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Department of Defense Trends in Overseas Contract Obligations

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Summary

The Department of Defense (DOD) has long relied on contractors to support military operations. Contractors provide the U.S. military with weapons, food, uniforms, and logistic services, and without contractor support, the U.S. would currently be unable to arm and field an effective fighting force. DOD spends more on federal contracts than all other federal agencies combined.

Understanding the costs associated with contractor support of overseas military operations could provide Congress more data upon which to weigh the relative costs and benefits of different military operations, including contingency operations and maintaining bases around the world.

The federal government tracks contract obligations through the Federal Procurement Data System-Next Generation. *Obligations* occur when agencies enter into contracts, employ personnel, or otherwise legally commit to spending money. *Outlays* occur when obligations are liquidated. This report examines (1) DOD's overseas contract obligations in the larger context of U.S. government and DOD contract spending, and (2) how those contract obligations are used to support DOD operations in different regions.

Total DOD Contract Obligations

From FY1999 to FY2008, DOD contract obligations increased from $165 billion (in FY2010 dollars) to $414 billion (in FY2010 dollars). Contract obligations also consumed an increasing share of total DOD obligations, increasing from 50% of total obligations in FY2003 to 60% in FY2008. In FY2009 and FY2010, DOD contract obligations decreased. In FY2010, DOD obligated $366 billion to contracts (54% of total DOD obligations).

DOD Contract Obligations Performed Overseas

DOD obligated $45 billion for contracts performed overseas in FY2010. Although much of these funds were to support operations in Afghanistan and Iraq, a significant portion—$18 billion, or 40%—was spent to support DOD operations in other parts of the world.

DOD contract obligations for work performed overseas went primarily to the region that falls under the jurisdiction of U.S. Central Command (61% of total), which includes the Iraq and Afghanistan areas of operation. DOD contractors working abroad performed their remaining work in the geographic regions that fall under U.S. European Command (21%), U.S. Pacific Command (7%), U.S. Northern Command (7%), U.S. Southern Command (1%), and U.S. African Command (1%). Combined, Central Command and European Command represent over 80% of all overseas contract obligations and approximately 85% of all U.S. troops deployed overseas.

Comparison of DOD, State, and USAID Overseas Contract Obligations

Some analysts argue that the United States needs to strengthen its use of soft power to achieve foreign policy objectives. Such a whole-of-government approach brings together the resources of, among others, DOD, the Department of State, USAID—and government contractors. Over the past 12 fiscal years, DOD's share of total federal government obligations for contracts performed abroad has trended down from a high of 90% in FY1999 to 73% in FY2010. Over the same period, combined Department of State and U.S. Agency for International Development contract obligations increased from 4% to 11% of all U.S. government overseas obligations.

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Introduction

The Department of Defense (DOD) has long relied on contractors to support overseas military operations. Contractors provide the U.S. military with weapons, food, uniforms, and logistic services, and without contractor support, the United States would currently be unable to arm and field an effective fighting force. In FY2010, DOD obligated $45 billion for contracts performed overseas. Although much of these funds were obligated to fund operations in Afghanistan and Iraq, a significant portion—$18 billion, or 40%—was spent to support DOD operations in other parts of the world. Most of the overseas contract obligations related to supporting U.S. troops stationed abroad.

Congress has long recognized the critical role contractors play in supporting overseas military operations and has grappled with the role of contractors in supporting overseas operations and the costs associated with DOD's reliance on contractors. Understanding the costs associated with contractor support of overseas military operations could provide Congress more data upon which to weigh the relative costs and benefits of different military operations, including contingency operations and maintaining permanent bases around the world. This report examines (1) DOD's overseas contract obligations in the larger context of U.S. government and DOD contract spending, and (2) how those contract obligations are used to support DOD operations in different regions.

Total DOD Contract Obligations

When Congress appropriates money, it provides *budget authority*—the authority to enter into obligations. *Obligations* occur when agencies enter into contracts, submit purchase orders, employ personnel, or otherwise legally commit to spending money. *Outlays* occur when obligations are liquidated (primarily through the issuance of checks, electronic fund transfers, or the disbursement of cash).[1]

How is government contract data tracked?

