The Nunn-McCurdy Act: Background, Analysis, and Issues for Congress

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Summary

On September 8, 1982, President Ronald Reagan signed into law the Department of Defense (DOD) Authorization Act, 1983 (P.L. 97-252), which included what has come to be known as the Nunn-McCurdy Act (10 U.S.C. §2433). The Nunn-McCurdy Act requires DOD to report to Congress whenever a major defense acquisition program experiences cost overruns that exceed certain thresholds. The purpose of the act was to help control cost growth in major defense systems by holding the appropriate Pentagon officials and defense contractors publicly accountable and responsible for managing costs.

A program that experiences cost growth exceeding any of the established thresholds is said to have a Nunn-McCurdy breach. There are two types of breaches: significant breaches and critical breaches. A “significant” breach is when the Program Acquisition Unit Cost (the total cost of development, procurement, and construction divided by the number of units procured) or the Procurement Unit Cost (the total procurement cost divided by the number of units to be procured) increases 15% or more over the current baseline estimate or 30% or more over the original baseline estimate. A “critical” breach occurs when the program acquisition or the procurement unit cost increases 25% or more over the current baseline estimate or 50% or more over the original baseline estimate.

The Nunn-McCurdy Act has been statutorily amended a number of times over the years. One of the most significant changes to the reporting requirements occurred in the FY2006 National Defense Authorization Act (P.L. 109-163), when Congress added the original baseline estimate as a threshold against which to measure cost growth. The new standard prevents DOD from avoiding a Nunn-McCurdy breach by simply re-baselining a program. Another significant change occurred in the FY2009 Weapon Systems Acquisition Reform Act (P.L. 111-23), when Congress enacted a requirement that programs with critical breaches should be presumed terminated unless the Secretary of Defense certifies the program. For programs that are certified, DOD generally must (1) revoke the prior milestone approval, (2) restructure the program, and (3) provide Congress a written explanation of the root cause of the cost growth. These changes were fueled in part over congressional concern that programs with chronic cost growth and schedule delays were not being terminated and Congress was not being provided specific information explaining what caused the cost growth.

Some analysts believe that the Nunn-McCurdy Act has been effective as a reporting mechanism for informing Congress of cost overruns in major acquisition programs. As a result of the Nunn-McCurdy process, Congress has increased its visibility into the cost performance of the acquisition stage of Major Defense Acquisition Programs (MDAPs). However, some analysts suggest that Nunn-McCurdy is not a sufficiently comprehensive reporting mechanism because program managers can sometimes take steps to avoid a breach and because Nunn-McCurdy does not apply to all elements of a weapon system’s life-cycle costs, such as its operations, support, or disposal costs.
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Introduction

For 30 years, the Nunn-McCurdy Act (10 U.S.C. §2433) has served as one of the principal mechanisms for notifying Congress of cost overruns in Major Defense Acquisition Programs (MDAPs).\(^1\) Nunn-McCurdy establishes different thresholds to determine if an MDAP or designated major subprogram of an MDAP experiences a cost overrun (for purposes of this report, the term “program” will refer to MDAPs as well as designated major subprograms).\(^2\) These thresholds are based on a comparison between a program’s actual costs and the current baseline estimate or the original baseline estimate (defined below). A program that has cost growth that exceeds any of these thresholds is said to have a Nunn-McCurdy breach and must notify Congress of the breach.

Background

In the early days of the Reagan Administration, a number of high-profile weapon systems, including the Black Hawk helicopter and the Patriot missile system, experienced substantial cost overruns. Responding to public concern over escalating cost growth, Senator Sam Nunn and Representative David McCurdy spearheaded the passage of the Nunn-McCurdy Act, which was intended to create a reporting requirement for programs experiencing cost overruns.\(^3\) It was believed that publicly exposing cost overruns would force the Department of Defense (DOD) to rein in cost growth. According to Representative McCurdy,

> The assumption behind the Nunn-McCurdy provision of the fiscal 1983 defense authorization bill was that the prospect of an adverse reaction from the Office of Management and Budget, Congress, or the public would force senior Pentagon officials to address the question of whether the program in question—at their newly reported, higher costs—were worth continuing.\(^4\)

Nunn-McCurdy was not intended to create a mechanism for managing programs or allocating funds. The rationale for an after-the-fact report was a matter of some debate. During floor debate on the original amendment in 1981, former Senator John Tower, then chairman of the Senate Armed Services Committee, said that the reporting requirements were like “closing the gate after the horse has galloped off into the boondocks.”\(^5\)

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1. A Major Defense Acquisition Program is defined as a program estimated to require research, development, test, and evaluation (RDT&E) costs of more than $365 million or procurement costs of more than $2.190 billion (in FY2000 constant dollars). In 1982, when the Nunn-McCurdy Act was enacted, the procurement cost of a program had to be $1 billion (in FY1980 constant dollars) to be considered an MDAP.
2. If an MDAP has two or more major items that are significantly different from each other in form or function, DOD may designate the items as “major subprogram” for purposes of acquisition reporting requirements. This authority was established in Sec. 81 of The Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 (P.L. 110-417).
4. Ibid.
What is a Nunn-McCurdy Breach?

Nunn-McCurdy Thresholds

There are two categories of breaches: significant breaches and critical breaches. As shown in Table 1, a “significant” Nunn-McCurdy breach occurs when the Program Acquisition Unit Cost (PAUC)—defined as the total cost of development, procurement, and construction divided by the number of units or the Procurement Unit Cost (PUC)—defined as the total procurement cost divided by the number of units to be procured) increases 15% or more over the current baseline estimate or 30% or more over the original baseline estimate. A “critical” breach occurs when the PAUC or PUC increases 25% or more over the current baseline estimate or 50% or more over the original baseline estimate.

Table 1. Nunn-McCurdy Breach Thresholds

<table>
<thead>
<tr>
<th></th>
<th>Significant Breach</th>
<th>Critical Breach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Baseline Estimate</td>
<td>≥15%</td>
<td>≥25%</td>
</tr>
<tr>
<td>Original Baseline Estimate</td>
<td>≥30%</td>
<td>≥50%</td>
</tr>
</tbody>
</table>


What is a Current Baseline Estimate and an Original Baseline Estimate?

According to Title X of the U.S. Code, DOD is required to establish a baseline description of all major defense acquisition programs when the program is officially started. This baseline description includes information on the program’s planned cost, schedule, and performance. The cost information is referred to as the “baseline estimate.” The baseline description (including the cost estimate) is contained in the Acquisition Program Baseline (APB).

APBs are required to initiate a program, and can only be revised

- at the milestone reviews or when full rate production begins,
- if there is a major program restructuring that is fully funded, or
- as a result of a program breach if the breach is primarily the result of external causes beyond the control of the program manager.

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6 Title X of the U.S. Code codifies the laws establishing and regulating the Department of Defense. Program acquisition unit cost and procurement unit cost are defined in 10 U.S.C. §2432(a). DOD often uses the term Average Procurement Unit Cost (APUC) instead of Program Unit Cost (PUC), which is the term used in the statute.

7 10 U.S.C. §2435(a).

8 The APB contains the key cost, schedule, and performance parameters (both objectives and thresholds). According to the Defense Acquisition Guidebook, the program, as described by the APB, “should represent the program as it is expected to be developed, produced and/or deployed, sustained and funded.” See Department of Defense, Defense Acquisition Guidebook, pp. Chapter 2, 2.1.1.


10 In all three cases, the APB can only be revised with the approval of the Milestone Decision Authority. See Department of Defense, Defense Acquisition Guidebook, pp. Chapter 2, 2.1.1. The Defense Acquisition Guidebook is (continued...)
Under current DOD policy, current APBs cannot be revised to avoid a Nunn-McCurdy breach.  

