Services Contracts Update:
PSC Views & Insight

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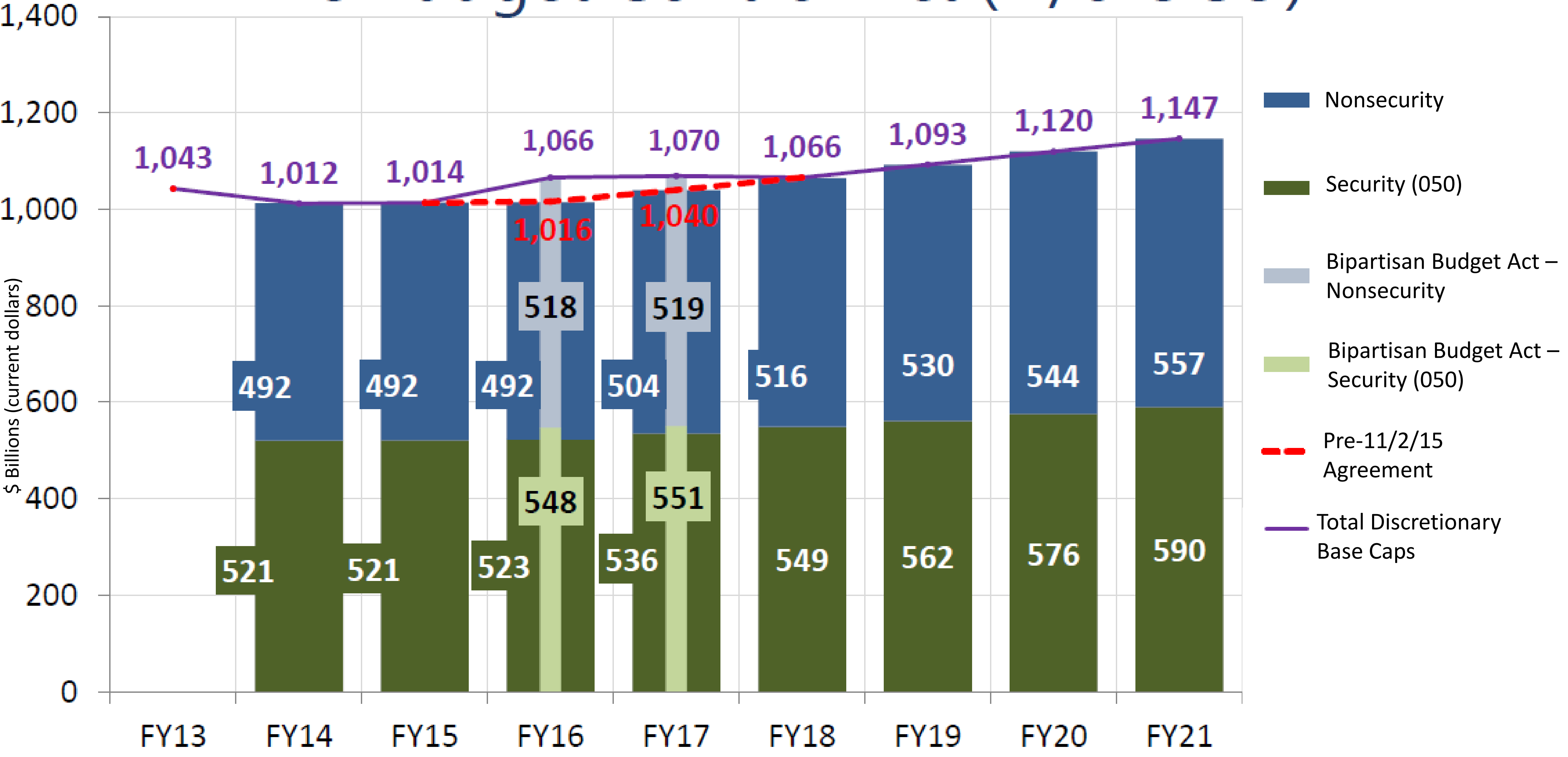
The Fiscal Environment