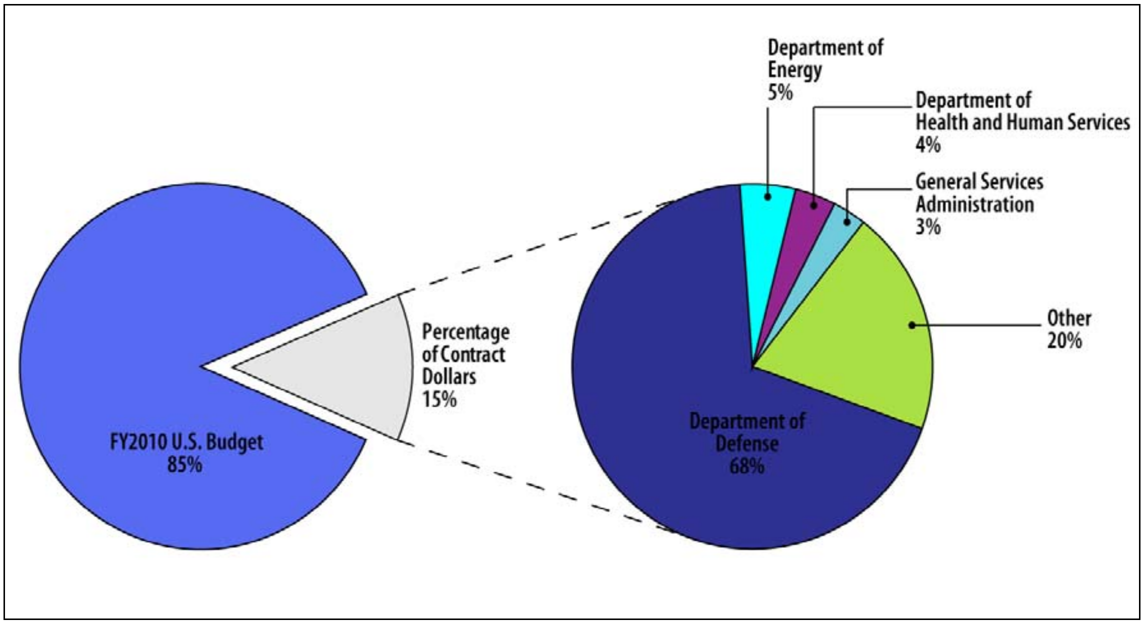
The contract data in this report come from the Federal Procurement Data System—Next Generation (FPDS-NG), a central database of U.S. government-wide procurement. FPDS-NG generally reports information on contracts that exceed $3,000 in obligations. FPDS-NG does not include data from judicial branch agencies, the Government Accountability Office (GAO), the Congressional Budget Office (CBO), or select executive branch agencies, such as the Central Intelligence Agency and National Security Agency. GAO, CBO, and the Special Inspector General for Iraq Reconstruction have all raised concerns over the accuracy and reliability of the data contained in the database. Given these concerns, data from FPDS-NG is used in this report only to identify broad trends and rough estimations. FPDS-NG began operating on October 1, 2003, and contains data from 1978 to the present.

[1] CRS Report 98-721, *Introduction to the Federal Budget Process*, coordinated by Bill Heniff Jr., p. 2. GAO defines an obligation as "a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another." U.S. Government Accountability Office, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP, September 1, 2005.

In FY2010, the U.S. government obligated $535 billion for contracts for the acquisition of goods, services, and research and development.[2] The $535 billion obligated on contracts is equal to 15% of the entire FY2010 U.S. budget of nearly $3.6 trillion. As noted in **Figure 1**, DOD obligated more money on federal contracts than all other government agencies combined, $366 billion, equal to 11% of the entire U.S. budget.

Figure 1. Contract Obligations by Agency

FY2010



Source: *USASpending.gov*, March 2, 2011. *USASpending.gov* derives its data from FPDS-NG. Figure by CRS Graphics.