An *original baseline estimate* is the cost estimate included in the original (first) APB that is prepared prior to the program entering “engineering and manufacturing development” (also known as “Milestone B”), or at program initiation, whichever occurs later. An original baseline estimate can only be revised if the program has a critical Nunn-McCurdy breach (see Table 1).  

A *current baseline estimate* is the baseline estimate that is included in the most recently revised APB. If the original baseline estimate has not been revised, the original baseline estimate is also the current baseline estimate.

### Nunn-McCurdy Timelines

Program managers are required to submit quarterly unit cost reports to the service’s acquisition executive within 30 days of the end of the quarter. If a program manager has reasonable cause to believe that a program has a significant Nunn-McCurdy breach, he must immediately submit a unit cost report. This report is generally the first official indication that a program may have a Nunn-McCurdy breach.

When a service acquisition executive receives a unit cost report, he must determine whether a Nunn-McCurdy breach has occurred. If there is no breach, no notification to Congress is required. If the service acquisition executive determines that there is in fact a Nunn-McCurdy breach, the service is required to notify Congress, in writing, of the breach.

If the service acquisition executive’s determination is based on a quarterly unit cost report, the notification to Congress must be submitted within 45 days of the end of the quarter (see Figure 1). If the determination in based on a unit cost report submitted in the middle of a quarter, then the written notification to Congress must be submitted within 45 days of when the program manager submitted the unit cost report to the service acquisition executive (see Figure 2).

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(...continued)

in revision to reflect the new DoDI 5000.02 that was issued December 8, 2008. See also Kenneth J. Krieg, *Memorandum: Acquisition Program Baselines (APBs) for Major Defense Acquisition Programs (MDAPs)*, Under Secretary of Defense, Acquisition, Technology, and Logistics, July 17, 2007.


12 10 U.S.C. §2435(d). For programs with an acquisition unit cost or procurement unit cost that exceeded the original baseline estimate by more than 50 percent as of January 6, 2006, the original baseline estimate for the program for purposes of Nunn-McCurdy is defined as the current baseline estimate that existed as of January 6, 2006.

13 10 U.S.C. §2435(d).

14 10 U.S.C. §2435(b).

15 10 U.S.C. §2433(c). The unit cost report includes program acquisition unit cost, procurement unit cost (if appropriate), and cost or schedule variance. See 10 U.S.C. §2433(b).

16 Under certain circumstances, a program manager does not need to submit a mid-quarter unit cost report. For example, if a mid-quarter report had previously been filed indicating an equal or greater level of cost growth, then the program manager is not required to submit another mid-quarter report.

17 10 U.S.C. 2433(d).
Figure 1. Nunn-McCurdy Timeline based on End-of-Quarter Report

- **Start of Quarter**
  - Program Manager submits quarterly unit cost report for prior quarter.
  - Nunn-McCurdy breach occurs.

- **End of Quarter in which breach occurred**
  - Program Manager submits quarterly unit cost report to service acquisition executive.

- **Up to 90 days (or 225 days with President’s budget)**
  - Service Acquisition Executive determines if Nunn-McCurdy breach has occurred.
    - No current breach: Congress does not need to be notified.
    - Breach: Appropriate Secretary notifies Congress of breach in writing.

- **End of Quarter in which determination took place**
  - DOD submits Selected Acquisition Report (SAR) to Congress.

**Source:** CRS analysis of 10 U.S.C. §2433.

**Notes:**

1. Assumes that a Nunn-McCurdy breach does not occur within the first 30 days of the quarter, when the prior quarter’s unit cost report has not yet been filed.

2. A SAR must be submitted within 45 days from the end of a quarter except for the first fiscal quarter, when the SAR must be submitted within 45 days from the time when the President submits the budget to Congress (10 U.S.C. §2432(f)). The President’s budget is generally submitted the first week of February. For purposes of this figure, it is assumed that the President’s budget is submitted 30 days after the end of the quarter.
The notification to Congress must include 17 different data elements, including

1. an explanation of the reasons for the cost increase,
2. the completion status of the program and designated major subprograms,
3. changes in the projected cost of the program,
4. names of the military and civilian personnel responsible for program management and cost control,
5. any changes in performance or schedule that contributed to cost growth,
6. action taken and proposed to be taken to control cost growth,
7. changes in the performance or schedule milestones and how such changes have affected the cost of the program, and
8. prior cost estimating information.

In addition to the notification, DOD must also submit to Congress a Selected Acquisition Report (SAR) for the fiscal quarter in which the breach occurred or in the quarter in which it was determined that a breach occurred.\(^\text{18}\) For a significant breach, no further action is required.

\(^\text{18}\) 10 U.S.C. §2433. A Selected Acquisition Report includes the (1) quantity of items to be purchased, (2) program (continued...)
However, if a program experiences a critical breach, DOD is required to take a number of additional steps.

**Consequences of a Critical Nunn-McCurdy Breach**

In the event of a critical breach, the Secretary of Defense is required to conduct a root-cause analysis to determine what factors caused the cost growth that led to a critical breach, and, in consultation with the Director of Cost Assessment and Program Evaluation, assess

1. the estimated cost of the program if no changes are made to the current requirements,
2. the estimated cost of the program if requirements are modified,
3. the estimated cost of reasonable alternatives to the program, and
4. the extent to which funding from other programs will need to be cut to cover the cost growth of this program.\(^\text{19}\)

After the reassessment, the program must be terminated unless the Secretary of Defense certifies in writing no later than 60 days after a SAR is provided to Congress that the program will not be terminated because it meets certain requirements.\(^\text{20}\) A certification, which uses the exact wording as found in 10 U.S.C. Section 2433a(b), essentially certifies that

1. the program is essential to national security,
2. the new cost estimates have been determined by the Director of Cost Assessment and Program Evaluation to be reasonable,
3. the program is a higher priority than programs whose funding will be reduced to cover the increased cost of this program, and
4. the management structure is sufficient to control additional cost growth.\(^\text{21}\)

A certification must be accompanied by a copy of the root-cause analysis report.\(^\text{22}\) In addition to submitting a certification and the root-cause analysis to Congress, a program that is not terminated must

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\(^{19}\) 10 U.S.C. §2433a(a).

\(^{20}\) The requirement that a program be terminated if it is not certified was enacted as a recent change to the Nunn-McCurdy Act on May 22, 2009 as part of the Weapon Systems Acquisition Reform Act of 2009. According to the amended act, if a program is terminated, the Secretary of Defense must submit a written report explaining (1) why the program was terminated, (2) the alternatives that were considered to fix the program, and (3) how DOD intends to meet the requirement that the program was intended to fill (10 U.S.C. §2433a(d)).

\(^{21}\) 10 U.S.C. §2433a(b).

\(^{22}\) 10 U.S.C. §2433a(b)(3).
1. be restructured in a manner that addresses the root cause of the cost growth,
2. have its prior milestone approval rescinded, and
3. receive a new milestone approval before taking any contract action—including
   signing new contracts or exercising options—without approval from the
   Milestone Decision Authority.

