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

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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 due to 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 the potential impact of the current continuing resolution (CR) and sequestration on DOD’s use of MYP and BBC; 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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Multiyear Procurement and Block Buy Contracting in Defense Acquisition

Introduction

Issues for Congress

This report provides background information and issues for Congress on multiyear procurement (MYP) and block buy contracting (BBC), 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 the potential impact of the current continuing resolution (CR) and sequestration on DOD’s use of MYP and BBC; 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

Block Buy Contracting vs. Air Force’s Block Buy of Two AEHF Satellites

For FY2014, the Air Force is requesting continued procurement funding for two Advanced Extremely High Frequency (AEHF) satellites that were procured in FY2012 and partially funded in FY2012 and FY2013. Although the Air Force refers to this two-satellite procurement as a block buy, it is not an example of block buy contracting as discussed in this report. The Air Force in this instance is using the term block buy to mean something different. For further discussion of this different use of the term block buy, see “Terminology Alert: Block Buy Contracting vs. Block Buys” below.

Funding Approaches vs. Contracting Mechanisms

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. Any of

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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 (continued...)}
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.

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.

**Scope of Report**

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

This report does not discuss the Air Force’s procurement of two Advanced Extremely High Frequency (AEHF) satellites in FY2012, except, as noted above, to explain why it is not an example of block buy contracting as discussed in this report.

**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.

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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).

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.
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 FY2015-FY2019, 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 FY2015, 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 FY2015, 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 FY2015-FY2019. DOD would award this contract in FY2015, at the beginning of the five-year period, following congressional approval to use MYP for the program, and congressional appropriation of the FY2015 funding for the program. To continue the implementation of the contract over the next four years, DOD would request the FY2016 funding for the program as part of DOD’s proposed FY2016 budget, the FY2017 funding as part of DOD’s proposed FY2017 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 that was caused by developments independent of the use of MYP rather than annual contracting.

A February 2012 briefing by the Cost Assessment and Program Evaluation (CAPE) office within the Office of the Secretary of Defense (OSD) states that “MYP savings analysis is difficult due to the lack of actual costs on the alternative acquisition path, i.e., the path not taken.” The briefing states that CAPE up to that point had assessed MYP savings for four aircraft procurement programs—F/A-18E/F strike fighters, H-60 helicopters, V-22 tilt-rotor aircraft, and CH-47F helicopters—and that CAPE’s assessed savings ranged from 2% to 8%.

A 2008 Government Accountability Office (GAO) report stated that

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6 Slide 12 from briefing entitled “Multiyear Procurement: A CAPE Perspective,” given at DOD cost analysis symposium, February 15-17, 2012, posted at InsideDefense.com (subscription required) May 14, 2012. Slide 12 also stated that these assessed savings were based on comparing CAPE’s estimate of what the programs would cost under annual contracting (which the briefing refers to as single-year procurement or SYP) to the contractor’s MYP proposal.
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.7

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.8 EOQ purchases can reduce the procurement cost of the weapons being procured under the MYP contract by allowing the manufacturers of components to take maximum advantage of production economies of scale that are possible with batch orders.9

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8 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.

9 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 (continued...)}
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.)

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.

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.

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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.


10 Annual contracts can also include cancellation penalties.
Multiyear Procurement and Block Buy Contracting in Defense Acquisition

- **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.11 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).12

- **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 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.13

*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.

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11 §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.

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

13 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.
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. Congressional approval for MYP contracts with a value of more than $500 million must occur in two places: an annual DOD appropriations act and an act other than the annual DOD 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.

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14 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.

15 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.”

16 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.”
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. 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.

A February 2012 briefing by the Cost Assessment and Program Evaluation (CAPE) office within the Office of the Secretary of Defense (OSD) shows that the total dollar value of DOD MYP contracts has remained more or less stable between FY2000 and FY2012 at roughly $7 billion to $13 billion per year. The briefing shows that since the total size of DOD’s procurement budget has increased during this period, the portion of DOD’s total procurement budget accounted for by programs using MYP contracts has declined from about 17% in FY2000 to less than 8% in FY2012. The briefing also shows that the Navy makes more use of MYP contracts than does the Army or Air Force, and that the Air Force made very little use of MYP in FY2010-FY2012.