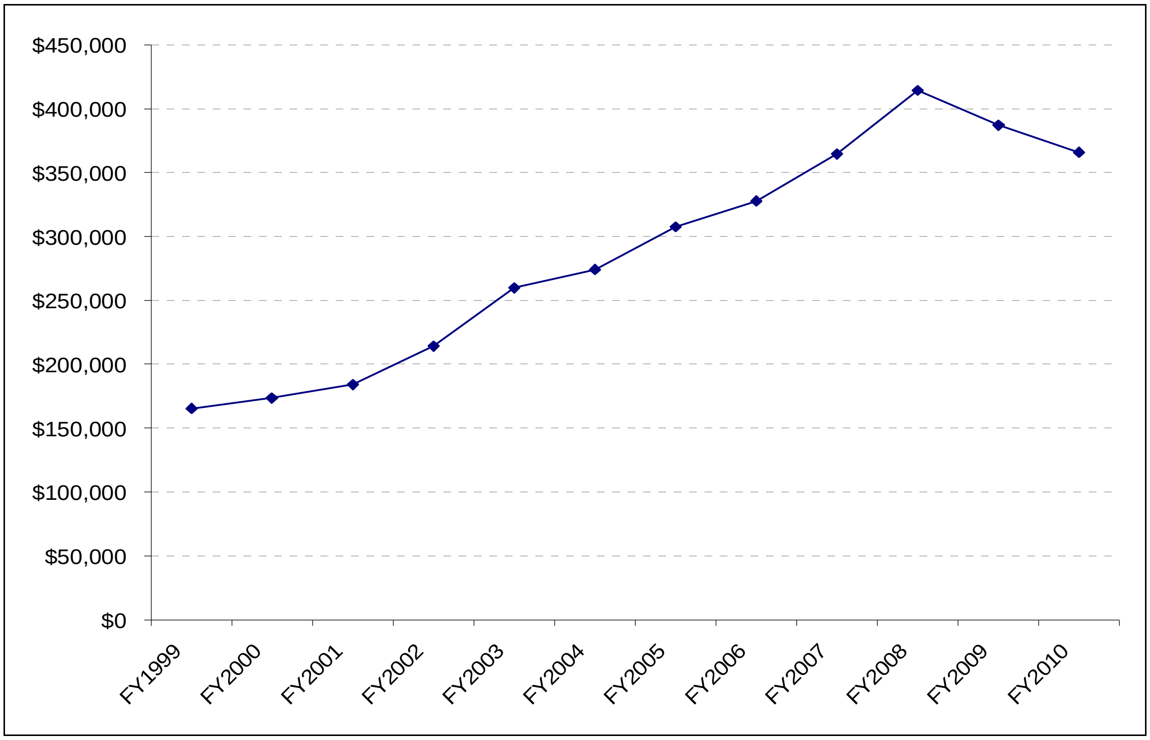
From FY1999 to FY2008, adjusted for inflation, DOD contract obligations increased from $165 billion (in FY2011 dollars) to $414 billion (in FY2011 dollars) (see **Figure 2**). Contract obligations also consumed an increasing share of total DOD obligations, increasing from 50% of total obligations in FY2003 to 60% in FY2008.[3]

[2] The U.S. Government obligated more money on services (51%) than on goods (37%) and research and development (11%) combined (numbers do not equal 100% due to rounding). Calculations are based on total contract dollars in FY2010 from Federal Procurement Data System—Next Generation, February 24, 2011, and the Budget of the United States Government: Fiscal Year 2012.

[3] For purposes of this report, total obligations are defined as total direct obligations. See Department of Defense, *Budget for Fiscal Year 2005-FY2010*, Financial Summary Tables. Deflators for converting into constant dollars derived from Office of the Under Secretary of Defense (Comptroller), Department of Defense, *National Defense Budget Estimates for FY2011*, "Department of Defense Deflators – TOA 'Total Non-Pay,'" p. 46, March 2010.

Figure 2. DOD Contract Obligations

FY1999-FY2010 (in millions)



Source: Federal Procurement Data System—Next Generation, January 3, 2011.

Notes: Deflators for converting into constant dollars derived from Office of the Under Secretary of Defense (Comptroller), Department of Defense, *National Defense Budget Estimates for FY2011*, "Department of Defense Deflators – TOA, 'Total Non-Pay,'" p. 46, March 2010.

