	H.R. 2126/P.L. 104-61	Section 8010	UH-60 Blackhawk helicopter Apache Longbow helicopter M1A2 tank upgrade
1995	H.R. 4650/P.L. 103-335	Section 8010	MK19-3 grenade machine guns M16A2 rifles M249 Squad Automatic Weapons M4 carbine rifles
1994	H.R. 3116/P.L. 103-139	Section 8011	[none]
1993	H.R. 5504/P.L. 102-396	Section 9013 ^a	Defense Support Satellites 23, 24 and 25 Enhanced Modular Signal Processor

Fiscal Year	Bill/Law	Section on MYP	Program(s) Approved for MYP
1992	H.R. 2521/P.L. 102-172	Section 8013	MK-48 ADCAP Torpedo UH-60 Black Hawk helicopter Army Tactical missile
1991	H.R. 5803/P.L. 101-511	Section 8014	Line of Sight-Rear (Avenger)—Pedestal Mounted Stinger Family of Medium Tactical Vehicles (FMTV) LCAC Landing Craft LHD Amphibious Ship MK-45 Gun Mount/MK-6 Ammo Hoist NAVSTAR Global Positioning Satellite (GPS) Defense Support Program Satellites 22 and 23
1990	H.R. 3072/P.L. 101-165	Section 9021 ^a	M-1 tank engines M-1 tank fire control Bradley Fighting Vehicle Family of Heavy Tactical Vehicles Maverick Missile (AGM-65D) SH-60B/F helicopter DDG-51 destroyer (two years)

Source: Table prepared by CRS based on text of bills.

a. In H.R. 5504/P.L. 102-396 and H.R. 2072/P.L. 101-165, the general provisions title was Title IX.

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