DOD must also (1) notify Congress of all funding changes made to other programs to cover the
cost growth of the program in question and (2) hold regular reviews of the program.23

Administrative Breach Exception to Rescinding Prior Milestone Approval

Programs can have a Nunn-McCurdy breach for reasons that are not related to program
management. For example, DOD originally planned on buying 24,000 Small Diameter Bomb
Increment I units but cut the order almost in half to 12,600. According to DOD officials, the
reduction was based on “updated inventory assessment and usage projection for this weapon.”
The actual per unit cost of buying each small diameter bomb decreased from $24,000 to $23,000.
However, in calculating program acquisition unit costs, Nunn-McCurdy includes fixed
development, production, and military construction costs that have already been committed to the
program. Cutting the number of units means that these sunk costs are amortized, or spread out,
over fewer units, which increases the program acquisition unit cost by 17%, triggering a
significant breach.24

In the National Defense Authorization Act of 2012, Congress waived the requirement to rescind
the milestone approval for programs whose cost growth is due primarily to a strategic decision to
change the quantity of items purchased.25 Under the amended statute, a program experiencing a
critical Nunn-McCurdy breach does not have to have its prior milestone approval rescinded if

1. but for the change in the number of units being acquired, the program acquisition
   unit cost or procurement unit cost would not have increased by more than 5% of
   the current baseline estimate or 10% of the original baseline estimate and
2. the change in quantity was not made as a result of increasing costs, a delay in the
   schedule, or problems with meeting the requirements.

For DOD to invoke this exception, within 60 days of the SAR being submitted to Congress, the
Secretary of Defense must submit to Congress a written determination, along with an explanation
of the basis for the determination, that

1. based on the root-cause analysis, but for the change in the number of units being
   acquired, the program acquisition unit cost or procurement unit cost would not
   have increased by more than 5% of the current baseline estimate or 10% of the
   original baseline estimate and

23 10 U.S.C. §2433A(c).
24 In this case, Ashton Carter downgraded the program, thereby exempting it from Nunn-McCurdy. See Letter from
   Ashton Carter, Under Secretary of Defense for Acquisition, Technology & Logistics, to Joseph Biden, President of the
   Senate, March 11, 2010. See also, “Small Diameter Bomb Program Dodges ‘Significant’ Nunn-McCurdy Breach.”
   Inside the Pentagon, March 25, 2010.
25 P.L. 112-81, sec. 831.
2. the change in quantity was not made as a result of increasing costs, a delay in the schedule, or problems with meeting the requirements.

**Timeline For Critical Nunn-McCurdy Breach**

As reflected in Figure 3, from the time a program manager reasonably believes that a critical Nunn-McCurdy breach occurs to the time the Secretary of Defense certifies the program to Congress could be as long as 255 days (and as long as 285 days if the SAR is filed 45 days after the President’s budget).26

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26 A SAR must be submitted within 45 days from the end of a quarter except for the first fiscal quarter, when the SAR must be submitted within 45 days from the time when the President submits the budget to Congress (10 U.S.C. §2432(f)). The President’s budget is generally submitted the first week of February, which is some 30 days after the end of the quarter (which is December 31, 2010). The 30 day delay between the end of the quarter and when the budget is submitted in the first week in February adds at least 45 days to the SAR filing deadline.
Figure 3. Timeline for Critical Nunn-McCurdy Breach
Based on Unit Cost Report Submitted at the end of a quarter


Note:

(1) Assumes that a Nunn-McCurdy breach does not occur within the first 30 days of the quarter, when the prior quarter’s unit cost report has not yet been filed.

(2) A SAR must be submitted within 45 days from the end of a quarter except for the first fiscal quarter, when the SAR must be submitted within 45 days from the time when the President submits the budget to Congress (10 U.S.C. §2432(f)). The President’s budget is generally submitted the first week of February. For purposes of this figure, it is assumed that the President’s budget is submitted 30 days after the end of the quarter.

How the Nunn-McCurdy Act Has Evolved

The Nunn-McCurdy Act has been statutorily amended a number of times over the years (see Figure 4). One of the most significant changes to the reporting requirements occurred in the FY2006 National Defense Authorization Act (P.L. 109-163), when an additional threshold was added against which to measure cost growth—an original baseline. The new standard, which
prevents DOD from avoiding a Nunn-McCurdy breach by simply re-baselining a program, has increased the number of programs breaching Nunn-McCurdy.27 According to DOD, 11 programs that did not have a Nunn-McCurdy breach prior to the new FY2006 requirements were re-categorized as having significant breaches as a result of the legislation’s new original baseline.28 Congress also believed that the FY2006 changes to Nunn-McCurdy would help “encourage the Department of Defense both to establish more realistic and achievable cost and performance estimates at the outset of MDAPs and to more aggressively manage MDAPs to avoid undesirable cost growth on these programs.”29

Another significant change occurred in the FY2009 Weapon Systems Acquisition Reform (P.L. 111-23), when Congress enacted a requirement that programs with critical breaches be presumed terminated unless the Secretary of Defense certifies the program. For programs that are certified, DOD must (1) revoke the prior milestone approval, (2) restructure the program, and (3) provide Congress a written explanation of the root-cause of the cost growth. These changes were fueled in part over congressional concerns that programs with chronic cost growth and schedule delays were not being terminated and Congress was not being provided specific information on what was causing the cost growth.

The most recent significant change occurred in the FY2012 National Defense Authorization Act (P.L. 112-81), when Congress waived the requirement to rescind the milestone approval for programs whose critical cost growth is due primarily to a strategic decision to change the quantity of items purchased.30 For an expanded discussion on the legislative evolution of Nunn-McCurdy, see Appendix.

27 For an analysis of how some DOD MDAPs were frequently rebaselined, thereby avoiding the Nunn-McCurdy requirements, see U.S. Government Accountability Office, Defense Acquisitions: Information for Congress on Performance on Major Programs Can Be More Complete, Timely, and Accessible, GAO-05-182, March 28, 2005.


30 Sec. 831.
The Nunn-McCurdy Act: Background, Analysis, and Issues for Congress

Figure 4. Evolution of the Nunn-McCurdy Act
1982 - Present

### 1982

**Thresholds**
Cost growth measured against Baseline SAR.
- Cost increases include: expected inflation.
- >15% growth of PUC or PAUC.
- Additional reports for every >5% increase above the original 15% growth.
- >25% growth of PUC or PAUC.

**Reporting Requirements**
- PM submits written UCR to Secretary within 7 days of the end of each quarter.
- PM submits written UCR if >15% PUC or PAUC cost breach, or cost or schedule variance of a major contract results in 15% cost increase of the contract.
- PM submits written UCR for subsequent >5% increases of PUC, PAUC, or a major contract due to cost or schedule variance.
- Notify Congress of >15% or >25% breach within 30 days of receiving UCR.
- 25% breach, submit to Congress written certification within 60 days of Secretary’s determination of breach.

**Other**
- If DOD fails to submit written notifications and certifications, funds may not be obligated for the program.
- HASC and SASC can waive prohibition on obligations.

### 1989

**Thresholds**
Cost growth measured against Baseline SAR or prior FY UCR submitted as a result of a breach.

**Time Line Changes**
- Notification of breach due to Congress within 30 days of service acquisition executive submitting determination report to Secretary.
- If 25% breach, submit to Congress written certification within 30 days of deadline for submitting SAR.
- UCR submitted to Secretary within 7 days of the end of the first quarter.

**Other**
- If DOD fails to submit reports to Congress in a timely manner, funds can not be obligated for a major contract.

### 1992

**Thresholds**
- Thresholds changed from >15%, >25%, and >5% to at least 5%, 25%, and 5%.

**Reporting Requirements**
- SAR to be submitted must be for the first quarter ending on or after the day the breach was determined or the fiscal year quarter which immediately precedes the first fiscal-year quarter ending on or after that date.

**Time Line Changes**
- Quarterly unit cost report deadline changed from seven business days to 30 calendar days.
- If breach determined based on quarterly UCR, DOD must submit notification to Congress within 45 days of the end of the quarter. If breach based on mid-quarter UCR, DOD notifies Congress within 45 days of the SAR’s report.