As shown above, in FY2009 and FY2010 DOD decreased the amount of obligations that went to contractors. In FY2010, out of total direct obligations of $681 billion, DOD obligated $366 billion (54%) to contracts, compared to $414 billion (60%) in FY2008.[4] DOD's overall decreased reliance on overseas contractors is not a result of a policy to use fewer contractors in Afghanistan and Iraq. Contract obligations to support operations in Afghanistan and Iraq have remained relatively stable over the past two years.[5]

DOD Contract Obligations Performed Overseas

DOD relies on contractors to support operations worldwide, including contingency operations in Afghanistan and Iraq, permanently garrisoned troops overseas, and ships docking at foreign ports.

[4] DOD obligations in FY2010 broke down as follows: 45% on goods, 43% on services, and 12% on research and development. Contract obligation data drawn from FPDS-NG, January 3, 2011, for FY1999 through FY2010. See Department of Defense, *Budget for Fiscal Year 2012, Financial Summary Tables*, for total direct obligations.

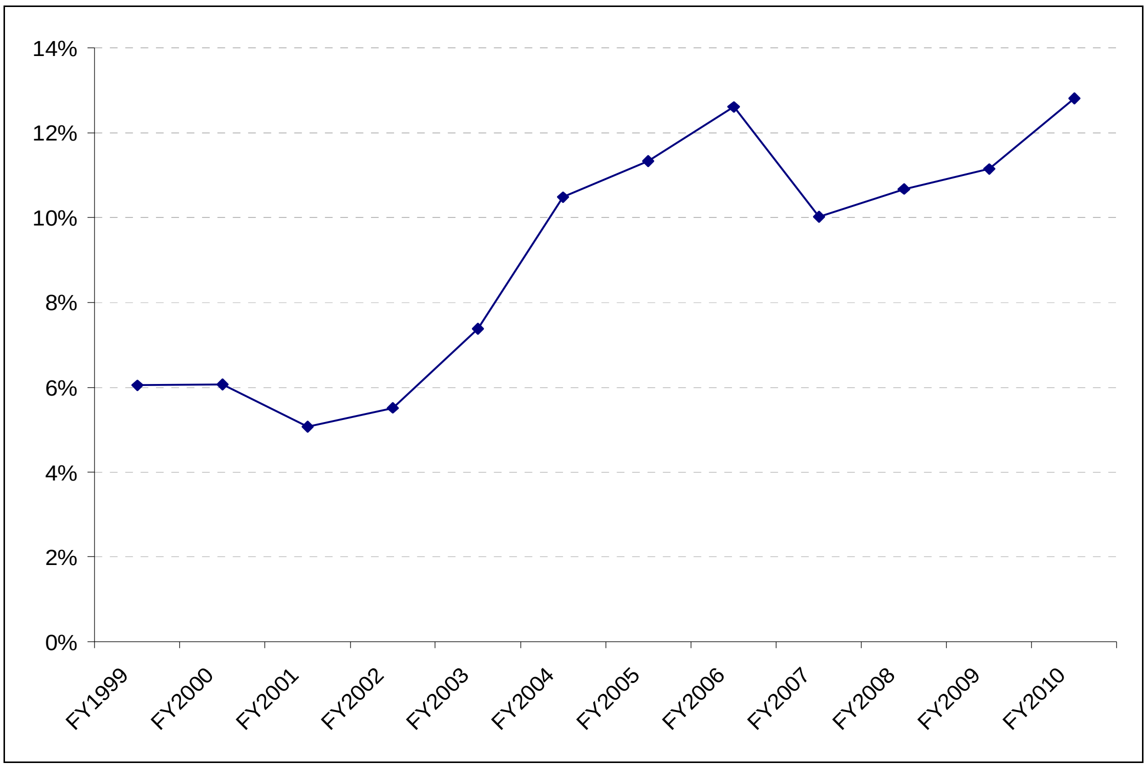
[5] Contract obligations in the Afghanistan and Iraq areas of operation decreased from $29 billion in FY2008 to $27 billion in FY2010.

