



**THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH**  
419 New Jersey Avenue, SE, Washington, D.C. 20003 202-546-3700  
Fax: 202-546-2390 E-mail: [randsell@calinst.org](mailto:randsell@calinst.org) Web: <http://www.calinst.org>

---

## **SPECIAL REPORT:**

# **Defense Appropriations FY 2003 Conference Report and California Implications -- *October 16, 2002***

---

By a vote of 93 to 1 on October 16, 2002, the Senate passed the conference report to accompany H.R. 5010, the Defense Appropriations bill for Fiscal Year 2003. The House of Representatives had passed the conference report on October 10 by a vote of 409 to 14. The conference report is numbered H.Rpt. 107-732.

The following represents a quick analysis of the bill from a California perspective as prepared by the California Institute. We apologize for any errors or omissions in our discussion of these documents, and would appreciate any input/feedback on how to make improving corrections. The ordering of items generally reflects their presence in the bill and does not mean to imply any relative importance. This report is available on the California Institute website in text format at <http://www.calinst.org/pubs/def03c.htm> and in Adobe Acrobat (pdf) format at <http://www.calinst.org/pubs/def03c.pdf>.

The Defense appropriations conference report provides a total of \$355.1 billion in new Defense Department spending authority, an increase of \$37.5 billion over Fiscal Year 2002 levels (not including supplemental expenditures passed within the past year). It also represents a reduction of \$1.6 billion from the President's budget request (not including the \$10 billion reserve). Earlier in the year, the House had approved a bill calling for \$354.7 billion for the bill, and the Senate had approved a \$355.4 billion measure.

For overall DOD procurement, the Defense Appropriations conference report provides \$71.6 billion (an increase of \$10.7 billion from FY 2002), and for Research, Development, Testing, and Evaluation (or RDTE), the measure provides \$58.6 billion (\$9.9 billion above the level for fiscal 2002). For military personnel, the bill provides \$93.6 billion (\$11.5 billion more than in FY 2002), supporting 1.4 million active duty and 864,558 guard and reserve personnel and fully funding a pay raise of 4.1%. The report provides \$114.8 billion (\$9.7 billion above the 2002 level) for operation and maintenance.

In funding under DOD's aircraft procurement accounts, for which California firms typically compete strongly, the conference report provides \$13.1 billion for Air Force aircraft purchases, \$8.8 billion for Naval aircraft procurement, and \$2.3 billion for Army aircraft.

The conference report approves \$3.3 billion for 15 C-17 transport aircraft, an addition of \$586 million to the budget to fully fund the fiscal year 2003 acquisition costs, rather than providing incremental funding increases as had been proposed by the Air Force. The C-17 is built by Boeing

in its Long Beach facility. (The bill also includes approves the President's multiyear request for future procurement of 40 C-130Js for the Air Force and 24 KC-130Js for the Marine Corps.)

The C-17 language states, "In the Department of Defense's fiscal year 2003 budget submission, the Air Force did not request a sufficient amount to fully fund the purchase of 15 C-17 cargo aircraft per year. Instead, it requested only the amount of funds it expected to obligate each year to start production of 15 aircraft, and financed the remaining costs in later years. This financing scheme runs counter to the 'full funding' principles which guide Federal government procurement practice, and thereby creates a future liability for the Air Force and Congress. For this reason, the conferees disapprove the Air Force's C-17 financing proposal. As such, the conference agreement includes an increase of \$585,900,000 over the budget request to fully fund the purchase of 15 C-17 aircraft in fiscal year 2003. Additionally, the conferees agree to retain House language which directs that funds made available within the 'Aircraft Procurement, Air Force' account be used for advance procurement of 15 aircraft." The Air Force funding also includes \$11.3 million for a C-17 maintenance trainer.

The bill includes \$129 million for procurement of 3 Global Hawk Unmanned Aerial Vehicles (UAVs), and \$42 million to accelerate development of a Navy Global Hawk variant (Broad Area Maritime Surveillance). The Global Hawk is largely built in California and Beale Air Force Base in Northern California serves as a primary hub of Global Hawk activity. The bill also includes \$131 million for procurement of 22 Predator UAVs, an addition of \$26 million over the Administration's budget request. The total appropriation for all UAV programs is \$352.7 million. In report text, the conferees rejected an Administration request for an additional \$30 million for the development of a U-2 like defensive system for the Global Hawk UAV and reprogrammed sensor and other funding within the Global Hawk account.