### 1994

**Thresholds**
Cost growth measured against baseline estimate.
- Cost growth to be measured in constant base year dollars (excluding inflationary effect).
- Definition of PUC changed to all funds programmed for obligation for procurement in a fiscal year.

### 2006

**Thresholds**
Baseline estimate redefined to mean the description prepared before milestone B or program initiation, whichever is later.
- Cost growth measured against current baseline estimate and original baseline estimate.

### Other
- Designated major subprograms fall within Nunn-McCurdy requirements.

### 2008

**Reporting Requirements**
For Critical breaches, if program not terminated:
- Additional certification to Congress required, stating program is higher priority than programs whose funding must be cut to cover the cost growth of current program.
- Revocation of most recent milestone approval (no new contracts without new milestone approval or MDA approval).
- Analysis conducted to determine root cause of cost growth.
- Program must be restructured to address root causes of cost growth.
- Failure to certify to Congress results in program termination.

### 2011

**Time Line Changes**
- SAR submission deadline changed from within 60 days of the President’s budget to within 45 days of the President’s budget.

**Other**
- Programs that have a critical breach as a result of a change in the number of units purchased do not have their milestone approval revoked.

Source: CRS analysis of Legislative History. See Appendix for full citations.
Notes:

1 Baseline SAR—First SAR containing program information or comprehensive annual SAR for prior fiscal year.

2 PUC—total procurement funds appropriated in a fiscal year minus advanced procurement appropriated for future years, plus advanced procurement appropriated in prior years for use in the current fiscal year divided by number of units procured with such funds in the same fiscal year; PAUC—total cost of development, procurement, and construction divided by the number of units.

3 Major Contract—each prime contract and the six largest associate contracts measured by dollar value.

4 PUC (1984 definition)—total funds programmed to be available for obligation for procurement for a fiscal year, minus funds programmed to be available in current fiscal year for obligation for advanced procurement in future years, plus advanced procurement appropriated in prior years for use in the current fiscal year, divided by number of units procured with such funds in the same fiscal year.


6 If DOD subsequently submits the SAR report, prohibition ends 30 days after continuous session of Congress.

7 Baseline Estimate—DOD required to develop a baseline description for MDAPs that includes a cost estimate. The description must be prepared before major milestones.

8 PUC (1994 definition)—total funds programmed to be available for obligation for procurement for the program divided by number of units procured.
The timeline for when DOD must notify Congress of a breach and certify a program has changed since the Nunn-McCurdy Act was first enacted in 1983. In 1983, no more than 97 days could elapse from the end of the quarter in which a critical breach occurred to when the Secretary of Defense certified the program to Congress. Today, it could take as long as 195 days (6.5 months), or 225 days in a quarter when the SAR is filed following the submission of the President’s budget (see Figure 5).

**Figure 5. Evolution of Nunn-McCurdy Reporting Timelines**

Comparison of FY1983 requirements vs. current requirements

Source: CRS analysis of 10 USC §2433.

Notes:

1. Assumes that a Nunn-McCurdy breach does not occur within the first 30 days of the quarter, when the prior quarter’s unit cost report has not yet been filed.

2. A SAR must be submitted within 45 days from the end of a quarter except for the first fiscal quarter, when the SAR must be submitted within 45 days from the time when the President submits the budget to Congress.
Effectiveness of the Nunn-McCurdy Act

Many MDAPs continue to suffer from the cost growth that led to the passage of the Nunn-McCurdy Act.\textsuperscript{31} GAO reported that the FY2011 portfolio of weapons systems experienced total acquisition cost growth of 40%,\textsuperscript{32} compared with 26% cost growth in the FY2007 portfolio.\textsuperscript{33}

Nunn-McCurdy as a Reporting Mechanism

Some analysts believe that Nunn-McCurdy has been effective as a reporting mechanism for informing Congress of cost overruns in Major Defense Acquisition Programs. As discussed above, Congress is (1) notified when the cost of a program increases beyond established thresholds and (2) provided with additional information on such programs (i.e., Selected Acquisition Reports). As a result of the Nunn-McCurdy process, Congress has substantial visibility into the cost performance of the acquisition stage of MDAPs. According to DOD, from early 2001 through April 2009, 21 programs had critical Nunn-McCurdy thresholds.\textsuperscript{34} In the December 2009 reporting period, seven programs had Nunn-McCurdy breaches.\textsuperscript{35}

Other analysts suggest that Nunn-McCurdy is not a sufficiently comprehensive reporting mechanism because program managers can sometimes take steps to avoid a Nunn-McCurdy breach when Congress might want to be notified of cost growth. For example, according to a media report, the Marine Corps AH-1Z attack helicopter program reduced the number of helicopters it planned to buy in order to lower the overall program cost and avoid a breach.\textsuperscript{36} The program manager reportedly stated that the program reduced its planned purchase from 105 to 58 helicopters “to avoid a critical Nunn-McCurdy breach.”\textsuperscript{37} Reducing the planned purchase to avoid reporting cost growth to Congress could deprive Congress of information that it needs to make budgetary decisions. Some analysts point out that while Nunn-McCurdy might be effective in

\textsuperscript{31} According to a RAND study that looked at a 50 year time horizon, annual cost escalation rates for amphibious ships, surface combatants, attack submarines, and nuclear aircraft carriers have ranged from 7% to 11%, and the annual cost escalation rate for U.S. fighter aircraft was about 10%. See Mark V. Arena, Irv Blickstein, and Obaid Younossi, et al., \textit{Why Has the Cost of Navy Ships Risen? A Macroscopic Examination of the Trends in U.S. Naval Ship Costs Over the Past Several Decades}, RAND Corporation, 2006, p. xiv. Another analysis found that “cost overruns are increasing by an average of 1.86 percentage points per year. If this trend is allowed to continue, the analysis suggests that in 10 years the average overrun will exceed 56 percent....” See Deloitte Consulting LLP, \textit{Can We Afford Our Own Future? Why A&D Programs are Late and Over-budget—and What Can Be Done to Fix the Problem}, 2008, p. 2.


\textsuperscript{33} Government Accountability Office. \textit{Defense Acquisitions: Assessments of Selected Weapons Programs}. GAO-08-467SP, March 31, 2008. In comparing cost growth of different fiscal years, the GAO assessments quantify total portfolio cost growth in a given year and do not adjust data to account for changes in the mix of acquisition programs from year to year.

\textsuperscript{34} Based on documentation provided by DOD.


\textsuperscript{37} Ibid.
notifying Congress of incurred cost growth, it does not provide Congress insight into why the cost growth occurred. To help address this issue, Congress amended the Nunn-McCurdy Act in 2009 to require DOD to provide a root-cause analysis report whenever a program that has a critical breach is certified.

**Nunn-McCurdy Does Not Require Reporting on Operations & Support Costs**

Some analysts suggest that Nunn-McCurdy is not a sufficiently comprehensive reporting mechanism because it does not apply to all elements of a weapon system’s life-cycle costs, such as operations, support, or disposal. Analysts have estimated that operations and support (O&S) costs account for two-thirds or more of a system’s total life-cycle cost. Unbudgeted cost growth in O&S costs can reduce the funds available to acquire new or upgrade existing weapon systems.

Many of the decisions that determine O&S costs are made early in the acquisition process, prior to significant O&S costs being incurred. Because O&S costs are not incurred until much later in the life-cycle, these costs may not always receive the same attention as acquisition costs at Milestone B (the engineering and manufacturing development and demonstration phase) and Milestone C (the production and deployment phase). Decisions made at these key decision points could result in lower acquisition costs at the expense of higher long term O&S costs—and ultimately higher overall life-cycle costs.