What is place of performance?

FPDS-NG defines place of performance as "the location of the principal plant or place of business where the items will be produced, supplied from stock, or where the service will be performed."[6] Foreign place of performance is defined here as work produced, supplied, or performed primarily outside of the United States or its territories. Because FPDS-NG only allows for one country to be listed as the place of performance, contracts listed as being performed in one country can also involve substantial performance in other countries.

In FY2010, DOD obligated more than $45 billion or 12% of its total contract obligations for work performed outside of the United States (see **Figure 3**).[7] Operations in Afghanistan and Iraq accounted for approximately 60% of all contract obligations ($27 billion) for work performed outside of the United States.[8] Excluding operations in Afghanistan and Iraq, overseas obligations would represent approximately 5% to 6% of all DOD contract obligations.[9]

Figure 3. Percentage of DOD Contract Obligations Performed Outside the United States



Source: FPDS-NG, January 3, 2011, for FY1999 through FY2010.

6 General Services Administration, Federal Procurement Data System-Next Generation (FPDS-NG) Data Element Dictionary, version 1.4, February 15, 2011.

7 FPDS-NG, January 3, 2010, for FY1999 through FY2010.

8 Based on Congressional Budget Office (CBO) methodology, the Iraqi theater includes Iraq, Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, and the United Arab Emirates. See Congressional Budget Office, *Contractors' Support of U.S. Operations in Iraq*, August 2008, p. 3. For purposes of this analysis, the Afghan theater includes Afghanistan, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

9 Projection based on the level of overseas obligations prior to the onset of operations in Afghanistan and Iraq and by comparing current overseas obligations, less Afghanistan and Iraq, to overall current obligations.

Where DOD Obligates Contract Dollars

DOD divides its missions and geographic responsibilities among six unified combatant commands, including the U.S. Northern Command (NORTHCOM), U.S. African Command (AFRICOM), U.S. Central Command (CENTCOM), U.S. European Command (EUCOM), U.S. Pacific Command (PACCOM), and U.S. Southern Command (SOUTHCOM).[10] These commands do not control all DOD contracting activity that occurs within their respective geographic areas of responsibility. Transportation Command (TRANSCOM) may contract with a private company to provide transportation services in the Central Command area. For purposes of this report, DOD contract obligations are categorized by the place of performance, not the DOD component that signed the contract or obligated the money. For example, all contract obligations for work in the geographic location that falls under the responsibility of CENTCOM will be allocated to CENTCOM.

In FY2010, most of DOD's contract work (88%) was performed in NORTHCOM. While NORTHCOM also includes the Bahamas, Canada, and Mexico, the majority of this money is spent within the United States and its territories.[11] DOD obligated 8% of its contract work to CENTCOM, followed by 3% in EUCOM and 1% in PACCOM.[12]

The Unified Combatant Commands where DOD obligates contract dollars reflects DOD's military operations and overseas permanent garrisoned U.S. troops. DOD contract obligations for work performed overseas went primarily to CENTCOM (61%), which includes the Iraq and Afghanistan areas of responsibility. DOD contractors performed their remaining work abroad in EUCOM (21%), PACCOM (7%), NORTHCOM (7%), SOUTHCOM (1%), and AFRICOM (1%) (see **Figure 4** and **Table 1**). CENTCOM and EUCOM combined represent over 80% of all overseas contract obligations and approximately 85% of troops deployed overseas.[13]

[10] Department of Defense, *Unified Command Plan*, December 17, 2008.