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, 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.

### 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. BBC is also similar to MYP in that DOD needs congressional approval for each use of BBC.

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21 Using the hypothetical example introduced earlier involving the procurement of 20 aircraft over the five-year period FY2013-FY2017, DOD would follow the same general path as it would under MYP: DOD would issue one contract covering all 20 aircraft in FY2013, at the beginning of the five-year period, following congressional approval to use BBC for the program, and congressional appropriation of the FY2013 funding for the program. To continue the implementation of the contract over the next four years, DOD would request the FY2014 funding for the program as part of DOD’s proposed FY2014 budget, the FY2015 funding as part of DOD’s proposed FY2015 budget, and so on.
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 (FY2010-FY2015).
- 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 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 contacting 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, for FY2014, the Air Force is requesting continued procurement funding for two Advanced Extremely High Frequency (AEHF) satellites that were procured in FY2012 and partially funded in FY2012 and FY2013. (An alternative approach would have been to procure one of the satellites in FY2012 and another in a subsequent year.) The Air Force is referring to this two-satellite procurement 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 FY2010-FY2015, to the two LCS builders.22

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,

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

**MYP and BBC vs. Contracts with Options**

*What’s the difference between an MYP or block buy contract and a contract with options?* The military services sometimes use contracts with options to procure multiple copies of an item that are procured over a period of several years. The Navy, for example, used a contract with options to procure Lewis and Clark (TAKE-1) class dry cargo ships that were procured over a period of several years. A contract with options can be viewed as somewhat similar to an MYP or block buy contract in that a single contract is used to procure several years’ worth of procurement of a given kind of item.

There is, however, a key difference between an MYP or block buy contract and a contract with options: In a contract with options, the service is under no obligation to exercise any of the options, and a service can choose to not exercise an option without having to make a penalty payment to the contractor. In contrast, in an MYP or block buy contract, the service is under an obligation to continue implementing the contract beyond the first year, provided that Congress appropriates the necessary funds. If the service chooses to terminate an MYP or block buy contract, and does so as a termination for government convenience rather than as a termination for contractor default, then the contractor can, under the contract’s termination for convenience clause, seek a payment from the government for cost incurred for work that is complete or in process at the time of termination, and may include the cost of some of the investments made in anticipation of the MYP or block buy contract being fully implemented. The contractor can do this even if the MYP or block buy contract does not elsewhere include a provision for a cancellation penalty.²³

**Issues for Congress**

Potential issues for Congress concerning MYP and BBC include the potential impact of the current continuing resolution (CR) and sequestration on DOD’s use of MYP and BBC; 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.

**Potential Impact of Continuing Resolution (CR) and Sequestration**

*What is the potential impact of the continuing resolution (CR) and sequestration on DOD’s use of MYP and BBC?*

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²³ Source: Telephone discussion with Elliott Branch, Deputy Assistant Secretary of the Navy for Acquisition & Procurement, October 3, 2011, and email from Navy Office of legislative Affairs, October 11, 2011. Under the termination for convenience clause, the contractor can submit a settlement proposal to the service, which would become the basis for a negotiation between the contractor and the service on the amount of the payment.
Continuing Resolution (CR)

The CR that provides funding for federal government operations through January 15, 2014—H.R. 2775/P.L. 113-46 of October 17, 2013—could affect DOD’s use of MYP and BBC in at least four ways:

- As discussed below (see “Legislative Activity for FY2014”), DOD in its FY2014 budget submission is requesting congressional approval for using MYP in two programs—the C-130J cargo aircraft program and the E-2D Advanced Hawkeye (AHE) carrier-based airborne early warning aircraft program. H.R. 2775/P.L. 113-46 does not contain provisions approving the use of MYP for these two programs.