The conference report provides \$3.2 billion for 46 Navy F/A-18 E/F fighters, including an additional \$120 million above the budget request for 2 additional aircraft. It also provides \$4 billion for 23 F-22 fighters, and \$3.5 billion for continued development of the Joint Strike Fighter (JSF). Elsewhere, the report prohibits the use of appropriated funds for approving the license or sale of F-22 fighters to any foreign government. Report language states that an additional \$29.8 million is included for the JSF Interchangeable Engine Program only to continue the current effort to develop and maintain two, competing, interchangeable engine programs for the aircraft.

The report provides \$106 million for the B1B program, including a new \$8 million item for wing components, and it provides for an increase of \$7.7 million from the budget request in funding for B-1 bomber modifications. It also provides \$104.1 million for the B2A bomber program, including an additional \$25 million for UHF satellite communications equipment.

The report provides a total of \$7.4 billion for ballistic missile defense research and development and related procurement activities, a reduction of \$14.4 million from the President's budget request.

The bill approves an increase of 17% for the Defense Advanced Projects Agency (DARPA) over fiscal year 2002 levels. A sizeable portion of DARPA research funds are expended in California.

In a section devoted to advanced semiconductor devices, the conference report stated "The conferees recommend that the Department of Defense conduct a study to examine the long-term DoD acquisition model for advanced semiconductor devices used in military and intelligence applications. This study should address whether a consolidated U.S. semiconductor foundry could offer the U.S. Government a solution to the impending advanced technology procurement challenge. The Department is encouraged to make this study a high priority so that a preliminary

assessment can be available by December 2002.” California continues to be a hub of the U.S. semiconductor manufacturing industry.

The conference report places limits on the federal government’s use of federally funded research and development centers (FFRDCs) to accomplish goals. The bill prohibits the use of funds to establish a new DOD FFRDC; limits the Federal compensation to be paid to FFRDC members or consultants; limits certain uses of 2003 FFRDC funds, including staffing totals; and reduces by \$91.6 million the total amount appropriated for FFRDCs.

The conference report recommends that \$4.5 million of the funds for enhanced secure communications may be used to “increase the availability of current generation NSA-approved secure nationwide digital cell phones to meet urgent service needs.” The language directs DOD to “consider accelerating the National Security Agency’s continued development of secure cellular wireless technology and multi-band functionality. To accomplish this the conferees would be supportive of a reprogramming of \$10,000,000 to support development of a more robust secure nationwide cellular capability with multi-band functionality.” California is a major center of wireless technology research and development. In separate language, the report expresses concern that the Army National Guard lacks a near-term capability or plan to ensure a secure cellular phone capability for use in the event of a domestic emergency, requests a report on plans to achieve that objective, and states that conferees “would be supportive of a reprogramming to increase this capability.”

The conference agreement provides \$246.1 million for environmental restoration on formerly used defense sites -- such as closed and closing military bases -- which is up from the \$212.1 million proposed by the House but below the \$252.1 million proposed by the Senate. In other environmental restoration accounts used for existing bases, the bill provides \$395.9 million for Army facilities, \$256.9 million for Navy facilities, \$389.8 million for Air Force facilities, and \$23.5 million for defense-wide facilities.

Increases above the budget request are provided in the operations accounts for now-closed George Air Force Base (\$2.1 million) and Norton Air force Base (\$2.6 million), and an additional \$1.4 million is provided for the Hunters Point Naval Shipyard.

Attached to and passed with the Defense appropriations conference report was a separate bill entitled the Commercial Reusable In-Space Transportation Act of 2002. The bill authorizes DOD to guarantee up to an aggregate total of \$1.5 billion in loans made to eligible U.S. commercial providers for purposes of producing commercial reusable in-space transportation services or systems. Criteria for loan eligibility would be determined by the Secretary of Defense. In addition to transportation, such private sector space systems could be used to correct improperly aligned or erroneously orbiting satellites, dispose of unnecessary orbiting equipment, increase the capability and reliability of existing ground-to-space launch vehicles, transfer satellites from low altitude orbits to high altitude orbits and return, and recover, refurbish, and refuel existing and future satellites.