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## Budget

### **Fiscal Crisis Not Sparing Federal Contracting Community**

By ROGER JORDAN

**A**s the debate around workforce reductions and pay freezes for federal employees rages on, some staunch defenders of government employees have claimed that not enough has been done to curb reliance on federal contractors, and that those seeking to reduce the federal workforce are merely doing so in an effort to boost the work available for contractors. Such rhetoric is disingenuous and inaccurate. Truth be told, quite a bit has been done to reduce the reliance on contractors and, as a result, industry is witnessing real reductions in federal contracting, particularly for services.

First, it is important to reiterate that industry is opposed to arbitrary cuts and workforce reduction targets. This includes *non-strategic* cuts to both federal employees and contractors. Note the term “non-strategic” in this statement. In this age of austerity, we all understand that cuts will be made, and there are two predominant approaches to doing so.

The first approach begins with a comprehensive assessment of an agency’s strategic goals and key initiatives, followed by difficult decisions about what they could live without, and ending with an analysis of their total available workforce (federal employees, military [if applicable], and contractors) to figure out the appropriate levels to meet mission needs. This is a sensible approach in which strategy drives budget decisions.

The alternative approach carries substantial risk. That approach makes arbitrary cuts to employees or contractors and leaves it up to the federal agencies to figure out how to cope. This approach will certainly lead to agencies having to make tough decisions, but it puts the cart before the horse by establishing head counts prior to determining mission priorities.

In the related and ongoing debate on Capitol Hill, it seems that the latter approach is being adopted, which has led to an “eye-for-an-eye” mentality in which certain members of Congress and federal employee union

leaders suggest that the cuts to date have only been focused on federal employees and that contractors have so far been spared, and thus that contractors should bear the burden of future reductions.

**Incorrect Assumptions.** These assumptions are flatly wrong. A number of initiatives to reduce federal reliance on contractors have already been undertaken and, in light of the budget environment, industry does not expect the situation to improve over the next several years. The governmentwide insourcing initiative is probably the most notable attempt to curb contracting, but many others have been undertaken as well.

In the early days of the current administration, it became clear that contracting reductions were going to be a focal point when the president directed agencies to find billions of dollars in contract savings. This initial effort to reduce spending on contracts yielded results and, in fiscal year 2010, industry witnessed a \$10 billion real reduction in total federal contracting. In July 2011, the focus shifted toward services contracting after OMB directed agencies to make additional contracting cuts by reducing spending on services by 15 percent in 15 service categories over a 15 month period. Combined with the prior year’s effort, services contract spending declined nearly \$20 billion over the two-year period.

Congress also took action on this front. The FY 2012 National Defense Authorization Act included language in Section 808 to cap Defense Department spending for contract services in FY 2012 and FY 2013 at the level of the president’s budget request for FY 2010. Specific language in this section included a 10 percent reduction in funding for staff augmentation contracts and contracts for functions closely associated with inherently governmental functions. The provision also directed DOD to adopt a negotiation objective that holds contractor labor and overhead rates at 2010 levels. These cuts appear to be in addition to a 10 percent cut in a subset of advisory and administrative support services contracts over each of the next three years that DOD directed as part of its 2011 “Better Buying Power” Initiative.

Additionally, legislation (H.R. 3029) approved earlier this year by the House Oversight and Government Reform Committee would direct agencies to implement a policy of hiring one new federal employee for every

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three employees that retire. The bill also would direct reductions in services contracting equal to those made to the federal workforce. Congressional Budget Office estimated that bill would achieve \$35 billion in savings by 2016, split evenly between contracting and federal employees. Adding the contract reduction portion to the \$20 billion that has already been cut would bring spending on services contracting down by nearly \$38 billion, while savings on federal employee reductions would be \$17.5 billion.

In other words, contrary to the rhetoric we so often hear, contractors have already borne a far greater brunt of the reductions than has the federal workforce, and all indications are that this will continue to be the case. Industry is already experiencing the impact of the cuts made to date and expects that program cuts will continue to occur, driving additional impacts on the federal contracting industry.

**Shared Burden.** All that being said, industry recognizes the budget constraints and accepts that contractors will have to share the burden. In fact, we recognize that attributes of the private sector (i.e. speed and flexibility, among others) are part of the reason industry is feeling the pinch. Contractors allow the government to tap into private-sector resources in times of increased

workloads and critical problems that need to be addressed. When the government workload decreases or missions change, the reliance and scope of contractor support is able to change rapidly with it. Without question, the first decade of this millennium required greater contractor contributions, and contractors have done laudable work in meeting the government's needs.

While the government's missions are changing, their importance is in no way declining. However, the fiscal outlook is sure to continue to drive cuts. Most people recognize that contractors play an integral part in meeting agency missions, as do federal employees. What we should realize we move forward is that a strategic workforce mix will be needed to address agency challenges, and neither side is well-served when it calls for a singular focus on cuts in one portion of the workforce over another.

So when you hear federal employee advocates pound the table and claim that the current fiscal crisis is sparing the federal contracting community, remember that such statements are far from the truth. As industry, we certainly understand the concerns and challenges faced by federal employees. Why? Because we are in the same boat and already have experienced several years of reductions.