- H.R. 2775/P.L. 113-46 contains a provision—Section 102(b)—that states: “No appropriation or funds made available or authority granted pursuant to section 101 for the Department of Defense shall be used to initiate multi-year procurements utilizing advance procurement funding for economic order quantity procurement unless specifically appropriated later.” This provision effectively prohibits DOD, through January 15, 2014, from awarding new MYP contracts that include EOQ purchases, even for programs that have received congressional approval for use of MYP. This prohibition could act as an additional barrier for the proposed C-130J and E-2D MYP contracts, and could also impact the award of the Virginia-class attack submarine MYP contract that DOD wants to initiate in FY2014, which Congress provided approval for as part of its action on DOD’s FY2013 budget.

- Because of the way that the annual DOD appropriations act is written, funding for Navy shipbuilding programs under a CR is managed at the line-item level, rather than at the account level, as is the case with other DOD acquisition accounts. As a result, even if the Navy were able to initiate its planned MYP contract for the Virginia-class attack submarine program in FY2014, procurement and advance procurement (AP) funding for the program in FY2014 would be based on the line-item amounts provided for the program in FY2013. This could make it difficult for the Navy to properly structure the available funding for the first year of the new MYP contract. In particular, it might be difficult for the Navy to fully fund the EOQ purchases scheduled for the first year of the contract. Reducing these purchases due to limits on funding could reduce the savings generated by the contract.

- H.R. 2775/P.L. 113-46, also contains a provision—Section 102(a)(2)—that effectively prohibits DOD procurement programs from increasing their production rates from FY2013 to FY2014. This provision, which is often included in CRs covering DOD, could impact the execution of any existing MYP contract that calls for an increase in quantity in FY2014 compared to FY2013. A failure by DOD to increase the quantity to the number called for in an MYP contract could cause that contract to be terminated.
Sequestration

Independent from the CR-related considerations above, a sequester on FY2014 funding, by reducing funding for DOD procurement programs at the line-item level, could impact the execution of existing MYP contracts. In particular, a shortage of funding at the line-item level that prevents DOD from procuring as many items in FY2014 as are called for under an MYP contract could cause the contract to be terminated.

At an October 23, 2013, hearing before the Tactical Air and Land Forces subcommittee of the House Armed Services Committee on the impacts of a CR and sequestration on acquisition and modernization, Department of the Navy officials testified that the CR

prohibits new multi-year procurement contracts planned for the C-130J and E-2D aircraft and associated mission equipment, delaying awards to industry and impacting production lines, delivery schedules, and most importantly, additional cost levied on pressurized budgets....

MV-22B Osprey procurement will be reduced by up to three aircraft if sequestered in FY 2014. This action would threaten the V-22 Multi-Year Procurement (MYP) contract and require price renegotiation for all remaining aircraft. This significantly reduces the estimated $1 billion in cost savings over the span of the current MYP contract....

Overall, relative to the Budget request, sequestration in FY 2014 would result in the loss of an estimated 25 aircraft (2 F-35, 4 EA-18G, 3 MV-22, 4 H-1, 1 E-2D, 2 P-8A, 1 KC-130J, 3 MH-60, 1 UC-12, and 4 JPATS) across the Navy and Marine Corps and the loss of multi-year procurement contract savings....

Sequestration delays fielding critical capabilities, breaks multi-year procurements, and reduces the quantity of strike and ship self-defense weapons.

In his opening remarks at the hearing, Sean Stackley, the Assistant Secretary of the Navy for Research, Development, and Acquisition (i.e., the Navy’s acquisition executive), stated that

the combined impacts of the continuing resolution and sequestration deny us the ability to execute the multi-air [sic: multiyear] procurements this committee authorized for E-2D Advanced Hawkeye, the MB-22 [sic: MV-22], the MH-60, DDG-51 destroyers, Virginia class submarines, and the Evolved SeaSparrow Missile, placing at risk greater than $5 billion savings these multi-years provide.

