



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*—the costs to acquire capital assets, such as an F-35 Joint Strike Fighter aircraft or a *Virginia*-class submarine. Investment costs are distinguished from *expenses*—the costs of resources consumed in operating the Department, such as food and fuel. 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 rifle rounds; 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 Navy Shipbuilding and Conversion funding, which is available for five years.

The Department of Defense Appropriations Act, 2020 (Division A of P.L. 116-93) provided \$133.9 billion in procurement funding for DOD in the regular, or *base*, budget (see **Table 1**), in addition to \$11.8 billion in procurement funding designated for Overseas Contingency Operations (OCO).

NDAA and Defense Appropriations

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 AIM-9 Sidewinder missiles or KC-46A refueling

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. Incremental funding has principally been used to procure certain ships and submarines.

Table 1. DOD Procurement Appropriation Subtitles, by Enacted Base Budget Amounts, FY2020

Procurement Subtitle (Acronym)	U.S. \$ (billions)
Shipbuilding and Conversion, Navy (SCN)	\$24.0
Other Procurement, Air Force (OPAF)	\$21.4
Aircraft Procurement, Navy (APN)	\$19.6
Aircraft Procurement, Air Force (APAF)	\$17.5
Other Procurement, Navy (OPN)	\$10.1
Other Procurement, Army (OPA)	\$7.6
Procurement, Defense-Wide (PDW)	\$5.3
Procurement of Weapons and Tracked Combat Vehicles, Army (WTCV)	\$4.7
Weapons Procurement, Navy (WPN)	\$4.0
Aircraft Procurement, Army (APA)	\$3.8
Missile Procurement, Army (MIPA)	\$3.0
Procurement, Marine Corps (PMC)	\$2.9
Procurement of Ammunition, Army (PAA)	\$2.6
Missile Procurement, Air Force (MPAF)	\$2.6
Space Procurement, Air Force (SPAF)	\$2.4
Procurement of Ammunition, Air Force (PAAF)	\$1.6
Procurement of Ammunition, Navy and Marine Corps (PANMC)	\$0.8
Defense Production Act Purchases	\$0.1
TOTAL	\$133.9

Source: CRS analysis of the FY2020 Department of Defense Appropriations Act (Division A of P.L. 116-93) and accompanying Joint Explanatory Statement.

Note: Numbers may not sum due to rounding and exclude Overseas Contingency Operations (OCO) funding for procurement programs.

Figure 1. Milestones for Major Capability Acquisition



Source: CRS graphic based on DOD Instruction 5000.02, “Operation of the Adaptive Acquisition Framework,” January 23, 2020, p. 9.

Multiyear Procurement

Under 10 U.S.C. §2306b, Congress sometimes authorizes *multiyear procurement* (MYP) for programs. MYP 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 Arleigh Burke class destroyers, UH-60 Black Hawk helicopters, MV-22 Osprey tilt-rotor aircraft, and C-130J Super Hercules cargo planes.

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 that will result in the acquisition of a major capability (e.g., an aircraft carrier or armored fighting vehicle) 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 associated with major capability acquisition, one pathway within DOD’s adaptive acquisition framework.

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 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.

Relevant Statutes

Title 10, U.S. Code, Part IV—Service, Supply, and Procurement.

CRS Products

For information on the Defense Acquisition System, see CRS Report RL34026, *Defense Acquisitions: How DOD Acquires Weapon Systems and Recent Efforts to Reform the Process*, by Heidi M. Peters.

For information on the full funding policy in DOD procurement, see CRS Report RL31404, *Defense Procurement: Full Funding Policy—Background, Issues, and Options for Congress*, by Ronald O’Rourke.

For information on special cases of procurement, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O’Rourke.

For information on RDT&E funding see CRS In Focus IF10553, *Defense Primer: RDT&E*, by John F. Sargent Jr.

For general information on defense procurement and contract acquisition, see CRS In Focus IF10600, *Defense Primer: Department of Defense Contractors*, by Heidi M. Peters and CRS Report R44010, *Defense Acquisitions: How and Where DOD Spends Its Contracting Dollars*, by John F. Sargent Jr., and Christopher T. Mann

Other Resources

Department of Defense Comptroller, Defense Budget Materials, <http://comptroller.defense.gov/Budget-Materials>.

DOD 7000.14R, “Financial Management Regulation,” *Budget Formulation and Presentation: Procurement Appropriations*, vol. 2B, ch. 4, November 2017, at https://comptroller.defense.gov/Portals/45/documents/fmr/Volume_02b.pdf.

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