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Defense Primer: Procurement

Background

While the common use of the word *procurement* implies a process of obtaining goods or services, national security practitioners generally use the word to refer 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, including

- new military hardware (e.g., aircraft, ships, armored vehicles, radios, and satellites);
- upgrades to existing equipment, including service life extension or remanufacturing programs;
- weapons and ammunition (e.g., air-to-air missiles and rifle rounds); and
- spares and repair parts.

Procurement funding provided to the department 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, 2021 (Division C of P.L. 116-260) provided \$136.5 billion in procurement funding for DOD in the regular, or *base*, budget (see **Table 1**), in addition to \$6.4 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, FY2021

Procurement Subtitle (Acronym)	\$ (billions)
Aircraft Procurement, Army (APA)	\$3.5
Missile Procurement, Army (MIPA)	\$3.2
Procurement of Weapons and Tracked Combat Vehicles, Army (WTCV)	\$3.6
Procurement of Ammunition, Army (PAA)	\$2.8
Other Procurement, Army (OPA)	\$8.6
Aircraft Procurement, Navy (APN)	\$19.5
Weapons Procurement, Navy (WPN)	\$4.5
Procurement of Ammunition, Navy and Marine Corps (PANMC)	\$0.8
Shipbuilding and Conversion, Navy (SCN)	\$23.3
Other Procurement, Navy (OPN)	\$10.5
Procurement, Marine Corps (PMC)	\$2.6
Aircraft Procurement, Air Force (APAF)	\$19.2
Missile Procurement, Air Force (MPAF)	\$2.1
Procurement of Ammunition, Air Force (PAAF)	\$0.6
Other Procurement, Air Force (OPAF)	\$23.4
Procurement, Space Force (PSF)	\$2.3
Procurement, Defense-Wide (PDW)	\$5.8
Defense Production Act Purchases	\$0.2
TOTAL	\$136.5

Source: CRS analysis of the joint explanatory statement to accompany the Department of Defense Appropriations Act, 2021 (Division C of P.L. 116-260).

Note: Amounts exclude OCO funding.

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 from a contractor over multiple years for a reduced price per unit. Qualifying for MYP requires a program to achieve savings in estimated costs, receive sufficient funding, and procure items unlikely to substantially change over the multiyear period. 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 produce 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 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 7000.14-R, “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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