Later in the hearing, the following exchange occurred:

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24 Sequesters are levied at the program, project, and activity (PPA) level, which for DOD acquisition programs is generally defined to mean at the line-item level.

25 Statement of Hon. Sean J. Stackley, Assistant Secretary of the Navy (Research, Development and Acquisition), and Vice Admiral Allen G. Myers, USN, Deputy Chief of Naval Operations, Integration of Capabilities and Resources, and Lieutenant General Glenn M. Walters, USMC, Deputy Commandant for Programs and Resources, Before the Tactical Air and Land Forces Subcommittee of the House Armed Services Committee on Impacts of A Continuing Resolution and Sequestration on Department of the Navy Acquisition, Programming & Industrial Base, October 23, 2013, pp. 4, 7, 8.

26 Transcript of hearing.
REPRESENTATIVE JIM BRIDENSTINE: Thank you, Mr. Chairman. I appreciate the—-the comments on—-on IOC [initial operational capability]. Beyond IOC, when you talk about multi-year procurement, I’m a Navy pilot by trade. I flew E-2 Hawkeyes and F-18s and we worked hard to get multi-year procurement of the E-2D, something I thought was critically important for our carriers. And my concern is I’ve heard testimony from Admiral [Jonathan] Greenert [the Chief of Naval Operations] that because of the sequester, we're in a situation where we're going to have to give up an E-2 Hawkeye in—in the procurement process and—and of course, the—the reason is the cost per unit is going to be higher if we can't do multi-year procurement, and I guess my question would be, there’s a—there’s a—there’s a number of concerns. Number one, the cost per unit, of course, is going to be higher than it otherwise would be, so that’s a problem for the—for the taxpayers. And beyond that, we—we have an industrial base that’s going to, in the future, want to enter into long-term contracts for multi-year procurement. And now there's—there's—there’s a political risk in doing so beyond just the technical risk.

And if—if I guess, Mr. Stockley (ph) [sic: Stackley], if you could comment on how does—the sequester affect multiyear procurement?

ASSISTANT SECRETARY OF THE NAVY SEAN STACKLEY: Yes, sir. And there’s—-there’s two parts to this. And I think—since you brought up E-2D I'll talk to that one specifically.

E-2Ds multiyear procurement authorization is—is awaiting passage of the Defense Authorization Act. So it’s been supported by both House and Senate, but we cannot move forward without that authorization. So step one, is we need it authorized. And, as well, it has to be included in the appropriations bill. So we need an authorizations bill and an appropriations bill that provide for the E-2D multiyear.

The—the second impact, when we put together the multiyear construct for E-2D five years' procurement, 32 aircraft, that—that brought the requirement for substantial savings that goes with the certification. When you—when you look at the impact of sequestration first—in the first year of the multiyear, where you—you're at risk of losing the—one of the first five aircraft, and then the potential over the five years of continuing sequestration, now you've got this destabilizing impact on a program plan that’s trying to bring stability and bring the affordability that comes with that.

So what we're trying to hold on to here is the stability that the multiyear provides, not just for the affordability it gives us, but also for the industrial base. And we're trying to do that in the face of this storm called sequestration, and we're working with industry, the—the contractor as we negotiate this multiyear. And we're waiting on Congress to pass it in both the authorization and appropriations bills so we can execute it.

And what we have to do is we have to do this in such a fashion that if downstream there is a—a another shift in terms of the budget that gets—we will—we will—we will plan for the multiyear that we provided, but if the budget—if there's a (inaudible) shift in the budget then that may well impact the E-2D program. We have to construct this so we don't lose the savings for the aircraft that we ultimately buy.

BRIDENSTINE: As far as contracts, would there be a cancellation of contracts as a result of the sequester, the longer term contracts?