Without good cost data on O&S costs, DOD and Congress may not have important information upon which to make budget decisions. While gathering O&S data may not help manage costs for deployed systems, the data can be used to gauge the reliability of DOD O&S cost estimates for future programs. Such data can also give Congress insight into the impact of trade-offs that are being made during the acquisition process that affect both short-term and long-term cost.

**Nunn-McCurdy as a Mechanism for Controlling Cost Growth**

Most analysts argue that the Nunn-McCurdy Act has not succeeded in controlling cost growth in MDAPs. Some of these analysts have called for strengthening Nunn-McCurdy as a vehicle to manage MDAPs, with one analyst reportedly arguing for a “Nunn-McCurdy on steroids that really punishes programs that have failed.”

Others have argued that while Nunn-McCurdy is a good reporting mechanism, it is not set up to be an effective program management tool. Under Secretary of Defense Ashton Carter reportedly stated that DOD needs a mechanism that is similar to Nunn-McCurdy but that comes into effect before a program has already experienced significant cost growth, a mechanism “that gives the managerial tip-off earlier than Nunn-McCurdy.” Setting up such mechanisms, some say, might

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38 Operations and support costs are funded from Military Personnel, Operations and Maintenance, Procurement, and occasionally RDT&E appropriations.


get to the root causes of cost growth and improve program management more effectively than Nunn-McCurdy.

**Have Critical Nunn-McCurdy Breaches Led to Program Cancellations?**

Generally, a Nunn-McCurdy breach does not result in a program being cancelled. However, there have been some exceptions. In December 2001, the Navy Area Defense (NAD) program was cancelled. According to DOD, “the cancellation came, in part, as a result of a Nunn-McCurdy Selected Acquisition Report breach of the existing program.” This was the first acquisition program that analysts and officials recalled having been cancelled as a result of a Nunn-McCurdy breach.

In July 2008, Congress was notified that the Armed Reconnaissance Helicopter (ARH) program had suffered a critical Nunn-McCurdy breach. Shortly thereafter, John Young, then Under Secretary of Defense for Acquisition, Technology, and Logistics, in consultation with senior Army officials, cancelled the ARH program. Secretary of the Army Pete Geren justified the cancellation, stating that “The cost and schedule that were the focus of the decision to award the contract to Bell Helicopter are no longer valid. We have a duty to the Army and the taxpayer to move ahead with an alternative course of action to meet this critical capability for our soldiers at the best price and as soon as possible.”

In the Weapon Systems Acquisition Reform Act of 2009, Congress amended the Nunn-McCurdy Act, stating that there is a “presumption of termination” for programs that experience a critical breach. According to the statute, “the Secretary shall terminate the program unless the Secretary” submits a certification to Congress.

**Case Study: Unrealistic Cost Estimates as a Root Cause of Cost Growth that Leads to Nunn-McCurdy Breaches**

While there are a number of factors that lead to cost growth in MDAPs, for some 30 years, various DOD officials, analysts, and industry officials have argued that a primary cause of cost growth is unrealistically low cost estimates at the inception of programs. Unrealistically

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42 NAD was intended to track, detect, and engage tactical ballistic missiles in the terminal phase of flight using the AEGIS Weapon System platform.


46 P.L. 111-23, Sec. 206.

47 Poor cost estimating was a recurring theme during the McCurdy hearings. For example, then Director of the Program Analysis and Evaluation Office, Maj. Gen. Patrick M. Roddy stated that there are three fundamental cost growth drivers: inflation, poor cost estimating, and scheduling. GAO stated “Cost estimating is probably the key ingredient in reducing cost growth.... As far back as the early 1970’s, GAO has reported that both planning and development cost estimates on Federal acquisitions in many cases are quite optimistic ... unrealistically low contractor and agency estimates on the front end aggravates cost growth. What is needed is more candor up front in presenting programs to the Congress and not promising more than can be realistically delivered.” Former Deputy Secretary of Defense Frank C. Carlucci, in a written statement to Congress, stated that “early cost, schedule, and performance estimates are overly (continued...)"
optimistic cost estimates can make future cost growth almost inevitable, setting the stage for future Nunn-McCurdy breaches. In 2006, Gary Payton, Air Force Deputy Under Secretary for Space Programs, made a direct link between unrealistically optimistic estimates and Nunn-McCurdy breaches. In a presentation entitled *Nunn-McCurdy Aren’t Fun*, he argued that “Unbridled optimism regarding cost, schedule, performance, and risks is a recipe for failure.”

As set forth in the presentation,

- Understated costs leads to lower budget → leads to industry bidding price less than budget
- leads to lower award price → leads to government repeatedly changing scope, schedule, budget profile → leads to five to ten years later recognition “real” cost multiple of bid → leads to Nunn-McCurdy Breach.

Given the connection between unrealistic cost estimates and Nunn-McCurdy breaches, one question that can be asked is whether Nunn-McCurdy, or some other mechanism, can be used as a mechanism for forcing more realistic cost estimates.

### Applying Nunn-McCurdy to Other Agencies

Because of the perceived effectiveness of Nunn-McCurdy, there have been proposals to apply the Nunn-McCurdy approach to earlier phases in the acquisition process or to other types of acquisitions. While most of these efforts have failed, the Intelligence Authorization Act for FY2010 (P.L. 111-259) includes provisions that are substantially similar to the Nunn-McCurdy Act. Sections 323 (Reports on the Acquisition of Major Systems) and 324 (Critical Cost Growth in Major Systems) outline the reporting requirements for programs whose total acquisition cost experience cost growth of 15% or 25% above the baseline estimate. According to a Senate report, “Section 324 is intended to mirror the Nunn-McCurdy provision in Title 10 of the United States Code that applies to major defense acquisition programs.”

(...continued)

optimistic.” See House Armed Services Hearings, 97th Cong., 1st Sess., Volume 11, 1981. Op. Cit. P. 74, 1009, and 1085, respectively. Michael Gilmore, then of the Congressional Budget Office, stated when discussing overly optimistic cost estimates, that “no program manager in the world is going to be able to manage the program in such a way that the costs will not grow... it’s not really so much cost growth as cost realism setting in.” See U.S. Congress, House Committee on the Budget, *Long-Term Sustainability of Current Defense Plans*, 111th Cong., 1st sess., February 4, 2009.


50 As discussed in the next section, Ashton Carter reportedly called for a mechanism similar to Nunn-McCurdy to be applied earlier in the acquisition lifecycle of an MDAP.

51 In 2008, the Information Technology Investment Oversight Enhancement and Waste Prevention Act of 2008 (S. 3384) sought to apply a Nunn-McCurdy-type approach to information technology acquisitions. The bill included notifications to Congress if an information technology program breached 20 or 40 percent cost thresholds. According to media reports, industry representatives supported this effort. See: Staff article, “ITAA Lining Up Behind Nunn-McCurdy Notices Over IT,” *Aerospace Daily & Defense Report*, September 22, 2008, Volume 227, Issue 58.

Issues for Congress

Nunn-McCurdy as a Reporting and Management Tool

One issue for Congress is to determine whether Nunn-McCurdy should be used as

1. only a reporting mechanism to measure the extent to which DOD is effectively managing its weapon system acquisitions or
2. both a reporting and management tool.

Congress appears to view Nunn-McCurdy as both a reporting and a management tool. To enhance the effectiveness of the act as a reporting tool, Congress has amended it over the last 25 years to increase visibility into MDAP cost growth and improve the reliability of the data reported. For example, as discussed above, in the FY2006 National Defense Authorization Act, Congress added an additional threshold against which to measure cost growth to improve visibility into the cost growth experienced by a program from its inception.

