



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 6, 2009

S. 454

Weapon Systems Acquisition Reform Act of 2009

As reported by the Senate Committee on Armed Services on April 2, 2009

SUMMARY

S. 454 would make several changes to the Department of Defense's (DoD's) acquisition procedures and regulations for Major Defense Acquisition Programs (MDAPs). In addition, the bill would require DoD to create the positions of Director of Developmental Test and Evaluation and Director of Independent Cost Assessment within the Office of the Secretary of Defense, and would result in the reorganization of some existing programs and activities under those new positions.

CBO estimates that implementing S. 454 would cost about \$90 million over the 2010-2014 period, assuming the appropriation of the necessary funds. CBO's estimate reflects the direct costs of implementing S. 454. Although S. 454 might yield improvements in the efficiency and effectiveness of DoD's acquisition system for MDAPs over time, CBO has no basis for determining whether such improvements would occur or to what extent they might result in net savings to the government.

S. 454 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 454 is shown in the following table. The costs of this legislation fall within budget function 050 (national defense).

	By Fiscal Year, in Millions of Dollars					2010- 2014
	2010	2011	2012	2013	2014	
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Director of Developmental Testing & Evaluation						
Estimated Authorization Level	5	5	5	5	5	25
Estimated Outlays	5	5	5	5	5	25
Technology Readiness Assessments						
Estimated Authorization Level	7	7	7	7	8	36
Estimated Outlays	7	7	7	7	8	36
Director of Independent Cost Assessment						
Estimated Authorization Level	6	6	6	7	7	32
Estimated Outlays	5	6	6	6	7	30
Total Changes						
Estimated Authorization Level	18	18	18	19	20	93
Estimated Outlays	17	18	18	18	20	91

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 454 will be enacted in fiscal year 2009, and that the estimated authorizations will be appropriated starting in fiscal year 2010.

Title I – Acquisition Organization

Title I would make several changes to the organizational structure of the Office of the Secretary Defense (OSD), expand reporting requirements in the areas of cost estimation and system engineering, and encourage more extensive analysis of critical technologies earlier in the acquisition process. CBO estimates that implementing title I would cost \$17 million in 2010 and \$91 million over the 2010-2014 period.

Director of Developmental Test and Evaluation. Section 102 would reestablish the position of Director of Developmental Test and Evaluation (DT&E). The Director of DT&E would report to the Undersecretary of Defense for Acquisition, Technology and Logistics (USD AT&L), and would be responsible for developing policies governing DT&E activities within DoD. The director also would be required to monitor and review the DT&E activities of DoD’s major acquisition programs and submit an annual report to the Congress on such activities during the preceding fiscal year. DoD formerly had a

Director of DT&E. In an effort to consolidate testing activities, the position of Director of DT&E was eliminated and many responsibilities of the office were moved to the Director of Operational Testing and Evaluation or elsewhere within AT&L.

In 2000, the last year in which the Director of DT&E received a direct appropriation, approximately \$250 million was appropriated to the Director to conduct various testing activities. In 2001, those funds were requested in and appropriated to two other accounts (the Research, Development, Test and Evaluation, Defense-wide account, and the Operational Test and Evaluation account). According to DoD, S. 454 would most likely result in an appropriation to fund the reestablished Director of DT&E. (CBO assumes that since the activities covered by those amounts also would be carried out by the reestablished Director's Office, those two accounts would not need an increase in funding.) In addition, DoD estimates that implementing section 102 would require approximately 20 additional staff within OSD to assist the new director in performing duties specified by the bill. Based on this information, CBO estimates that implementing section 102 would cost approximately \$5 million in 2010 and \$25 million over the 2010-2014 period.

Technology Readiness Assessments. Section 103 would require the Director of Defense Research and Engineering (DDR&E) to periodically review the technological maturity and integration risk of technologies critical to the success of DoD's major defense acquisition programs and report the findings to the USD AT&L. Such reviews currently take place at Milestones B and C in the defense acquisition process. According to DoD, although the language in section 103 would provide latitude in deciding when to conduct such reviews, it might lead to increased emphasis on conducting such reviews earlier in the acquisition process and updating such assessments on a more regular basis.