STACKLEY: If—if you look across the board in—in terms of Navy multiyears, I think we have seven multiyears on the books right now. And one of them, for example, is the MB-22 (ph) [sic: MV-22]. So that’s an ongoing multiyear. Sequestration in 2014 threatens three of
Multiyear Procurement and Block Buy Contracting in Defense Acquisition

the aircraft in that budget year. That would—that would break the terms of that multiyear contract.

I will tell you that the savings that we get across the multiyear are just—they're—they're core to our total program plan. So regardless of what comes out of the Congress in terms of appropriations in 2014, we are gonna continue to work with industry to hold together the goodness of the multiyear going forward. And for each of the multiyears that we're staring at we're gonna go down that same path.

BRIDENSTINE: When you think about the future of multiyear contracts, would it—would it seem, you know, I guess, reasonable that industry would build into the price of their products the risk that multiyear contracts might not be worth what they otherwise, you know, indicate on paper, and as such they would—we wouldn't benefit as much from future multiyear contracts? Is that a fair assessment?

STACKLEY: Almost. The—frankly, the risk is on the government's part. Because when we sign up to that multiyear, we're making a commitment to a certain quantity over a number of years.

Now, what industry provides back to us is a cancellation ceiling. If they cancel at any point in the program, we understand what our liability is associated with some of the non-recurring costs that they've occurred in order to achieve the savings that the multiyear promised. If break—if we the government break our part of the contract then we're in a negotiation situation with industry to make it right for whatever we ultimately procure on the balance of the multiyear. And that negotiation is a bilateral negotiation, and we're gonna ultimately arrive at what is fair and reasonable for both parties.27

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”). Since the value of MYP contracts equated to less than 8% of DOD’s procurement budget in FY2012, compared to about 17% of DOD’s procurement budget in FY2000, MYP likely could be used more frequently without exceeding past experience regarding the share of DOD’s procurement budget accounted for by MYP contracts.

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

- 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 FY2014

MYP Proposals in DOD’s FY2014 Budget

DOD for FY2014 is requesting congressional approval for the following MYP arrangements:

- C-130J cargo aircraft variants to be procured in FY2014-FY2018 through the Aircraft Procurement, Air Force (APAF) appropriation account; and
- E-2D Advanced Hawkeye (AHE) carrier-based airborne early warning aircraft to be procured in FY2014-FY2018 through the Aircraft Procurement, Navy (APN) appropriation account.  


House

H.R. 1960 as reported by the House Armed Services Committee (H.Rept. 113-102 of June 7, 2013) authorizes the use of MYP for E-2D aircraft (Section 121), C-130J aircraft (Section 131), ballistic missile defense ground-based interceptors (GBIs) (Section 141), and tactical wheeled vehicles (Section 142). Regarding Section 142, H.Rept. 113-102 states:

Section 142—Multiyear Procurement Authority for Tactical Wheeled Vehicles

This section would authorize the Secretary of Defense to enter into a 5-year pilot program for the multiyear procurement of tactical wheeled vehicles. This section would also require the Secretary to submit to the congressional defense committees within 180 days after the date of the enactment of this Act, their intent to award such a contract, and if not, justification for not pursuing the pilot program. If the program is implemented, this section would also direct the Secretary of Defense to submit, as part of the Department’s justification materials in support of the President’s annual budget request, detailed information on the status, progress, and challenges associated with implementation of the pilot program.

The committee notes that the Department of the Army, the Department of the Navy, and the Department of the Air Force have validated requirements for tactical wheeled vehicles. The committee also notes that the Department of Defense has procured certain tactical wheeled vehicles, including the Family of Medium Tactical Vehicles, the Medium Tactical Wheeled Vehicle Replacement, and the Family of Heavy Tactical Vehicles, through multiyear procurement contracts and achieved significant cost savings. (Page 42)

Senate

S. 1197 as reported by the Senate Armed Services Committee (S.Rept. 113-44 of June 20, 2013) authorizes the use of MYP for E-2D aircraft (Section 121) and C-130J aircraft (Section 151).