At the same time, Congress has taken actions which imply that Nunn-McCurdy is also a management tool. For example, in the Weapon System Acquisition Reform Act of 2009, Congress mandated that a program that has a critical breach must be restructured to address the root causes of cost growth and have its most recent milestone approval revoked.

Clarifying what role Nunn-McCurdy should play in helping Congress exercise its oversight role could help Congress determine how best to amend the act in the future.

Shortening the Nunn-McCurdy Timeline

Some analysts have argued that under the current statute, too much time elapses from when a critical breach is first identified to when DOD certifies the program to Congress. According to these analysts, the Nunn-McCurdy timelines often span two budget cycles, and in some cases can exceed 300 days from when a program manager accurately suspects that a critical Nunn-McCurdy breach has taken place. One option for Congress could be to consider shortening some of the Nunn-McCurdy timeframes. Condensing the timeframes could give Congress more of an opportunity to consider budgeting options for troubled programs.

Some analysts have gone further, arguing that the time it takes to report a breach to Congress could be shortened by notifying Congress when a Unit Cost Report or when a Contract Performance Report (which is used in Earned Value Management) indicates that a program has breached a Nunn-McCurdy threshold.53

However, according to DOD, “The timing of breach determinations is one of the most difficult parts of Nunn-McCurdy.” Within the department, there is a great deal of discussion and

deliberation at all levels prior to the formal breach determination and notification to Congress. Initial breach indications from the contractor or program manager could be premature. For example, even if the program manager has reasonable cause to believe there is a Nunn-McCurdy breach, senior leadership could initiate cost reductions or descope the program.\(^5\) Using the Unit Cost Reports or Contractor Performance Reports to determine a Nunn-McCurdy breach could deprive DOD of the opportunity to manage programs and take steps to rein in cost growth.

### Applying Nunn-McCurdy-Type Reporting Requirements to O&S Costs

Given the costs associated with operations and support, Congress may want to consider applying Nunn-McCurdy-type reporting requirements to O&S costs. Applying a reporting requirement to O&S costs might help Congress set its budgetary priorities, as well as gather and track cost data for future analysis. Another option for Congress could be to require the Cost Assessment and Program Evaluation office to include in its annual report to Congress a comparison of original O&S cost estimates to current actual costs (adjusted for inflation) for ongoing programs. The extent to which these options may be viable depends on the reliability of the data available.

\(^5\) Based on written answers provided to CRS by DOD on April 1, 2009.
Appendix. Legislative History

On September 8, 1982, President Ronald Reagan signed into law the Department of Defense Authorization Act for Fiscal Year 1983 (P.L. 97-252), which included what has come to be known as the Nunn-McCurdy Act. This Appendix traces the most significant changes to the Nunn-McCurdy Act and the legislative intent behind these changes.

Department of Defense Authorization Act, 1982 (P.L. 97-86)

Antecedents of the Nunn-McCurdy Act

On May 14, 1981, Senator Sam Nunn offered a floor amendment to the Department of Defense Authorization Act of 1982 requiring DOD to notify Congress if the cost growth of an MDAP (referred to in the amendment as a major defense system) exceeded certain thresholds. The purpose of the measure was to “help control the increasing costs of major defense systems.” In arguing for the amendment, Senator Nunn raised a number of issues, including the need to ensure that DOD’s “spending priorities are being established within the context of a coherent national strategy.” He argued that “the unit costs of major defense weapon systems are increasing at rates far beyond the rate of inflation, adding billions to the budget just to buy the same quantities of weapons that were planned before.” Senator Nunn believed that the amendment “holds the appropriate Pentagon officials and defense contractors publicly accountable and responsible for managing costs.” But ultimately, the amendment was intended to inform Congress whether DOD’s acquisition process is working effectively. In arguing in support of the amendment, Senator Nunn concluded

If the system works, if the cost estimates and the inflation estimates are anywhere near accurate, giving a 15-percent margin on R. & D., a 10-percent margin on inflation in the procurement accounts, then the reports will not be necessary. If the system does not work, then, of course, we should know and we should be alerted.

Despite initial opposition by Senator John Tower, then chairman of the Senate Armed Services Committee, the amendment passed by a vote of 94-0 and was included in the Department of Defense Authorization Act of 1982.

As shown in Table A-1, the thresholds set forth in the 1982 act were similar to the significant and critical breach levels that exist in the Nunn-McCurdy Act today (the original statute did not use the terms significant or critical breach; these terms are used below for comparison with the

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56 Congressional Record May 14th, 1981 pg. S5010.
57 Ibid.
58 Congressional Record May 14th, 1981 pg. S5011.
59 Congressional Record May 14th, 1981 pg. S5011.
60 Sen. Tower opposed the amendment, in part because he believed that “in some respects it [the threshold] is closing the gate after the horse has galloped off into the boondocks.” However, he acknowledged “this amendment is going to be adopted, because it is like motherhood. You cannot vote against motherhood or apple pie or all these other fine things.” See Congressional Record May 14th, 1981 pg. S5012.
current statute). According to the act, a significant breach occurred when the Program Acquisition Unit Cost (PAUC—total cost of development, procurement, and construction divided by the number of units) or the Procurement Unit Cost (PUC—total procurement funds appropriated in a fiscal year divided by the number of end units to be procured with such funds in the same fiscal year) for an MDAP increased by more than 15%. A “critical” breach occurs when the PAUC or PUC increased by more than 25%. Inflation costs were included in the cost growth analysis.

<table>
<thead>
<tr>
<th>Table A-1. FY1982 Authorization Act Breach Thresholds</th>
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<tbody>
<tr>
<td>Significant Breach</td>
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<tr>
<td>UAC or PAUC</td>
</tr>
</tbody>
</table>

Source: P.L. 97-86 sec. 917.

Under the act, a program manager was required to submit a quarterly unit cost report to the appropriate secretary within seven days of the end of the quarter. However if a program manager had “reasonable cause” to believe that a program had a breach, the program manager was required to immediately submit a report to the service secretary concerned. If the secretary concerned determined that a breach had occurred, he had to “promptly” notify Congress of the breach in writing and submit a written report to Congress within 30 days that included

1. an explanation of the reasons for the cost increase,
2. the names of the military and civilian personnel responsible for program management and cost control,
3. action taken and proposed to control future cost increases,
4. any changes in performance or schedule that contributed to cost growth,
5. the identities of the principal contractors, and
6. an index of all testimony and documents previously provided to Congress on the program’s estimated costs.

If the secretary concerned determined that a critical breach had occurred, in addition to the above requirements, the secretary had to certify to Congress in writing within 60 days of the determination that

1. the program was essential to national security,
2. there was no viable cost effective alternative to the program,
3. the new cost estimate was reasonable, and
4. the management structure was sufficient to control additional cost growth.

If the secretary did not submit the 30 or 60 day reports in a timely manner, then no additional funds were allowed to be obligated for the program. The statute only applied to programs with cost overruns that occurred in FY1982.
The Nunn-McCurdy Act: Background, Analysis, and Issues for Congress


Passage of the Nunn-McCurdy Act

In 1981, Representative Dave McCurdy, then chairman of the House Armed Services Committee Special Panel on Defense Procurement Procedures, held a series of hearings examining weapon system cost growth. According to Representative McCurdy, the intent of the panel was “to identify and recommend a method which will allow the Congress to more effectively review and evaluate cost categories for major weapons systems.”


Statutory Structure of the FY1983 Nunn-McCurdy Act

The Nunn-McCurdy Act made a number of modifications to the reporting requirements that were included in the FY1982 act.