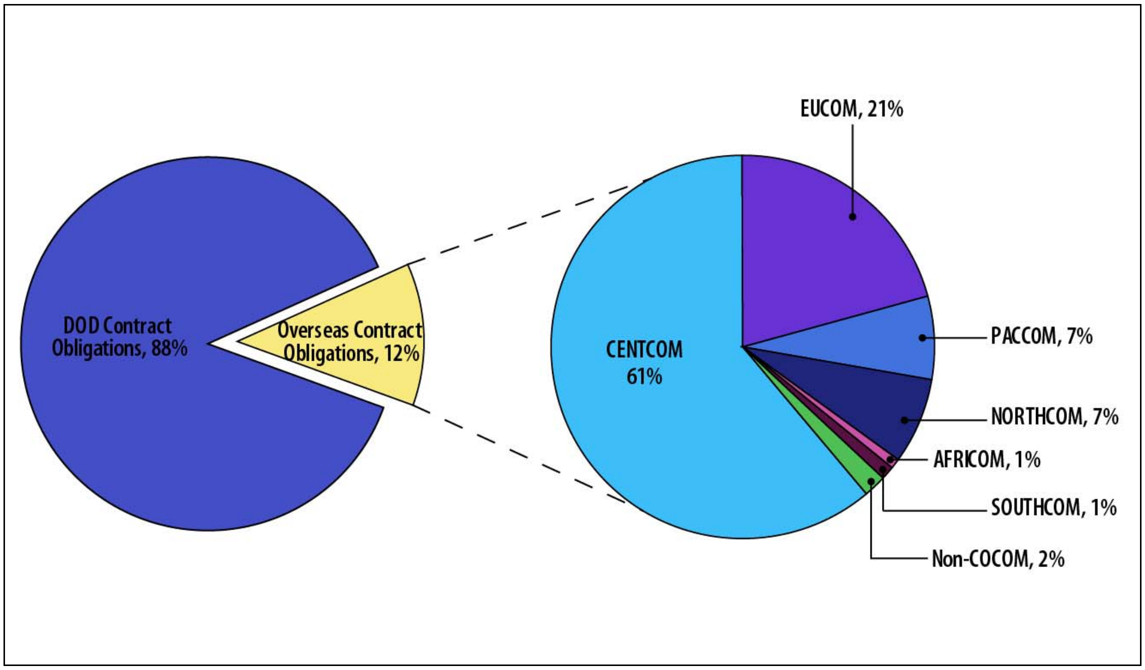
[11] In FY2010, DOD obligated 99% of its contract work in NORTHCOM to the United States and its territories. Some countries do not fall under the geographical jurisdiction of any of the Unified Combatant Commands.

[12] Percentages based on data from FPDS-NG, January 4, 2011, for FY1999 through FY2010. Each Unified Combatant Command lists the countries that comprise its areas of responsibility on its respective website.

[13] Based on data provided by the Defense Manpower Data Center, as of September 30, 2010. For number of troops in South Korea, see CRS Report R41481, *U.S.-South Korea Relations*, coordinated by Mark E. Manyin.

Figure 4. DOD Contract Obligations for Work Performed in Combatant Commands Areas of Responsibility

FY2010



Source: FPDS-NG, January 3, 2011, for FY2010. Figure by CRS Graphics.

Table 1. Value of Obligations for Contracts Performed in Combatant Commands Areas of Responsibility

FY2010

Unified Combatant Command	Amount
CENTCOM	$27,618,890,372
EUCOM	$9,652,423,800
PACCOM	$3,381,097,568
NORTHCOM	$3,095,378,614
AFRICOM	$526,775,708
SOUTHCOM	$490,057,648

Source: FPDS-NG, January 3, 2011, for FY2010.

Notes: Total does not equal 100% because approximately 2% of DOD contact obligations are for contracts performed in countries that do not fall under any of the Unified Combatant Commands.

Of the top 10 countries where DOD contractors perform work abroad, 4 are in CENTCOM, 3 are in EUCOM, 2 are in PACCOM, and 1 is in NORTHCOM (see **Table 2**).

Table 2. Top 10 Foreign Countries

By Contract Place of Performance, FY2010

Rank	Country	Amount	Unified Combatant Command
1	Afghanistan	$11,388,984,141	CENTCOM
2	Iraq	$6,951,316,839	CENTCOM
3	Kuwait	$4,491,779,115	CENTCOM
4	Canada	$2,979,078,000	NORTHCOM
5	Germany	$2,455,331,525	EUCOM
6	United Arab Emirates	$2,368,843,593	CENTCOM
7	United Kingdom	$2,311,271,319	EUCOM
8	Sweden	$2,089,727,880	EUCOM
9	Japan	$1,832,346,842	PACCOM
10	South Korea	$1,240,436,061	PACCOM

Source: FPDS-NG, January 3, 2011, for FY2010.