Section 801 of the bill as reported states:

SEC. 801. RESTATEMENT AND REVISION OF REQUIREMENTS APPLICABLE TO MULTIYEAR DEFENSE ACQUISITIONS TO BE SPECIFICALLY AUTHORIZED BY LAW.

(a) In General- Subsection (i) of section 2306b of title 10, United States Code, is amended to read as follows:

'(i) Defense Acquisitions Specifically Authorized by Law- (1) In the case of the Department of Defense, a multiyear contract in amount equal to or greater than $500,000,000 may not be entered into under this section unless the contract is specifically authorized by law in an Act other than an appropriations Act.

'(2) In submitting a request for a specific authorization by law to carry out a defense acquisition program using multiyear contract authority under this section, the Secretary shall include in the request a report containing preliminary findings of the agency head required in paragraphs (1) through (6) of subsection (a) together with the basis for such findings.

'(3) A multiyear contract may not be entered into under this section for a defense acquisition program that has been specifically authorized by law to be carried out using multiyear contract authority unless the Secretary of Defense certifies in writing, not later than 30 days before entry into the contract, that each of the following conditions is satisfied:

'(A) The Secretary has determined that each of the requirements in paragraphs (1) through (6) of subsection (a) will be met by such contract and has provided the basis for such determination to the congressional defense committees.

'(B) The Secretary’s determination under subparagraph (A) was made after the completion of a cost analysis performed by the Director of Cost Assessment and Program Analysis and such analysis supports the findings.

'(C) The system being acquired pursuant to such contract has not been determined to have experienced cost growth in excess of the critical cost growth threshold pursuant to section 2433(d) of this title within 5 years prior to the date the Secretary anticipates such contract (or a contract for advance procurement entered into consistent with the authorization for such contract) will be awarded.

'(D) A sufficient number of end items of the system being acquired under such contract have been delivered at or within the most current estimates of the program acquisition unit cost or procurement unit cost for such system to determine that current estimates of such unit costs are realistic.

'(E) During the fiscal year in which such contract is to be awarded, sufficient funds will be available to perform the contract in such fiscal year, and the future-years defense program for such fiscal year will include the funding required to execute the program without cancellation.

'(F) The contract is a fixed price type contract.

'(G) The proposed multiyear contract provides for production at not less than minimum economic rates given the existing tooling and facilities.
(4) If for any fiscal year a multiyear contract to be entered into under this section is authorized by law for a particular procurement program and that authorization is subject to certain conditions established by law (including a condition as to cost savings to be achieved under the multiyear contract in comparison to specified other contracts) and if it appears (after negotiations with contractors) that such savings cannot be achieved, but that substantial savings could nevertheless be achieved through the use of a multiyear contract rather than specified other contracts, the President may submit to Congress a request for relief from the specified cost savings that must be achieved through multiyear contracting for that program. Any such request by the President shall include details about the request for a multiyear contract, including details about the negotiated contract terms and conditions.

(5)(A) The Secretary may obligate funds for procurement of an end item under a multiyear contract for the purchase of property only for procurement of a complete and usable end item.

(B) The Secretary may obligate funds appropriated for any fiscal year for advance procurement under a contract for the purchase of property only for the procurement of those long-lead items necessary in order to meet a planned delivery schedule for complete major end items that are programmed under the contract to be acquired with funds appropriated for a subsequent fiscal year (including an economic order quantity of such long-lead items when authorized by law).

(6) The Secretary may make the certification under paragraph (3) notwithstanding the fact that one or more of the conditions of such certification are not met, if the Secretary determines that, due to exceptional circumstances, proceeding with a multiyear contract under this section is in the best interest of the Department of Defense and the Secretary provides the basis for such determination with the certification.

(7) The Secretary may not delegate the authority to make the certification under paragraph (3) or the determination under paragraph (6) to an official below the level of Under Secretary of Defense for Acquisition, Technology, and Logistics.