Definition of Program Acquisition Unit Cost and Procurement Unit Cost

The Nunn-McCurdy Act changed the definition of PUC to mean (changes in italics) total procurement funds appropriated in a fiscal year minus advanced procurement funds appropriated that year for use in future fiscal years, plus advanced procurement funds appropriated in prior years for use in the current fiscal year divided by the number of end units to be procured with such funds in the same fiscal year. PAUC continued to be defined as the total cost of development, procurement, and construction divided by the number of units.

Thresholds

The Nunn-McCurdy Act established the baseline for measuring cost growth as the “baseline selected acquisition report,” defined as the Selected Acquisition Report in which information on the program is first included or the comprehensive annual Selected Acquisition Report for the prior fiscal year, whichever is later.

The thresholds remained unchanged from the original Nunn Amendment of the FY1982 authorization act (the terms “significant” and “critical” breach were not included in the statute but

64 P.L. 97-252 sec. 139a; 96 Stat. 740.
65 P.L. 97-252 sec. 139b(a)(2).
are used below for comparison with the current statute). Unlike the current Nunn-McCurdy statute, the original act included inflation in determining if a breach had occurred.66

Table A-2. FY1983 Authorization Act Breach Thresholds

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<tr>
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<th>Significant Breach</th>
<th>Critical Breach</th>
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<tbody>
<tr>
<td>UAC or PAUC</td>
<td>&gt; 15%</td>
<td>&gt;25%</td>
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Reporting

Under the act, a program manager was required to submit a written quarterly unit cost reports to the appropriate secretary within seven days of the end of the quarter.67 However if a program manager had “reasonable cause” to believe that a program had a breach, the program manager was required to immediately submit a report to the secretary concerned.68 The program manager was also required to submit a unit cost report if a cost or schedule variance of a major contract under the program resulted in more than 15% cost growth compared to the date the contract was signed.69 After a breach occurred, if the program subsequently experienced additional cost growth of more than 5% in PUC or APUC, or additional cost growth of a major contract of at least 5% (due to cost or schedule variance), then the program manager was required to submit an additional unit cost report.70

The FY1983 NDAA changed some of the information required for the 30-day report to Congress, removing the requirement to provide an index of all testimony and documents previously provided to Congress on the program’s estimated costs and adding a number of other requirements, including

1. cost and schedule variance information,
2. changes to the performance or schedule milestones of the program that have contributed to cost growth, and
3. prior cost estimating information.

Timelines

The service secretary was required to review the unit cost reports and determine whether there was a breach. If the secretary determined that a breach occurred, he was required to notify Congress of the breach in writing and submit a written report to Congress within 30 days of the

66 P.L. 97-252 sec. 139b(f); 96 Stat. 744.  
67 P.L. 97-252 sec. 139b(b); 96 Stat. 742.  
68 P.L. 97-252 sec. 139b(c)(1); 96 Stat. 742.  
69 Defined as the prime contract or one of the six largest associate contracts (including for government furnished equipment), by dollar value. P.L. 97-252 sec. 139a(a)(4).  
70 P.L. 97-252 sec. 139b(c)(2); 96 Stat. 742, 743.
unit cost report being submitted to him (the FY1982 act required the secretary to “promptly” notify Congress of the determination).\footnote{P.L. 97-252 sec. 139b(d)(2); 96 Stat. 743.}

If the secretary did not submit the 30- or 60-day report in a timely manner, then additional funds could not be obligated for the program. The funding prohibition could be waived by consent of the House and Senate Armed Services Committees.


**Definition of Procurement Unit Cost and Major Contract**

The FY1985 Department of Defense Authorization Act changed the meaning of procurement unit cost to mean total funds programmed to be available for obligation for procurement for a fiscal year, minus funds programmed to be available in the current fiscal year for obligation for advanced procurement in future years, plus advanced procurement appropriated in prior years for use in the current fiscal, divided by number of units procured with such funds in the same fiscal year.\footnote{P.L. 98-525 sec 1242 (a)(1); 98 Stat. 2606, 2607.}

The authorization act also changed the definition of a major contract (changes in italics) to mean each prime contract and each of the six largest associate contracts (including for government-furnished equipment) that is in excess of $2,000,000.\footnote{P.L. 98-525 sec 1242 (a)(2); 98 Stat. 2607.} In 1986 the threshold was changed to $40 million.\footnote{P.L. 99-500 and P.L. 99-591 Sec. 101(c).}

**Reporting Requirements**

Prior to the FY1985 Authorization Act, SARs did not need to include a status report for an MDAP for the second, third, and fourth fiscal quarters if such a report was included in a previous SAR for that fiscal year and there were no changes in program cost, performance, or schedule. The FY1985 act changed the standard, stating that a SAR did not need to include a status report if there was less than a 5% change in the total program cost and less than a three-month delay in the milestone schedule as shown in a previous SAR for the same fiscal year.\footnote{P.L. 98-525 sec 1242 (a)(3); 98 Stat. 2607.}

The act also added that reporting requirements under Nunn-McCurdy do not apply to a program that has delivered 90% of the end units or expended 90% of planned expenditures.\footnote{P.L. 98-525 sec 1242 (a)(5); 98 Stat. 2607.}

The baseline against which to measure a breach was amended slightly (changes in italics) to be the baseline SAR submitted in the previous fiscal year, or if there was a breach in the previous fiscal year, the unit cost report that reported the breach.\footnote{P.L. 98-525 sec 1242 (b)(1); 98 Stat. 2607.}
Timeline Changes

The FY1985 act changed the timeline for requiring the submission of a SAR to Congress. Previously, SARs had to be submitted to Congress within 30 days of when the President submitted the budget to Congress and within 30 days after the end of the quarter for all other quarters. The FY1985 extended the SAR submission date to within 60 days after the President sends the budget to Congress and 45 after the end of all other quarters. The act also changed the deadline by which a program manager must submit a unit for the first quarter of a fiscal year from within seven days of the end of the quarter to within seven days of the submission of the President’s budget.


The FY1990 and 1991 NDAA added the role of the Service Acquisition Executive to the Nunn-McCurdy Act. Under Title X, as amended, the program manager submits unit cost reports to the Service Acquisition Executive, who then determines whether a Nunn-McCurdy breach has taken place. A determination of a breach by the service acquisition executive is sent to the secretary concerned for a further determination.

Reporting Requirements

The FY1990 and 1991 act amended Section 2432 of Title X to state that a SAR did not need to include a status report if there was less than a 15% increase in program acquisition unit cost and current acquisition unit cost as shown in a previous SAR for the same fiscal year. Previously, a SAR had to include a status report if there was a 5% change in the total program cost.

The baseline against which to measure a breach was amended slightly (changes in italics) to be the baseline SAR submitted in the previous fiscal year, or if there was a breach in the previous fiscal year, the SAR submitted to Congress in connection with the breach.

The other significant change to Nunn-McCurdy in the act is the consequence of DOD failing to submit a SAR for a 15% breach or a certification for a 25% breach. Previously, if DOD failed to provide the required reports in a timely manner, no funds could be obligated for the program unless the House and Senate Armed Services Committees waived the funding prohibition. The act changed the penalty, stating that if the required reports are not filed in a timely manner, appropriated funds could not be obligated for construction, RDT&E, and procurement for a major contract under the program. However, once DOD submits the required reports, the prohibition ends at the end of 30 days of continuous session of Congress.