- The Bipartisan Budget Act (BBA) of 2015 set the discretionary spending caps for FY16 and FY17 above the levels of the 2011 Budget Control Act (BCA)
  - Full year appropriations (finally) enacted for balance of FY17
- Despite the BBA, budget levels (both in base budgets and OCO) are still major points of political contention for both defense and non-defense sectors
  - Defense and non-defense spending remain independently capped by statute; one can't be cut to increase the other
  - Overseas Contingency Operations (OCO) funding is not BCA constrained
  - BCA caps apply to FY18-FY21 – but no one likes them
- Uncertainty remains over FY18 Budget caps and funding levels
- The debt ceiling re-emerged March 15, 2017; congressional action postponed – but for how long?

The Budget Control Act (w/o OCO)



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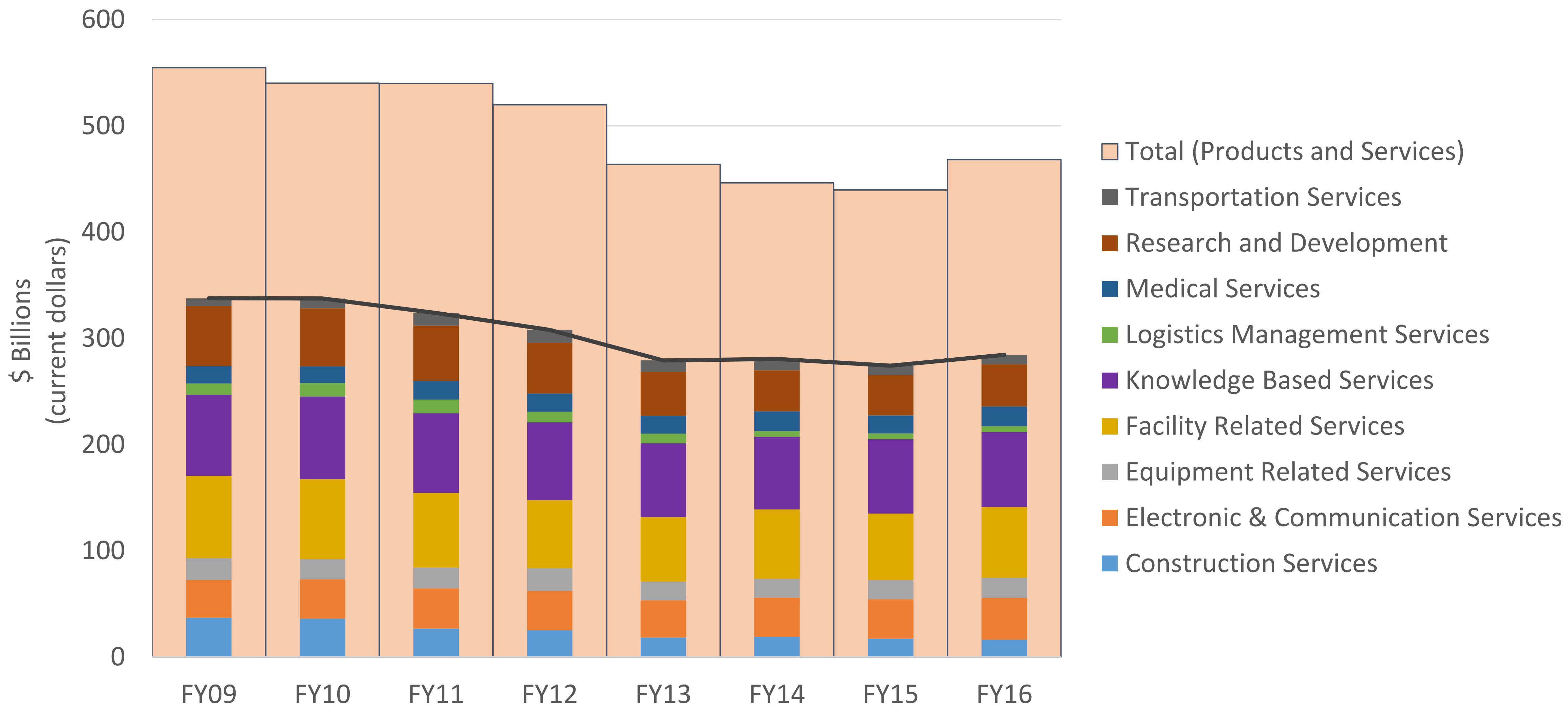
Source: PSC analysis of the Bipartisan Budget Act of 2015 amendment to the Budget Control Act of 2011.

