

Debt-ceiling deal saddles contractors with new uncertainty

By Charles S. Clark cclark@govexec.com August 2, 2011

The long-elusive debt-ceiling pact President Obama signed into law Tuesday leaves federal contractors with many questions about their ability to perform long-term planning, according to industry representatives.

The deal, which cuts federal discretionary spending by \$917 billion in the next decade, includes taking \$350 billion from the defense budget -- a number that could more than double over the next decade, depending on decisions by the newly convened bipartisan congressional budget-cutting committee.

Plus, the new caps come at a time when the defense industry already is braced for layoffs -- Lockheed Martin Corp. last month announced it was offering voluntary buyouts to 6,500 employees.

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"The difference in this year's deal is that they've put a spending plan in place before they have a strategy on needs assessment," said Alan Chvotkin, executive vice president and counsel for the Professional Services Council, a contractors group. "The spending is driving the strategy rather than strategy driving the spending."

When the system is working, roles and missions shape the requirements for systems and services, which drive acquisition and procurement, which result in contracts, he added.

And though contractors for the most part know what to expect in fiscal 2012, the new law's top-level spending caps provide a firewall between security and nonsecurity spending for only two years. After that, Chvotkin said, there is likely to be another battle over the allocations between defense and nondefense and within national security categories. "We're going to have 10 one-year budget battles," he said.

Trey Hodgkins, senior vice president for national security and procurement policy at TechAmerica, said his group is "pleased at the deal's outcome because it removes uncertainty" over a potential default. But there are still many unknown details implied in the high-level numbers, he adds, so the impact on contractors is unknown. He expects cuts in the budget category of operations and maintenance.

But "the silver lining" for information technology contractors, Hodgkins added, is that IT is a "savings driver that enhances capability and efficiency while allowing one to do more with less people in many areas." Hence, he said, agencies "will continue to have to look at what our members develop and sell to the government."