



# Federal Services Contract Spending Under FY18 Appropriations

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**T**he “Consolidated Appropriations Act of 2018” was signed by the President March 23 and fully funds the federal government for Fiscal Year 2018 (FY18). What impact will this have on government services contractors?

First, it provides substantial increases in funding for nearly every agency and most programs. The FY18 appropriations funds most of the increases enacted Feb. 9 in the Bipartisan Budget Agreement of 2018, which significantly raised the Budget Control Act caps for FY18 and FY19.

The Department of Defense (DoD) has the largest appropriations increase, \$80 billion above the previous budget cap for FY18 and \$26 billion above the president's requested FY18 budget level. For non-defense agencies, the cap was raised by \$63 billion for FY18, but the omnibus appropriations bill distributed that increase unevenly and incompletely across those agencies. Some departments and agencies saw an increase well above both their FY17 funding levels and above the president's budget request for FY18, while other agencies saw funding levels below FY17.

Overall, these increases may turn the second half of FY18 into a very different market for contractors. To understand how it will change, let's look back at government contract spending in the first half of FY18.

Public data for DoD contract obligations in the second quarter have not yet been released, but the first quarter showed a 6.5% increase in total contract obligations year-over-year. Further, monthly DoD spending (as reflected in Treasury Department outlay data) for the first six months of FY18 show that DoD spending was up by more than \$10 billion (nearly 5%) compared to the same period under the FY17 CR, even though FY18 CR funding was slightly less than FY17. It appears that DoD has been spending at a rate that anticipated an appropriations increase, one that proved to be true.

The total DoD increase is 15% above the previous caps, but it is only about 4% above the programmed budget that DoD had developed. For contractors, this likely means increased opportunities, but perhaps not as much as the numbers might indicate at first glance.

For non-defense agencies, the first half spending story is quite different. Comparing the first six months of FY18 CR contract obligations to the same period under the FY17 CR shows a drop of 13% year-over-year.

Obligations for services contracts in the same period declined only slightly less, 10% year-over-year. In some agencies, the decline has been even greater. You can see the overall comparisons in the accompanying graph.

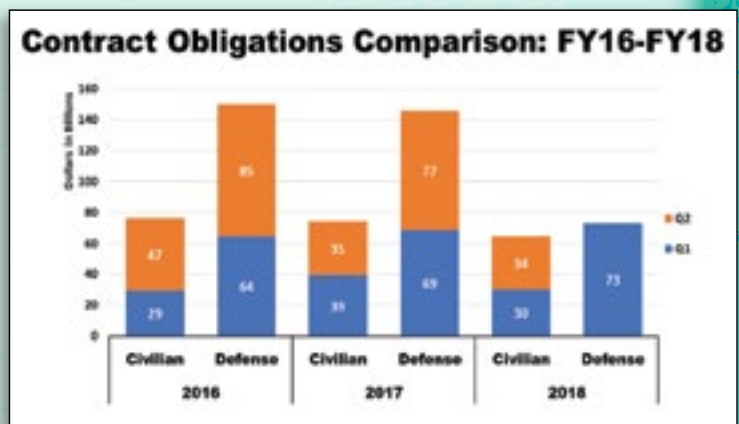
While those are significant reductions, some agencies have constrained contract spending even more. For example, total contract obligations for the U.S. Agency for International Development saw a year-over-year decline of nearly 30%.

This pattern raises two important questions for services contractors: Why did that decline happen? Is it about to change?

First, why the decline in contract spending? It could be because the president's proposed budget for FY18 had included significant funding reductions for many non-defense agencies. With CR spending levels unchanged from FY17 throughout the first half of FY18, and the chances that final funding would be even lower under the president's budget, some agencies appear to have planned for and spent at rates equal to the lower numbers.

Second, is that decline in contract spending about to change? Will it reverse itself under the significantly higher FY18 appropriations? Since the president's FY19 proposed budget for many of these non-defense agencies does not include that increased spending, this can put agencies in a bind. Do they spend the money Congress appropriated for FY18 and anticipate similar levels of appropriations for FY19, or do they spend only to the president's budget level while anticipating reductions for FY19?

While it's too soon to tell, comments from Mick Mulvaney, director of the Office of Management and Budget (OMB), at the Feb. 12 release of the president's FY19 budget may offer some insight. With regard to the \$63 billion increase in the non-defense appropriations cap that the President had just signed three days before, Mulvaney stated<sup>1</sup> several times that "we don't need to spend all the money."



Another indicator is the omnibus appropriations bill itself. It will be hard to spend that much additional funding in half a fiscal year. Congress expanded flexibility to permit more spending in the final two months of the fiscal year but only for the DoD operation and maintenance accounts. Year-end spending is typically limited, and non-defense agencies will have no greater flexibility to spend the additional funds than in the past, despite the late enactment of FY18 appropriations.

Finally, will OMB constrain non-defense agency spending? If so, will it do so indirectly, or will it issue direct written guidance? How rapidly and fully will OMB and agency comptrollers apportion and allocate funds to program offices? Independent of OMB guidance, will agencies be able to spend the additional FY18 funds in the remaining half of the fiscal year? The answers to these questions, but they will directly determine contract spending over the next few months.

Agencies and program offices themselves don't know the answers yet, either. PSC advises its member companies to communicate frequently and comprehensively with their government customers. In addition, we will be tracking and reporting on this regularly in the coming months, so watch our web site for updates. ■

<sup>1</sup> Feb. 12 OMB Press Briefing on FY18 Budget