Recently, Congress has focused on DOD's construction and fuel contracts, as a result of operations in Afghanistan and Iraq. In FY2010, DOD obligated $24.8 billion (7% of overseas contract obligations) for construction, of which approximately $2.7 billion was for construction in Afghanistan and Iraq.[14] In FY2010, DOD obligated $12.4 billion (3% of overseas contract obligations) for fuel, of which approximately $4.8 billion was for fuel in Afghanistan and Iraq areas of responsibility.[15]

Operations in Afghanistan and Iraq

As discussed above, 60% of all DOD overseas contract obligations in FY2010 were for work performed in the Afghanistan and Iraq areas of operation. Contractors provide a wide variety of services and products to support DOD operations in Afghanistan and Iraq, including base support, construction, security, training of local security forces, and transportation. While many of these contracts are for work in Afghanistan and Iraq, a number are for work to be performed in surrounding countries within the U.S. Central Command (CENTCOM).

[14] For more background on military construction, see CRS Report R41653, *Military Construction: Analysis of the President's FY2012 Appropriations Request*, by Daniel H. Else.

[15] The FPDS-NG category for fuel also includes obligations for oils and lubricants. For more background on DOD's fuel expenditures, see CRS Report R40459, *Department of Defense Fuel Spending, Supply, Acquisition, and Policy*, by Anthony Andrews. According to the Defense Logistics Agency, DOD $14.5 billion dollars for energy. This figure includes expenses for petroleum, natural gas, aerospace energy, federal excise tax, transportation, facilities, DLA Energy operations and headquarters. In addition, the figures includes over one billion in increased inventory on hand at the end of the fiscal year. See Defense Logistics Agency, *Defense Logistics Agency Energy, Fact Book Fiscal Year 2010*, pp. 20, 22-23, http://www.energy.dla.mil.

DOD reports on the breakdown of the type of services that contractors provide in Iraq, but it does not provide a similar breakdown for Afghanistan. As of December 2010, base support functions (such as maintaining the grounds, running dining facilities, and performing laundry services) and security combined to represent almost 80% of DOD contractor personnel in Iraq.

As the services required by DOD change during the course of operations, the percentages and numbers of contractors providing different types of services also change. For example, from June 2008 to December 2010, contractors providing base support and construction services in Iraq declined by 53% and 97%, respectively, whereas the number of contractors providing security actually increased by 39%. The drop in the number of contractor personnel performing base support and construction is a reflection of DOD's shrinking footprint and winding down of reconstruction activities in Iraq.

Whole-of-Government Approach

In FY2009, DOD had a base budget of $515.4 billion,[16] more than 13 times the combined budgets of the Department of State, the U.S. Agency for International Development (USAID), and other foreign affairs agencies.[17] In addition, DOD had a total workforce of more than 2.4 million, nearly 70 times the combined workforce of the Department of State and USAID.[18] A number of analysts have argued that as a result of its larger budget and workforce, DOD often undertakes traditionally civilian missions because other agencies do not have the necessary resources to fulfill those missions. Senate Foreign Relations Committee Majority, Discussion Paper on Peacekeeping, Majority Staff, April 8, 2010, states, "The civilian capacity of the U.S. Government to prevent conflict and conduct post-conflict stabilization and reconstruction is beset by fragmentation, gaps in coverage, lack of resources and training, coordination problems, unclear delineations of authority and responsibility, and policy inconsistency." These analysts have argued that to achieve its foreign policy goals, the United States needs to take a more whole-of-government approach that brings together the resources of, among others, DOD, the Department of State, USAID—and government contractors. Secretary of Defense Robert Gates echoed this approach when he argued for strengthening the use of soft power in national security through increased non-defense spending. As Secretary Gates stated:

> What is clear to me is that there is a need for a dramatic increase in spending on the civilian instruments of national security—diplomacy, strategic communications, foreign assistance, civic action, and economic reconstruction and development ... We must focus our energies beyond the guns and steel of the military, beyond just our brave soldiers, sailors, Marines, and airmen. We must also focus our energies on the other elements of national power that will be so crucial in the coming years.[19]

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[16] Based on the Budget for the U.S. Government, Fiscal Year 2009. This figure excludes supplemental war funding.

