What Should the Defense Industry Expect for 2018 and 2019?

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Professional Services Council
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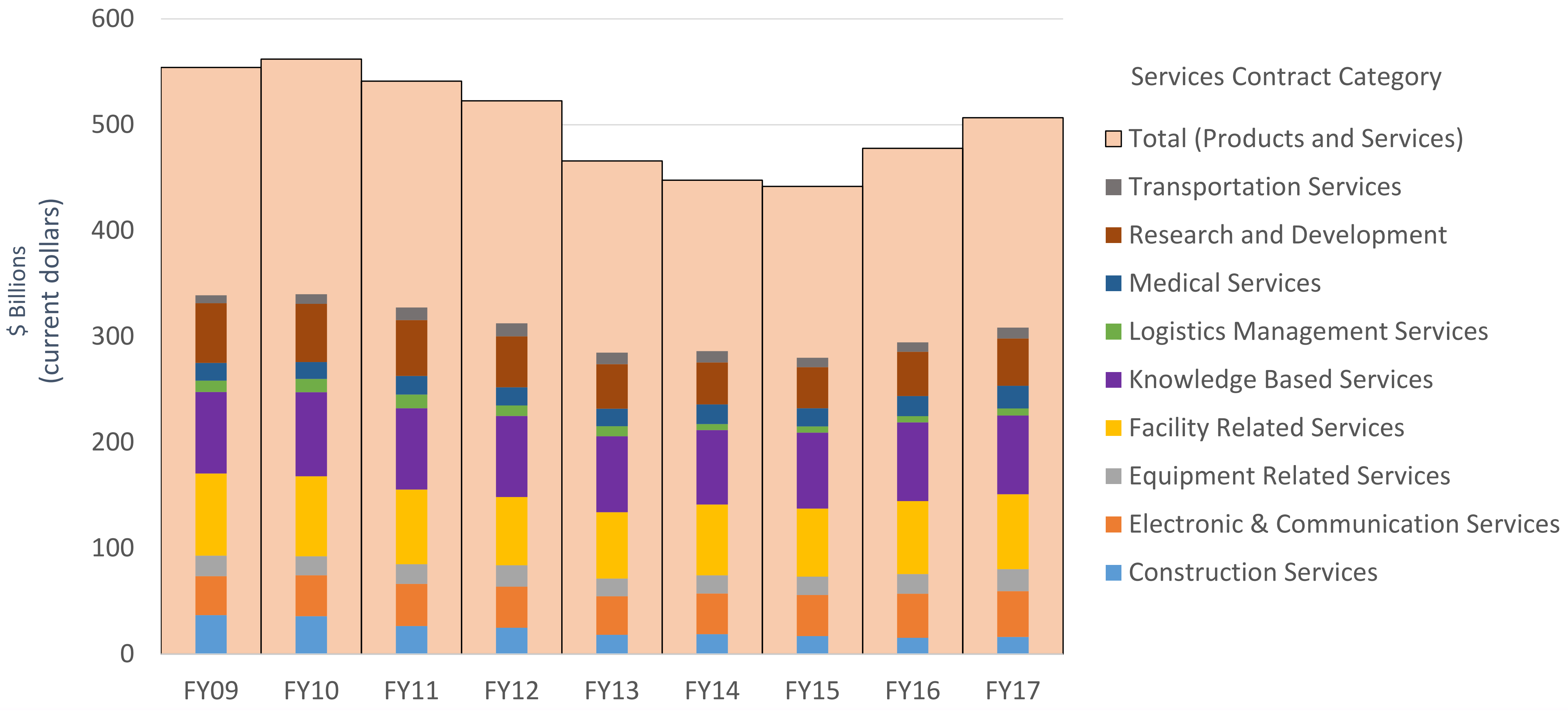
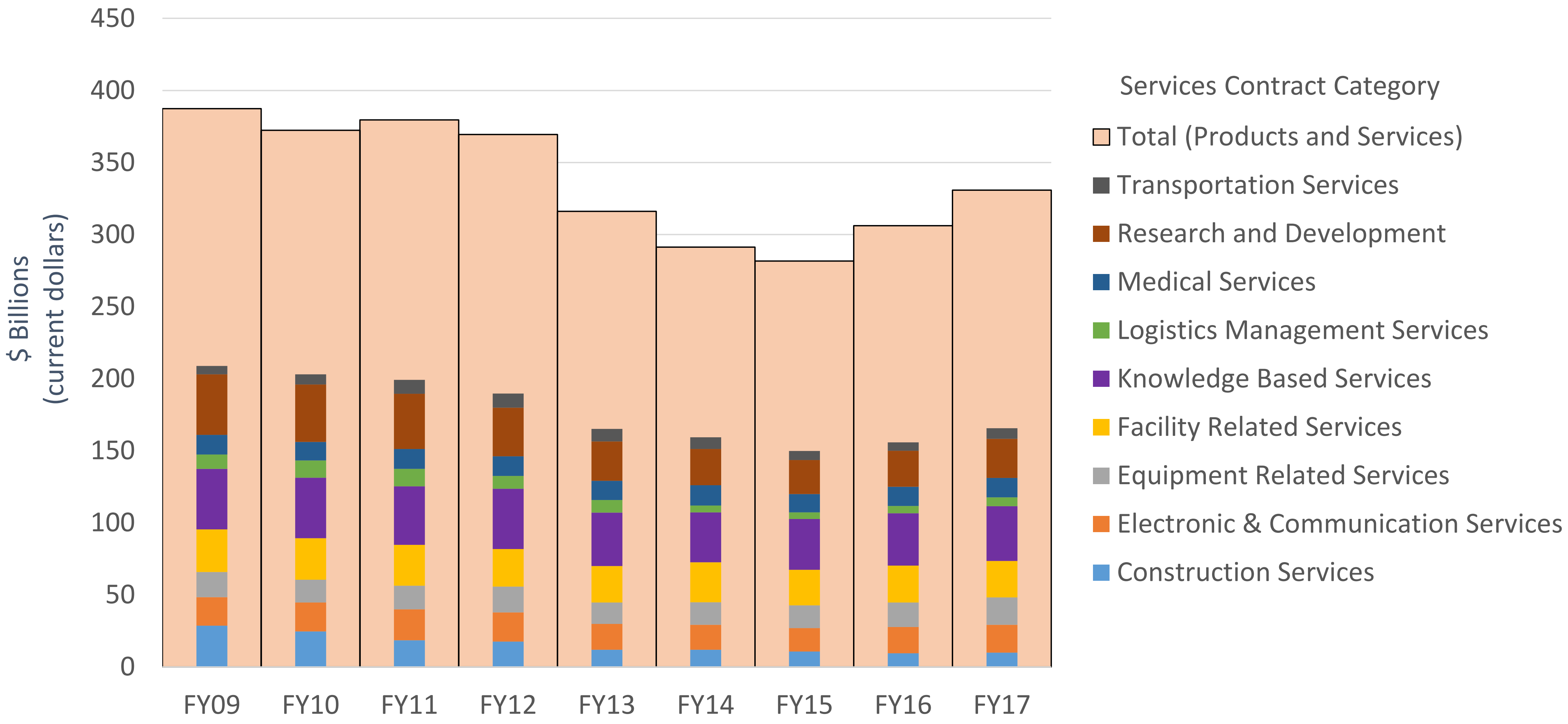
Government-wide Total Contract Spending



