



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 5, 2009

S. 1677 **Defense Production Reauthorization Act of 2009**

*As cleared by the Congress on September 23, 2009,
and signed by the President on September 30, 2009*

SUMMARY

S. 1677, enacted as Public Law 111-67, authorizes the appropriation of such sums as may be necessary to carry out the provisions of the Defense Production Act of 1950 (DPA). CBO estimates that implementing the act will cost \$775 million over the 2010-2014 period, assuming appropriation of the necessary amounts. The act will not affect direct spending or revenues.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S.1677 is shown in the following table. Most of the costs of this legislation fall within budget function 050 (national defense).

	By Fiscal Year, in Millions of Dollars					2010-
	2010	2011	2012	2013	2014	2014

CHANGES IN SPENDING SUBJECT TO APPROPRIATION

Estimated Authorization Level	150	200	250	300	300	1,200
Estimated Outlays	50	100	150	225	250	775

BASIS OF ESTIMATE

For this estimate, CBO assumes that the estimated authorizations will be appropriated near the start of each fiscal year beginning with 2010, and that outlays will follow historical patterns for existing programs.

S. 1677, enacted as Public Law 111-67, reauthorizes many expiring provisions of the Defense Production Act of 1950. To ensure or enable production of materials, resources, equipment, and technologies that are essential to the national defense, the DPA authorizes the President to:

- Require preferential performance on contracts and orders to meet national defense requirements, and to allocate materials, services, and facilities among the public and private sectors as necessary to promote the national defense in an emergency (title I);
- Make loan guarantees (section 301), direct loans (section 302), direct purchases, and to provide purchase guarantees and production subsidies (section 303); and
- Void international mergers that would adversely affect national security, and enable cooperative agreements between companies that might otherwise violate antitrust laws (title VII).

The act authorizes the appropriation of such sums as may be necessary for those purposes.

In recent years, the Department of Defense (DoD) has used the authorities in the DPA to provide the equipment and facilities necessary to produce and refine beryllium metal for use in various military satellites and other defense programs; to expand domestic sources for certain high-performance electronic components used in radars, electronic warfare systems, and power control systems; to produce radiation-hardened microelectronics; and to support other essential industries. Over the last five years, annual appropriations for such purposes have more than doubled from \$43 million to \$100 million.

For several reasons, CBO expects that in the coming years the Administration and the Congress will continue to increase funding for purchases, loans, and other activities under the DPA—from \$150 million in 2010 to \$300 million by 2014. First, while the authority to make loans and loan guarantees has been moribund since the 1980s, those authorities are revised in S. 1677. Based on information from the Administration, CBO expects that the authorities will be used in the future and the declining economy may provide more opportunities and incentives to do so.

Second, the act eliminates the requirement for legislative authorization of actions taken under sections 301, 302, or 303 in those cases where the action would cause the amount of outstanding commitments under that section for a particular resource shortfall to exceed \$50 million.

Third, the act raises from \$400 million to \$750 million the limitation on unobligated balances from prior-year appropriations in the Defense Production Act Fund at the end of the fiscal year. The previous limitation had no practical effect on activities under the DPA because unobligated balances subject to the limitation have not exceeded \$7 million over the last 10 years. Thus, increasing that limit indicates that the Administration anticipates a need for significant increase in future appropriations.

Finally, while DoD has been responsible for most activities under the act in the past, the Department of Homeland Security has indicated it intends to use the authority in the future to restore critical national infrastructure in the event of a disaster. Thus, CBO expects that future appropriations for activities authorized in the DPA will exceed amounts provided in recent years; CBO estimates that implementing this authority will cost \$775 million over the 2010-2014 period, assuming appropriation of the necessary amounts.

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