Assuming readiness assessments for all MDAPs also were done at Milestone A and updates were done every three years, the number of assessments conducted annually by the DDR&E would be increase from 20 to 70. The costs of conducting these assessments would be incurred by both the DDR&E and the services. According to DoD, approximately 10 additional staff would be required in to assist the DDR&E in conducting these assessments, which CBO estimates would cost approximately \$2 million on an annual basis. The costs incurred by the services for conducting such assessments can vary from approximately \$50,000 to \$300,000 depending on the number of critical technologies that are under review during an assessment; the average cost of such assessments is approximately \$100,000. Based on this information, CBO anticipates the annual cost to the services would increase by about \$5 million. In total, CBO estimates that implementing section 103 would cost \$7 million in 2010 and \$36 million over the 2010-2014 period.

Director of Independent Cost Analysis. Section 104 would establish the position of the Director of Independent Cost Assessment within OSD. The Director would be responsible for prescribing DoD policies on cost estimation and analysis, monitoring, and reviewing cost estimates within the department, and conducting independent cost estimates on programs for which the USD AT&L is responsible for advancing through the acquisition process. In addition, section 104 would transfer the staff and functions of the Cost Analysis Improvement Group, which is currently under the direction of the Director of Program Analysis and Evaluation (PA&E), to the new Director.

CBO anticipates that implementing section 104 would require an increase of approximately 25 full-time staff within OSD. The additional staff would be needed to conduct the additional cost analyses and prepare the reports required by the bill. Additional personnel also would be required to replace personnel transferred from PA&E, which would still require some cost analysis and estimation. Based upon this information, CBO estimates that implementing section 104 would cost approximately \$5 million in 2010 and \$30 million over the 2010-2014 period.

Title II – Acquisition Policy

Title II would modify the procedures used by DoD to develop and acquire weapons systems and programs. Specifically:

- Section 201 would require DoD to implement mechanisms to ensure, during the early stages of the acquisition process, that officials consider the tradeoffs among the cost and performance of the system and the delivery schedule.
- Section 202 would require DoD to complete certain design reviews—for all MDAPs—earlier in the acquisition process in order to help eliminate uncertainties that ultimately could cause cost overruns and delays in the delivery of the systems.
- Section 203 would require DoD to adopt acquisition plans for MDAPs that—when cost-effective—would ensure competition for prime contracts and subcontracts throughout the life cycle of the program.

- Section 204 would direct the Secretary of Defense to terminate MDAPs that have experienced cost growth above levels specified in law unless the Secretary makes various certifications to the Congress, including: that the program is essential to national security; that there are no alternatives to the program that will provide equal or greater capability “to meet a joint military requirement” at less cost; that new cost estimates for the program were arrived at in accordance with statutory requirements and are reasonable; and the management structure for the program is adequate to manage and control the program’s cost.
- Section 205 would require DoD to prohibit—with some exceptions—contractors who are advising the department on the engineering and technical aspects of major weapons systems from also participating in developing or constructing those same systems. This section also would create an Organizational Conflict of Interest Review Board to advise DoD personnel on policies relating to conflicts of interest by contractors.
- Section 206 would require DoD to establish an awards program designed to recognize excellent performance by teams and individuals who make improvements to the cost, schedule, and performance of acquisition programs.

Based on information from DoD, CBO estimates that implementing title II would not significantly increase the administrative costs of the department beyond the amounts reflected for title I above. DoD states that it already requires consideration of tradeoffs (among cost, schedule, and performance) during the acquisition process and already performs many of the design reviews mandated by the bill. The establishment of an Organizational Conflict of Interest Review Board would involve a relatively small number of people, and portions of the awards program that would be mandated by the bill are similar to existing DoD achievement awards.

If, however, the administrative burden associated with implementing title II proves greater than anticipated, the resulting increase in costs arising from S. 454 would be greater than amounts shown in the table.

The modifications to the acquisition processes mandated by title II, combined with the organizational changes contained in title I, might improve the efficiency and effectiveness of DoD’s acquisition system for MDAPs. However, CBO has no basis for determining whether such improvements would result in net savings to the government, and any such savings would be subject to reductions in future appropriations.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 454 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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