SEC. ___. MULTIYEAR PROCUREMENT AUTHORITY FOR VIRGINIA CLASS SUBMARINE PROGRAM.

(a) AUTHORITY FOR MULTIYEAR PROCUREMENT.—Subject to section 2306b of title 10, United States Code, the Secretary of the Navy may enter into one or more multiyear contracts, beginning with the fiscal year 2019 program year, for the procurement of up to 10 Virginia Class submarines.

(b) AUTHORITY FOR ADVANCE PROCUREMENT AND ECONOMIC ORDER QUANTITY.—The Secretary of the Navy may enter into one or more contracts, beginning in fiscal year 2018, for advance procurement associated with the Virginia Class submarines for which authorization to enter into a multiyear procurement contract is provided under subsection (a), and for equipment or subsystems associated with the Virginia Class submarine program, including procurement of—

(1) long lead time material; or

(2) material or equipment in economic order quantities when cost savings are achievable.

(c) CONDITION FOR OUT-YEAR CONTRACT PAYMENTS.—A contract entered into under subsection (a) shall provide that any obligation of the United States to make a payment under the contract for a fiscal year after fiscal year 2019 is subject to the availability of appropriated funds for that purpose for such later fiscal year.

(d) LIMITATION ON TERMINATION LIABILITY.—A contract for construction of Virginia Class submarines entered into in accordance with subsection (a) shall include a clause that limits the liability of the United States to the contractor for any termination of the contract. The maximum liability of the United States under the clause shall be the amount

appropriated for the submarines covered by the contract regardless of the amount obligated under the contract.

Section-by-Section Analysis

This proposal would allow the Secretary of the Navy to utilize the authority under 10 U.S.C. 2306b to enter into a follow-on multiyear contract for VIRGINIA Class Block V submarines beginning in fiscal year (FY) 2019, with Advance Procurement (AP) beginning in FY 2018. The multi-year procurement (MYP) for the five Block II ships (FY 2004–2008), the delivered ships of the MYP for eight Block III ships (FY 2009–2013), and the current Block IV ships (FY 2014–2018) are producing significant cost savings and facilitating industry stability. The Department of Defense expects the follow-on MYP to yield similar benefits.

The proposal would allow the procurement of ten VIRGINIA Class submarines, as currently programmed in the President's Budget (PB) 2018 Control for FY 2018–2022.

A successful and integral part of Block IV negotiations was the program office's ability to receive MYP authority in FY 2013, one year prior to contract award, thus improving the program office's negotiating position resulting in greater than $2 billion in acquisition savings over that of single year procurements. With MYP authority a year ahead of award, the program office was able to send a strong signal to the shipbuilders and, more importantly, the industrial vendor base, that the shipbuilders could negotiate with the confidence and stability provided by MYP authority. Additionally, MYP authority a year in advance of contract award allows the program and the shipbuilders to focus on pricing and negotiating a MYP contract, thereby avoiding multiple pricing scenarios.

This proposal would provide the following benefits: (1) generate significant savings compared to the annual procurement cost estimates; (2) provide a long-term commitment to the shipbuilders, stabilizing employment and the industrial base; (3) reduce disruptions in vendor delivery schedules; and (4) improve procurement stability.

The proposal would permit the use of AP and economic order quantity (EOQ) procurement to reduce the cost of subcontractor effort, material, and components. The savings are derived from large lot vendor procurement of shipbuilder material and major equipment for multiple ships, and from improved procurement stability. EOQ leverages block buying power thereby reducing overall construction costs. The commitment of a MYP contract allows the shipbuilders to place purchase orders for shipsets of all major components of the block, achieving savings through bulk procurements and inflation avoidance. The EOQ funding also helps achieve more efficient modular construction supported by having the material in the yard earlier, thereby reducing build span.

The Department of the Navy's (DON's) contracting strategy and budget for the FY 2019–2023 ships assumes that Congress will provide the authority to enter into a MYP contract for those ships in FY 2018. Due to the complexity of shipbuilding contracts, much of the proposal development, as well as the negotiations between the DON and the shipbuilders, will take place

in FY 2018. The DON would be in a stronger negotiating position if the agency could enter the negotiation efforts with MYP authority from Congress, helping to achieve maximum savings.

