



Defense Primer: Procurement

Background

While the common use of the word *procurement* implies the process of obtaining goods or services, uses of the word *procurement* by national security experts and practitioners generally refers to a specific title within the annual National Defense Authorization Act (NDAA) and defense appropriations legislation.

Appropriations for Procurement

The Department of Defense (DOD) procurement appropriations title provides funds for non-construction-related *investment costs*, or the costs to acquire capital assets, such as an F-35 Joint Strike Fighter or a *Virginia*-class submarine. Investment costs are distinguished from *expenses*, which are consumed in the operation of the DOD. DOD uses procurement appropriations to obtain various categories of materiel, such as:

- new military hardware, such as aircraft, ships, armored vehicles, and other major equipment (e.g., radios and satellites);
- upgrades to existing equipment, including extending service life or remanufacturing existing systems;
- weapons and ammunition, ranging from air-to-air missiles to rounds for individual rifles; and
- spare parts, particularly those that are centrally managed.

Procurement funding authorized in a given fiscal year can usually be obligated over a period of three years. The most prominent exception is U.S. Navy Shipbuilding and Conversion funding, which is available for five years.

In FY2019, DOD received \$135.4 billion in base budget procurement funding (see **Table 1**), as well as \$12.6 billion in procurement funding designated for DOD overseas contingency operations (OCO).

NDAA and Defense Appropriations

For more information, see CRS In Focus IF10515, *Defense Primer: The NDAA Process*, by Valerie Heitshusen and Brendan W. McGarry and CRS In Focus IF10514, *Defense Primer: Defense Appropriations Process*, by James V. Saturno and Brendan W. McGarry.

How is DOD Procurement Funded?

In general, Congress appropriates money for defense procurement under a policy of *full funding*, which requires Congress to fund the entire procurement cost of end items (such as Sidewinder missiles or KC-46A tankers) in one fiscal year. In other words, the total funding necessary to

acquire a useable end item is approved by Congress in a single fiscal year, even though related work may span many years. In a handful of cases, programs are procured using *incremental funding*. Under incremental funding, a system's cost is divided into two or more annual portions, or increments, that can reflect the need to make annual progress payments to the contractor as the system is built. It has principally been used to procure certain ships and submarines.

Table 1. DOD Procurement Base Appropriation Subtitles, by Enacted Amounts, FY2019

Procurement Subtitle	U.S. \$ (billions)
Dept. of the Navy – Shipbuilding and Conversion	\$24.1
Dept. of the Air Force – Other	\$21.0
Dept. of the Navy – Aircraft	\$20.1
Dept. of the Air Force – Aircraft	\$17.1
Dept. of the Navy – Other	\$9.1
Dept. of the Army – Other	\$7.8
Defense-wide – Procurement	\$6.8
Dept. of the Army – Weapons and Tracked Combat Vehicles	\$4.5
Dept. of the Army – Aircraft	\$4.3
Dept. of the Navy – Weapons	\$3.7
Dept. of the Army – Missiles	\$3.1
Dept. of the Navy – Marine Corps Procurement	\$2.7
Dept. of the Air Force – Missiles	\$2.6
Dept. of the Army – Ammunition	\$2.3
Dept. of the Air Force – Space	\$2.3
Dept. of the Air Force – Ammunition	\$1.5
National Guard and Reserve Equipment	\$1.3
Dept. of the Navy – Navy and Marine Corps Ammunition	\$1.0
Defense Production Act Purchases	\$0.05
Joint Urgent Operational Needs Fund	\$0.0
TOTAL	\$135.4

Source: CRS analysis of H.Rept. 115-952, conference report to accompany H.R. 6157, 115th Cong., 2nd sess., September 13, 2018.

Note: Numbers may not add due to rounding

Figure 1. Defense Acquisition Milestones



Source: CRS graphic based on DOD Instruction 5000.02, “Operation of the Defense Acquisition System,” August 10, 2017, p.6.

Multiyear Procurement

Congress sometimes authorizes *multiyear procurement* (MYP) for programs. MYP (authorized by 10 U.S.C. §2306b) can achieve savings by committing to buy items over multiple years from a contractor for a reduced price per unit. Qualifying for MYP requires a program to meet several criteria, including significant savings, stable funding and design, and other standards. Recent examples include *Virginia*-class submarines, DDG-51 destroyers, UH-60 Blackhawk helicopters, MV-22 tilt-rotor Ospreys, and C-130J cargo aircraft.

More commonly, programs receive *advance procurement* funds for components of a unit that need to be purchased long before the unit itself is purchased. For programs using MYP, advance procurement may also be used to achieve economic order quantity, which is defined as buying enough of an item to minimize the total cost.

When Does a Program Enter Procurement?

Programs officially enter procurement after they receive Milestone C approval in the Defense Acquisition System. Prior to moving to procurement, programs are considered to be in development and are generally funded through the Research, Development, Test and Evaluation (RDT&E) appropriation title. Some programs will receive procurement funds before a formal Milestone C approval.

See **Figure 1** for a high-level overview of milestones within the Defense Acquisition System.

How Else Does DOD Purchase Goods and Services? How Does DOD Procurement Relate to Defense Contracting?

DOD is authorized and appropriated procurement funding for non-construction investments. DOD uses funding other than procurement to purchase services (e.g., research, architectural design, or cleaning services) and smaller goods (e.g., gauze or light bulbs) because such purchases are considered to be expenses rather than investments and are funded in other parts of DOD’s budget.

Goods and services from the private sector are purchased through contracts and are accounted for as contract obligations. These individual activities – most of which are too granular to be captured in appropriations data – are tracked at the level of obligations. *Obligation* is the term used when agencies enter into contracts, employ personnel, or otherwise commit to spending money.

<p style="text-align: center;">Relevant Statutes</p> <p>Title 10, U.S. Code, Part IV—Service, Supply, and Procurement.</p>
<p style="text-align: center;">CRS Products</p> <p>For information on the Defense Acquisition System, see CRS Report RL34026, <i>Defense Acquisitions: How DOD Acquires Weapon Systems and Recent Efforts to Reform the Process</i>, by Moshe Schwartz.</p> <p>For information on the full funding policy in DOD procurement, see CRS Report RL31404, <i>Defense Procurement: Full Funding Policy—Background, Issues, and Options for Congress</i>, by Ronald O’Rourke and Stephen Daggett.</p> <p>For information on special cases of procurement, see CRS Report R41909, <i>Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress</i>, by Ronald O’Rourke and Moshe Schwartz.</p> <p>For information on RDT&E funding see CRS In Focus IF10553, <i>Defense Primer: RDT&E</i>, by John F. Sargent Jr.</p> <p>For general information on defense procurement and contract acquisition, see CRS In Focus IF10600, <i>Defense Primer: Department of Defense Contractors</i>, by Heidi M. Peters and Moshe Schwartz and CRS Report R44010, <i>Defense Acquisitions: How and Where DOD Spends Its Contracting Dollars</i>, by Moshe Schwartz, John F. Sargent Jr., and Christopher T. Mann</p>
<p style="text-align: center;">Other Resources</p> <p>Department of Defense Comptroller, Defense Budget Materials, http://comptroller.defense.gov/Budget-Materials.</p> <p>DOD 7000.14R, “Financial Management Regulation,” <i>Budget Formulation and Presentation: Procurement Appropriations</i>, vol. 2B, ch. 4, November 2017, at https://comptroller.defense.gov/Portals/45/documents/fmr/Volume_02b.pdf.</p>

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IF10599