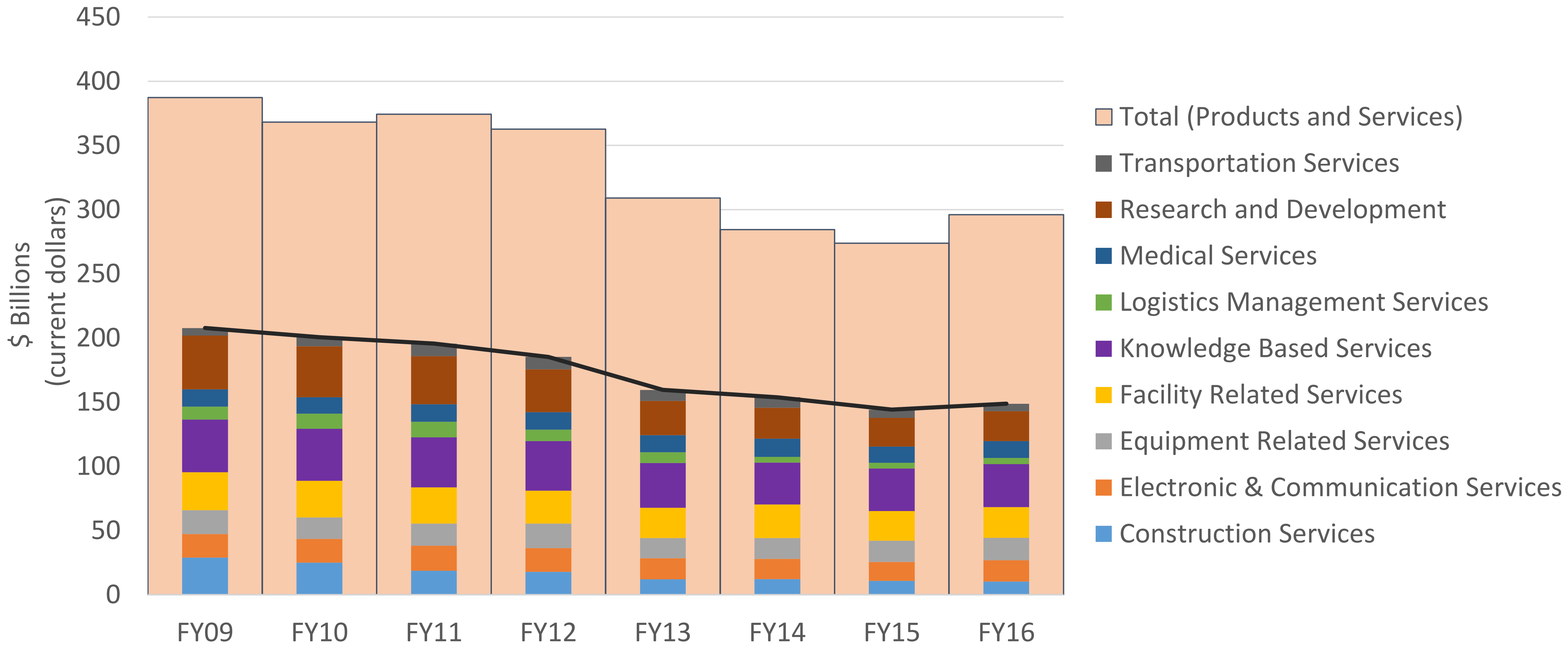
Federal Contracting Markets for Services