Budget Implications: The first two MYP contracts, Block II (FY 2003–2008) and Block III (FY 2009–2013), achieved estimated savings greater than 10 percent as compared to annual procurements. Block IV, the third MYP (FY 2014–2018) generated 15 percent in estimated savings as compared to annual procurements. This represents total estimated savings of $4.9 billion – $4.5 billion (13.83 percent) for ship construction, plus $400 million (1.4 percent) for the Federal government-furnished electronics equipment – or an average of $496.7 million per ship in FY 2014–2018. The DON has high confidence that this is the best and most cost-effective contracting approach, in light of actual costs under the Block II, Block III and Block IV contracts.

The Office of Cost Assessment and Program Evaluation (CAPE) completed a cost analysis on June 14, 2017, for the fourth Virginia Class MYP authorization and forecast savings of $2.5 billion (then-year $). These savings are forecast to result from the award of a contract to General Dynamics, Electric Boat, the Virginia Class shipbuilder. The CAPE forecast includes savings based on the award of this MYP contract, for which the Department is seeking authorization, to this major shipbuilder. In contrast, as shown in the FY 2018 and FY 2019 Authorization MYP Savings By Ship Tables, the Navy forecasts higher savings figures which include total savings to the Virginia class program, not just the shipbuilding contract, including savings on items such as Government Furnished Equipment. The table below details resource requirements associated with this proposal. The resources reflected in the table below are funded within the FY 2018 President's Budget.

PB 2018 Control for FY 2019–2023 SSNs

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Appropriation From	Budget Activity	Dash-1 Line Item	Program Element
Navy	0.0	4,384.6	4,439.7	4,161.4	3,922.1	Shipbuilding and Conversion, Navy	02	4	0204281N
Navy	1,920.6	2,796.7	2,769.6	2,373.3	632.3	Shipbuilding and Conversion, Navy	02	5	0204281N
Total	1,920.6	7,181.4	7,209.3	6,534.8	4,554.4	--	--	--	--

*FY 2018-FY 2022 includes funding only associated with the Block V submarines.

Budget estimates for VIRGINIA Class submarines are predicated on MYP authorization. Without the cost savings associated with a MYP, current budget estimates would be insufficient to support the planned procurement of VIRGINIA Class submarines. If the MYP is not approved in FY 2018, the DON may have to enter into a single ship procurement contract for the FY 2019 ships and then renegotiate the MYP contract upon authorization. This strategy would require the duplicative effort of pricing and negotiating both a Block Buy contract and a MYP contract,

forcing industry to assume greater risk and raise prices. Additionally, the $901.6 million in cost avoidance would need to be added to program funding levels to ensure that the annual contract is executable.

FY 2018 AUTHORIZATION
MYP SAVINGS BY SHIP

	SSN 802	SSN 803	SSN 804	SSN 805	SSN 806	SSN 807	SSN 808	SSN 809	SSN 810	SSN 811	TOTAL
End cost with MYP	2,971,166	3,457,348	3,309,350	3,133,654	3,337,652	3,205,191	3,332,497	3,232,022	3,370,023	3,343,390	32,692,293
End cost without MYP	3,429,344	3,985,827	3,848,070	3,665,045	3,901,530	3,756,841	3,934,453	3,826,645	3,921,673	3,906,003	38,175,433
Savings	458,178 4	528,479	538,720	531,392	563,878	551,650	601,956	594,623	551,649	562,613	5,483,140

FY 2019 AUTHORIZATION
MYP SAVINGS BY SHIP

	SSN 802	SSN 803	SSN 804	SSN 805	SSN 806	SSN 807	SSN 808	SSN 809	SSN 810	SSN 811	TOTAL
End cost with MYP	3,429,344	3,985,827	3,309,350	3,133,654	3,337,652	3,205,191	3,332,497	3,232,022	3,370,023	3,343,390	33,678,951
End cost without MYP	3,429,344	3,985,827	3,848,070	3,665,045	3,901,530	3,756,841	3,934,453	3,826,645	3,921,673	3,906,003	38,175,433
Savings	-	-	538,720	531,392	563,878	551,650	601,956	594,623	551,649	562,613	4,496,482

Changes to Existing Law: This proposal would make no changes to the text of existing law.