Statement of William M. "Mac" Thornberry
Chairman, Committee on Armed Services
Before the Committee on the Budget
CBO Oversight: Member Day
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Chairman Womack and Ranking Member Yarmuth,

Thank you for this opportunity to testify today to engage in the ongoing conversation regarding the Congressional Budget Office (CBO)'s mission, work product, and transparency effort. I appear before you today to ask for consideration by the Budget Committee to modify the standards of how multi-year service contracts are scored, and describe mandatory spending issues associated with the authorization of multi-year contracts, using commercial satellite communications (COMSATCOM) as an example.

Based on current standards provided to CBO by Congress, multi-year contracts for services is predominantly scored as mandatory spending for the out-year costs. CBO scores these provisions conservatively, and subsequently anticipates a mid-term cancellation of a contract which result in significant termination costs. The termination costs would be an obligation to the government and therefore mandatory spending. The scoring and assumption of termination liability has led to a general aversion to authorizing multi-year service contracts in previous authorization acts.

Over the past several years, Congress, working with the Department of Defense and the industrial base, has attempted to provide multi-year contract authority for service contracts. Currently, such contracts are purchased on a one-year basis. This fixed level of contracting authority does not allow for future planning for both the Department and private industry. Providing multi-year authority for the Department would allow for lower costs over the life of the contract, and would provide a demand signal for the industrial base to move forward with necessary capital investments.

For example, the amount of commercial satellite communications purchased in an average year is approximately $200 million. In discussions with industry and the department, a five-year contract for the same communications could total $700 million over the life of the contract, or an average of $140 million per year. Over this five-year period, there could be a savings to the taxpayer of $300 million in discretionary spending.

Not only does a CBO estimate of a multi-year contract provision not account for any potential savings in discretionary spending, but CBO also determines a mandatory spending cost in the form of a termination liability. CBO assumes a possible breach of contract for each multi-year agreement, and this estimated termination liability is scored as a mandatory obligation to the government. The estimated mandatory spending associated with the commercial satellite communication contract example above is in the range of $200-$300 million, which seemingly obviates the discretionary savings over the term of the contract.

CBO's stated mission is to produce independent analyses of budgetary and economic issues to support the Congressional budget process. To meet that intent, the Budget Committee should work with CBO to review and update how they assume termination liability, how they score multi-year contracts, and where appropriate risk should be tolerated. We should encourage legislation that projects to generate significant savings, whether that be discretionary or mandatory.

Changes to CBO practices should allow for these proposals to become law. One option could be to provide a discount on the termination liability by offsetting the amount by any estimated discretionary savings over the life of the contract. Another option could be to reduce or eliminate termination liability as an estimated obligation to the government.

In closing, CBO remains a dynamic and supportive non-partisan organization that has routinely proved itself to be capable of adapting to new models, assumptions, analytical tools. As the Budget Committee considers possible changes to these standards, I would welcome further discussion on the scoring of multi-year service contracts.