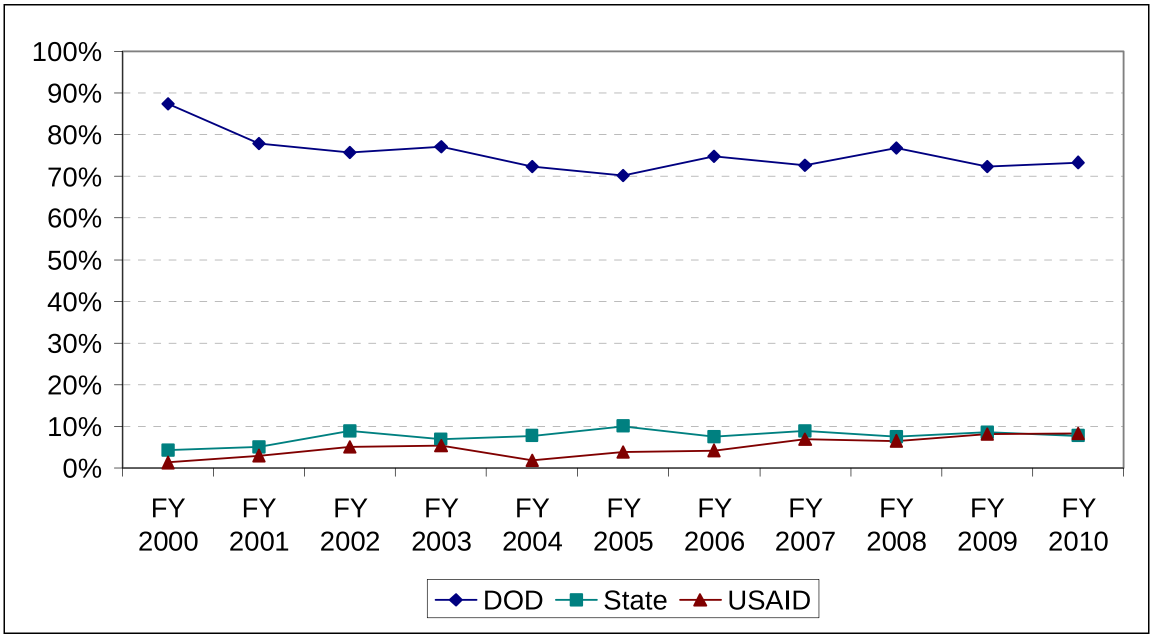
[17] Statistic based on foreign operations budget request for FY2009, which includes Department of State, USAID, and other foreign affairs agencies and offices, such as the Millennium Challenge Corporation, Peace Corps, Inter-American Foundation, and the African Development Foundation. Offices with the Department of Treasury and Department of Agriculture also receive funding from this request. Finally, several multilateral economic assistance organizations such as the African and Asian Development Banks are also included in this request.

[18] DOD workforce includes active military, reserves, and civilians. Reserves are generally not full-time employees. National Guard is not included in the total. Department of State workforce includes foreign service officers, civil service, and foreign service nationals. Based on Full Time Employee (FTE) equivalents. Contractors are excluded from all counts.

[19] Remarks delivered by Secretary of Defense Robert M. Gates at Manhattan, KS, November 26, 2007.

Contract obligations since FY 2000 indicate a shift toward a more whole-of-government approach to achieving foreign policy objectives. DOD's share of total government obligations for contracts performed abroad has trended down from a high of 87% in FY2000 to 73% in FY2010. Over the same period, combined Department of State and USAID contract obligations increased from 5% to 16% of all U.S. government overseas obligations (see **Figure 5**).

Figure 5. DOD's Proportion of Total U.S. Government Contract Work Performed Overseas



Source: DOD data from FPDS-NG, January 4, 2011. Department of State and USAID data from FPDS-NG on March 16, 2011.

Notes:. USAID was established as an independent agency in 1961, but receives overall foreign policy guidance from the Secretary of State.

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