(b) Conforming Amendment- Subsection (a)(7) of such section is amended by striking subparagraphs (C) through (F) of paragraph (1) of subsection (i) and inserting subparagraphs (C) through (F) of subsection (i)(3).

(c) Effective Date- The amendments made by this section shall take effect on the date of the enactment of this Act, and shall apply with respect to requests for specific authorization by law to carry out defense acquisition programs using multiyear contract authority that are made on or after that date.

Regarding Section 801, S.Rept. 113-44 states:

Restatement and revision of requirements applicable to multiyear defense acquisitions to be specifically authorized by law (sec. 801)

The committee recommends a provision that would clarify and reorganize the reporting and certification requirements of the Department of Defense when requesting specific authorization for multiyear contract authority.

Section 2306b of title 10, United States Code, requires the Secretary of Defense, in the case of a contract equal to or greater than $500.0 million, to certify that certain requirements will be met by the proposed contract no later than March 1st of the year in which the legislative authority to enter into such contract is requested. The Secretary must send a notification of the findings regarding the same requirements 30 days before award of the contract.
The committee finds value in both the certification and the notification, but, believes that the timing is reversed. The recommended provision would reorganize the timeline so the Secretary provides the initial findings of the enumerated requirements when requesting multiyear contract authority and then certifies the completed findings prior to contract award. The committee believes this will provide more reasonable and complete information. (Page 137)

FY2014 DOD Appropriations Act (H.R. 2397/S. 1429)

House

Section 8010 of H.R. 2397 as reported by the House Appropriations Committee (H.Rept. 113-113 of June 17, 2013) authorizes the use of MYP for E-2D aircraft, Virginia class attack submarines, C-130J aircraft, and ballistic missile defense ground-based interceptors (GBIs). 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 advance 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:

E-2D Advanced Hawkeye, SSN 774 Virginia class submarine, KC-130J, C-130J, HC-130J, MC-130J, AC-130J aircraft, Ground-Based Midcourse Defense System Ground-Based Interceptors, and government furnished equipment.

Senate

Section 8010 of S. 1429 as reported by the Senate Appropriations Committee (S.Rept. 113-85 of August 1, 2013) authorizes the use of MYP for E-2D aircraft, Virginia class attack submarines, and C-130J aircraft. 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 advance 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:

E-2D Advanced Hawkeye, SSN 774 Virginia class submarine, KC-130J, C-130J, HC-130J, MC-130J, AC-130J aircraft, and government-furnished equipment.
## Appendix. Programs Approved for MYP in Annual DOD Appropriations Acts Since FY1990

### Table A-1. Programs Approved for MYP in Annual DOD Appropriations Acts Since FY1990

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Bill/Law</th>
<th>Section on MYP</th>
<th>Program(s) Approved for MYP</th>
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<tr>
<td>2011</td>
<td>H.R. 1473/P.L. 112-10</td>
<td>Section 8010 of Division A</td>
<td>Navy MH-60R/S helicopter systems</td>
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<td>2010</td>
<td>H.R. 3326/P.L. 111-118</td>
<td>Section 8011 of Division A</td>
<td>F-18 aircraft variants</td>
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<td>2009</td>
<td>H.R. 2638/P.L. 110-329</td>
<td>Section 8011 of Division C</td>
<td>SSN Virginia class submarine</td>
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<td>2006</td>
<td>H.R. 2863/P.L. 109-148</td>
<td>Section 8008 of Division A</td>
<td>UH-60/MH-60 helicopters C-17 Globemaster Apache Block II Conversion Modernized Target Acquisition Designation Sight/Pilot Night Vision Sensor (MTADS/PNVS)</td>
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<tr>
<td>2005</td>
<td>H.R. 4613/P.L. 108-287</td>
<td>Section 8008</td>
<td>Lightweight 155mm Howitzer</td>
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<td>Fiscal Year</td>
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**Source:** Table prepared by CRS based on text of bills.

a. In H.R. 5504/P.L. 102-396 and H.R. 3072/P.L. 101-165, the general provisions title was Title IX.
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