- After several years of decline, contract spending levels for services have stabilized – but not uniformly for all agencies or across work categories; wide variation exists when comparing agency by agency, year by year
- FY15 was the low point for government-wide services contracts, with FY16 showing slight uptick. Defense FY17Q1 spend on services up over FY16Q1. Future growth likely to remain modest at best while declining for some programs and activities.
- Services contracting still dominates spending; 54% at DoD and 75% at civilian agencies
- Congressional interventions constrain services spending
- Professional services is a potential area for overall future spending reduction targets, but may also provide room for absorbing demand that can’t be met with government personnel

Governmentwide Total Contract Spending



DoD Total Contract Spending



President Trump

- What is the future of BCA (so-called "sequester") caps? What happens to budget parity?
- How many more executive orders?
  - CRA disapprovals likely timed out
  - Regulatory Reform (e.g. "two-for-one" regulation swap) to come
- How will regulatory burdens and processes be changed/reduced?
- How will the federal civilian workforce change? And how fast?
- What is the path and impact of FY18 budget plans?

Shifting Markets for Services

- Reshaping the "National Interest" Business Base
  - Use of IDIQs shape markets. Two-thirds of all IDIQ spend 2011-2015 was for services, with DoD = 68% of those obligations.
  - Mid-tier market share shrinking, but not consistently
  - M&A, divestitures, and spin-offs affecting competitive landscape, but impacts still evolving
- Innovation and Solutions
  - Government perception that innovation cannot be obtained from the traditional contracting base
  - Agencies continuing outreach to "non-traditional" entities, using various mechanisms
  - Agencies need "solutions," but often unsure how to acquire them
  - Government activities are looking for real change (and maybe savings). Where do you/we fit in?
- Contract Consolidation Inside Government
  - Multiple GSA initiatives could mean additional major shifts in character and nature of markets
  - Continuity of category management, shift of work to OASIS and OMB efforts could further drive IDIQ use
- A New Regulatory Environment?
  - Past performance as a benefit and barrier
  - Different rules (CAS, protests, etc.) for Defense and non-defense agencies
  - Use of non-FAR procurement systems (OTA, BAA) for acquiring services

Growing Policy and Compliance Burden

- **Prime Contractor Responsibility and Liability**
  - Supply Chain accountability
  - Information assurance/cybersecurity
  - Subcontract flowdown requirements
  - Standardized labor categories
  - Payment policies
- **Audit Verifiability**
  - Business systems approvals
  - Timely review of incurred cost/ FPRA submissions
- **Small Business Policies**
  - Regulations create new opportunities but also new risks and responsibilities
  - More rules to be issued
  - Significant market implications
- **Buy American/Hire American**
- **Fair Pay and Safe Workplaces**
  - CRA disapproval enacted
  - Executive Orders repealed

Changes Impacting Services Contracting

- DoDI 5000.74 (1/5/16): “Defense Acquisition of Services”
- Better Buying Power: Improving Tradecraft in Services
- FY16 NDAA capped DoD FY17 services spend at FY10 levels
- FY17 NDAA capped DoD “staff aug” services contracts at 25% of FY16 baseline for OSD and MHAs
- NAVSEA delegating contract administration to warfare centers
- Navy SysCom/PEO now leads DCMA!

Can’t Wait for More Help!

- Thornberry’s 2017 Acquisition Reform Bill (HR 2511):
  - Sec. 102: Incurred Cost Audit Changes
  - Sec. 204: Improve Planning for Acquisition of Services
  - Additional Acquisition Workforce changes
- Section 809 Panel (“Go bold”)
- Section 813 Panel (Intellectual Property)
- POTUS as CINC-Contracts

Questions?

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