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78 P.L. 98-525 sec 1242 (a)(4); 98 Stat. 2607.
79 P.L. 98-525 sec 1242 (b)(2); 98 Stat. 2607.
80 P.L. 101-189 sec. 811(a); 103 Stat. 1490.
81 P.L. 101-189 sec. 811(a); 103 Stat. 1493.
82 P.L. 101-189 sec. 811(a); 103 Stat. 1490.
83 P.L. 101-189 sec. 811(a); 103 Stat. 1492.
Timeline Changes

The act changed the deadline by which a program manager must submit a unit cost report for the first quarter of a fiscal year from within seven days of the submission of the President’s budget to within seven days of the end of the quarter.84 The act also changed the timeline for the secretary to submit notifications and certifications to Congress. Specifically, the Secretary must submit a notification of a breach to Congress within 30 days of the service acquisition executive submitting his determination report to the Secretary.85 For a 25% breach, DOD must submit the written certification to Congress within 30 days of the deadline for submitting the SAR.86


Threshold Changes

In the FY1993 NDAA, Congress slightly modified the Nunn-McCurdy thresholds from more than 15% and 25% to at least 15% and at least 25%.87

Reporting Requirements

When a program breaches the Nunn-McCurdy thresholds, DOD is required to submit a SAR to Congress. The FY1993 NDAA provided some flexibility to this requirement (changes in italics), stating that a SAR shall be submitted to Congress for the quarter in which the determination is made that a breach occurred, or for the quarter which immediately precedes the quarter in which the determination is made.88 This added flexibility means that if a program has a breach in one quarter but the determination that a breach occurred does not happen until the next quarter, the Secretary can submit a SAR for either quarter.

Timeline Changes

The FY1993 NDAA changed the deadline for the program manager submitting a quarterly unit cost report to the service acquisition executive from seven business days to 30 calendar days after the end of the quarter.89 In addition, the act changed the timeline for notifying Congress of a breach if the breach was determined based on a quarterly unit cost report. Previously, the Secretary had to notify Congress of a breach within 30 days of the service acquisition executive reporting his determination to the secretary. Under the amended statute, the secretary must notify Congress within 45 days of the end of the quarter in which the breach took place.90

84 P.L. 101-189 sec. 811(a); 103 Stat. 1490.
87 P.L. 102-484 sec 817(d)(3) and (4); 106 Stat. 2457. The threshold for requiring the program manager to submit an additional unit cost report to the SAE for a program that breached Nunn-McCurdy and has since experienced further cost growth was modified from more than 5% to at least 5% over the most recent cost report.
88 P.L. 102-484 sec 817(d)(5)(A); 106 Stat. 2457.
89 P.L. 102-484 sec 817(d)(2); 106 Stat. 2456.
90 P.L. 102-484 sec 817(d)(3); 106 Stat. 2457.
Federal Acquisition Streamlining Act of 1994 (P.L. 103-355)

Definition of Procurement Unit Cost and Baseline Estimate

The Federal Acquisition Streamlining Act of 1994 (FASA) changed the definition of Procurement Unit Cost to mean total funds programmed to be available for obligation for procurement for the program divided by number of units procured. FASA also changed the benchmark against which cost growth is to be measured. FASA required the Secretary of the department managing an MDAP to develop a baseline description for the program. The description must include a cost estimate. The baseline description must be prepared prior to each major milestone.

Threshold Changes

FASA changed the way cost growth is measured, stating that cost growth should be measured in constant base year dollars, thereby excluding inflation as a factor for calculating cost growth.


The FY2006 National Defense Authorization Act amended Nunn-McCurdy to include the original baseline estimate as a standard against which to measure cost growth. The FY2006 NDAA also introduced the terms significant and critical cost growth that are used in the current Nunn-McCurdy Act. The new standard was intended to prevent DOD from avoiding a Nunn-McCurdy breach by simply re-baselining a program. Congress believed that these changes to Nunn-McCurdy would help “encourage the Department of Defense both to establish more realistic and achievable cost and performance estimates at the outset of MDAPs and to more aggressively manage MDAPs to avoid undesirable cost growth on these programs.”

The introduction of the original baseline threshold increased the number of programs triggering a reporting requirement to Congress. For example, according to DOD, 11 programs that did not have a Nunn-McCurdy breach prior to the new FY2006 requirements were re-categorized as having significant breaches as a result of the FY2006 legislation. The first SAR submitted by DOD after enactment of the FY2006 NDAA contained 36 programs that were in breach of one of the Nunn-McCurdy thresholds.

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91 P.L. 103-355 sec. 3002(a)(1); 108 Stat. 3328.
92 P.L. 103-355 sec. 3003(a); 108 Stat. 3329.
93 P.L. 103-355 sec. 3005(a); 108 Stat. 3330.
94 P.L. 103-355 sec. 3003(d); 108 Stat. 3329.

The FY2007 NDAA added to the definition of the baseline estimate, stating that the original baseline estimate is the description established for the program prepared before it enters system development and demonstration (Milestone B) or at program initiation, whichever is later, without adjustment or revision.98


The FY2007 NDAA applied Nunn-McCurdy to all major subprograms of MDAPs designated by the Secretary of Defense as major subprograms. To qualify as a major subprogram, an MDAP must have “two or more categories of end items which differ significantly from each other in form and function.”99

Weapon System Acquisition Reform Act of 2009 (P.L. 111-23)

This act introduced a number of changes to the Nunn-McCurdy Act, primarily by adding Section 2433a to Title X.100 Pursuant to Section 2433a, whenever a program suffers a critical breach, an analysis must be conducted to determine the root cause of the critical cost growth, as well as an assessment projecting the cost for

- completing the program as is,
- completing the program with modifications to the requirements, and
- alternative systems or capabilities.

The assessment must also include the extent to which funding for other programs needs to be reduced to cover the increased cost of the breaching program.101

According to Section 2433a, the program must be terminated unless the Secretary of Defense submits the required certifications and the root-cause analysis to Congress, including a new certification—that the program is a higher priority than those programs whose funding is reduced to cover the cost increases of the breaching program.102 If the program is not terminated, the program must

1. be restructured to address the root causes of cost growth,

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100 10 U.S.C. 2433a, which became part of Title X through the Weapons System Acquisition Reform Act of 2009.
101 10 U.S.C. 2433a(a).
102 10 U.S.C. 2433a(b).
2. have its most recent milestone approval revoked and have a new approval before entering into a new contract or exercising a contract option (the milestone decision authority can approve necessary contract actions),

3. include in the report all funding changes, including reductions in funding in other programs, to cover the cost growth.103


In this act, Congress waived the requirement to rescind the milestone approval for programs whose cost growth is due primarily to a strategic decision to change the quantity of items purchased.104 Under the amended statute, a program experiencing a critical Nunn-McCurdy breach does not have to have its prior milestone approval rescinded if

1. but for the change in the number of units being acquired, the program acquisition unit cost or procurement unit cost would not have increased by more than 5% of the current baseline estimate or 10% of the original baseline estimate and

2. the change in quantity was not made as a result of increasing costs, a delay in the schedule, or problems with meeting the requirements.

For DOD to invoke this exception, within 60 days of the SAR being submitted to Congress, the Secretary of Defense must submit to Congress a written determination, along with an explanation of the basis for the determination, that

1. based on the root-cause analysis, but for the change in the number of units being acquired, the program acquisition unit cost or procurement unit cost would not have increased by more than 5% of the current baseline estimate or 10% of the original baseline estimate and

2. the change in quantity was not made as a result of increasing costs, a delay in the schedule, or problems with meeting the requirements.

**Timeline Changes**

Previously, SARs had to be submitted with 60 days of when the President submitted the budget to Congress. The FY2012 NDAA decreased the time DOD has to submit the SAR to 45 days after the submission of the President’s budget.105

103 10 U.S.C. 2433a(c).
104 Sec. 831.
105 Sect. 812.
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