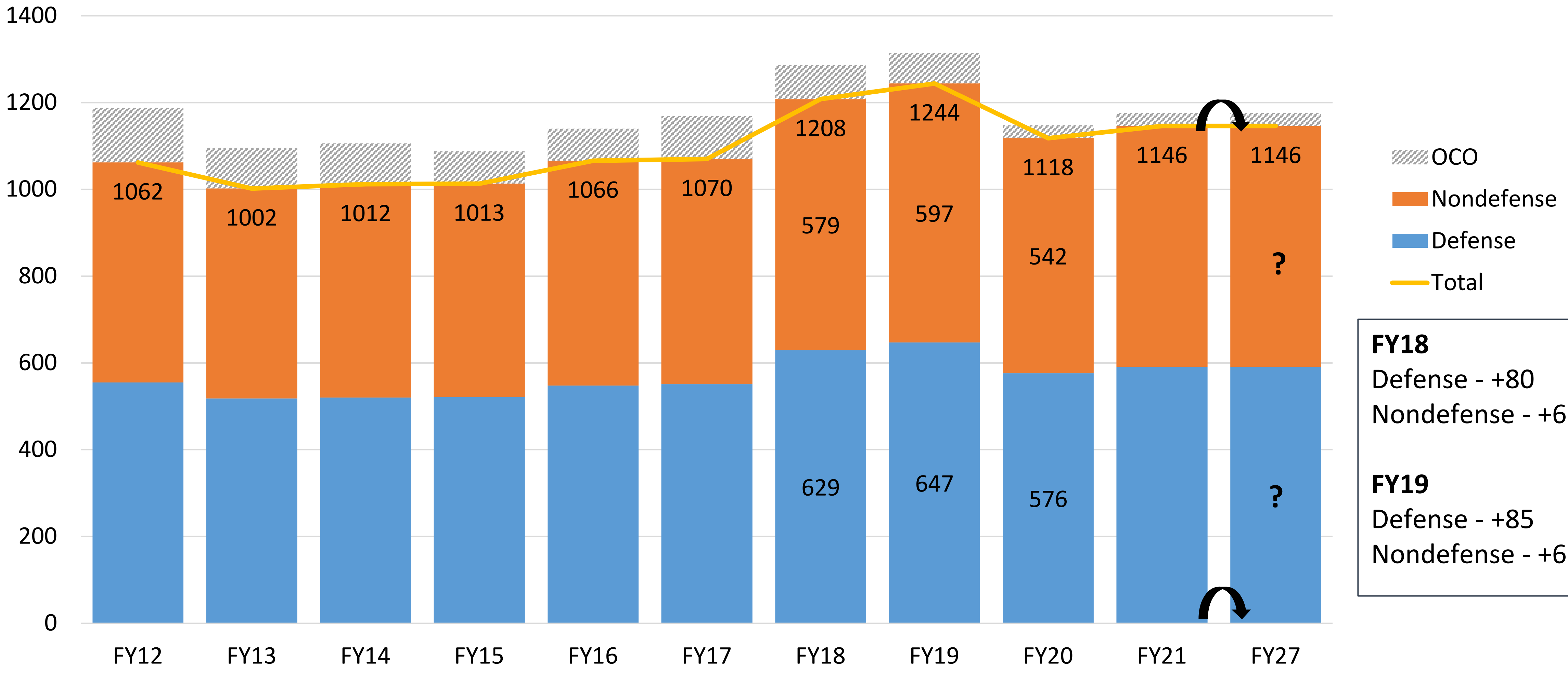
DoD Total Contract Spending



The Fiscal and Budget Environment

- Bipartisan Budget Act of 2018 (BBA18) raised discretionary spending caps for FY18-19 but retained FY20-21 caps and extended them through FY27
  - +$80B for defense, +$63B for non-defense (more in FY19)
- FY18 Consolidated Appropriations Act of 2018 signed by the President March 23 – consistent with new FY18 caps for defense and non-defense agencies
- FY19 President's Budget released Feb. 12, consistent with new FY19 cap for DoD but below new FY19 cap for non-defense agencies

BBA 2018 Spending Cap Adjustments



FY18
Defense - +80
Nondefense - +63

FY19
Defense - +85
Nondefense - +67

The FY18 Federal Contracting Market

- **Agency services contract spending growing slightly– but not uniformly for all agencies or across all work categories**
- **FY18 first half contract spending up for defense, down for non-defense**
- **FY18 2nd half brings dramatic funding increases for defense (15% above caps, 4% above budget) and non-defense (12% above caps, up to 25% above budget).**
- **Professional services are a target for future spending reduction (especially in DoD), but also potential for growth (for needs that can't be met with government personnel)**

Current Questions

- Can FY18 appropriations be obligated by the fiscal year’s end?
- What is in the FY19 NDAA and appropriations?
- Will OMB affect FY18 and/or FY19 spending (impoundments)?
- How will regulatory burdens and agency contracting processes be changed/reduced? Will the regulatory “logjam” be broken?
- How will the federal civilian workforce change, and how fast?
- What will be the schedule for and impact of agency “reorganization” plans?
- What happens in FY20?

Policy and Compliance Issues

- Security clearances
- Cybersecurity
- Small Business Policies
  - Policies penalize growth
  - Prime vs sub contract disconnects
  - Significant market implications for smalls, mid-tiers
- 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 (OTA, etc.)
  - Agencies need, but unsure how to buy, "solutions"
- Procurement Administrative Lead Time (PALT)

- Prime Contractor Responsibility and Liability
  - Supply Chain accountability
  - Information assurance
  - Subcontract flowdown requirements
  - Standardized labor categories
- Audit Issues/Verifiability
  - Business system approvals at civilian agencies
  - Timely review of incurred cost submissions/FPRs
  - Third party audits may help for DCAA
- Reshaping the National Interest Business Base
  - Mid-tier market share shrinking, inconsistently
  - M&A, divestitures, and spin-offs affecting competitive landscape, but impacts still evolving
- FY18 NDAA introduces new provisions
  - Range from helpful to neutral to harmful
  - Some cover DoD only, some are government-wide (e.g., MGT Act)
  - Some may change regulations (and behavior) significantly (e.g., enhanced debriefings)

Questions?

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