Compliance and Agility

Microsoft GovCon Alliance

Microsoft GovCon Alliance members successfully deliver Microsoft Dynamics ERP and CRM solutions that help customers pass DCAA audits, elevate project management and accounting capabilities, and improve capture management processes.

Successfully navigate change and uncertainty. Demand:

• Holistic insight into your Commercial and Government Contracting businesses
• Cost-plus accounting for Manufacturing and Services, in one solution
• Agile capture management for your more dynamic enterprise

Compliance and Agility.
Learn more at: www.microsoft.com/dynamics/govcon
PSC is pleased to present our 2015 Vision Federal Market Forecast Conference Intelligence Report, a comprehensive guide to the keynotes, panels, and discussions held at the Fairview Park Marriott on November 18 and 19, 2015.

It was my pleasure to lead PSC’s first Vision Federal Market Forecast this year. I am proud of the hard work of all 300 Vision volunteers who made the forecast a success. Their work enabled a robust agenda drawing a crowd of nearly 300 industry and government executives.

As you will see in the following report, we covered a wide range of topics and program areas, and heard from key government leaders affecting our market—including Sen. Mark Warner, D-Va.; OMB Controller David Mader; DoD Comptroller Mike McCord; and Deputy CIA Director for Science and Technology Dawn Meyerriecks.

I hope you will take the time to read our reports from the conference floor and view pictures of the event. If you are interested in the in-depth analyses provided to attendees, our presentation slides and full transcripts are available for purchase from our Vision team. Contact Donald Baumgart at baumgart@pscouncil.org.

I want to thank our sponsors and conference presenters for making the 51st Vision Conference possible, particularly the sponsor of this report, Microsoft GovCon Alliance. It is only with their support that we are able to put on such a great event and make real progress toward a productive government-industry partnership. You’ll find a list of our sponsors in the following pages.

Finally, we hope you will join us as part of the Vision Federal Market Forecast team in 2016, as a volunteer on our interviews with government leaders. To participate, contact Michelle Jobse at jobse@pscouncil.org.

Sincerely,

DAVID M. WENNERGREN
PSC EXECUTIVE VICE PRESIDENT, OPERATIONS & TECHNOLOGY
We would like to thank the generous sponsors and partners listed below, whose support helped make this conference possible.

2016 SPONSORSHIPS

Sponsorship opportunities are a great way to increase your exposure to the PSC member community. Sponsorship opportunities for 2016 are now available. Contact Joe Carden at carden@pscouncil.org for details.

PSC MEMBERSHIP

Membership provides:
- Unlimited participation for your senior executives
- Access to unparalleled members-only policy and business intelligence to drive your decision making
- Engagement with the most senior government and industry officials through our programs and events to grow your network
- Opportunities to enhance and position your brand and executive team as thought leaders among your peers in the industry and government to drive business development

Interested in membership, but need more information? Contact Joe Carden at carden@pscouncil.org to discuss membership today.

CURIOSOUS?

Visit us at www.pscouncil.org to learn more about PSC today.
On November 18, Sen. Mark Warner, D-Va., said there was no guarantee that Congress will make the December 11 deadline to avoid the government shutdown during his opening keynote speech at the 2015 Vision Federal Market Forecast Conference.

Government and contractors are “not out of the woods” because “unnecessary, unwarranted and over-the-top riders could bring this deal crashing down,” Warner warned. But caveats aside, Congress is on track to pass an omnibus that would give department-by-department predictability to let agencies and their contractors to plan and execute, he said.

But it is not a panacea. With growing international threats, defense spending will have to ramp up, at the same time government needs to invest domestically in education and research, he said. But budgets are so squeezed by debt and mandatory spending requirements that those domestic programs could be cut to the point where only 5 cents on every dollar goes to domestic discretionary spending, he said.

“I would never invest in that business plan,” he said. “We don’t have the revenue stream to run our country adequately.”

Warner also touched on the enactment of the DATA Act which is designed to get a handle on how government is spending by simplifying government systems and making them more transparent to agency users and the public. Data transparency is key if the government is going to grapple with its trillions in debt and gain insight into how agencies spend money, he said. At the same time DATA calls for the elimination of onerous and duplicative requirements, he said.

Despite the uncertainty there is opportunity for economic growth, particularly in cyber investments. In addition, Warner predicted that unmanned systems will be the “next great disruptive tech that is going to be the equivalent of wireless systems.” If the United States is going to be on the cutting edge of that wave, it will have to bring the design and manufacturing of those systems back on shore, he said.

Warner also noted that the top economic growth areas for Virginia are big data, cybersecurity and unmanned systems.

TWEET
If you’re going to take a risk on a Silicon Valley cyber firm, take one on a VA startup instead, says @markwarner #VisionForecast. SOSi International @SOSi_HQ

“We don’t have the revenue stream to run our country adequately.”
The 2016 Macroeconomic Topline forecast is framed by continuing concerns regarding the struggling national and global economic recovery that include servicing debt, lethargic GDP growth, sequestration, and last minute decision-making. This environment results in short-term, stop-gap choices that significantly complicate business planning in both government and industry. The advice to industry from the 2015 Vision Macroeconomic Outlook/Defense Topline Team is to continue to monitor the fiscal environment. 

The team predicted a slight uptick in spending in fiscal years 2016 and 2017 as the recent budget deal floats the DoD budget between the Budget Control Act’s sequestration caps as a floor and the president’s budget request as a ceiling. Despite this growth, defense spending will remain hemmed in by growing budgetary demands for servicing the debt and mandatory spending. After fiscal year 2017, the BCA sequestration caps return through 2021. The forecast predicts inflation-only growth in defense in the out-years with the possibility that the caps may be reassessed by the next administration and Congress. Regardless, major disruptors in the national security and/or economic arenas remain a possibility. The BCA caps will need to be reassessed to address such disruptive events. 

-Tweet: I like that term.. sequester mentality.. don’t plan for growth because of expected cuts or flat IT budget says @PSCSpeaks #VisionForecast Jason Miller @jmillerWFED

Mike Reilly, Director, Federal Budget & Program Management, The Boeing Company

Rich McFarland, Senior VP, Washington Operations, Parsons

Rich McFarland, Vision Defense Team Chair and Bryon Callan of Capital Alpha Partners, contributed to this summary.
The constrained budget, lack of IT skills in the workforce, and slow technology adoption continue to play as government transformation inhibitors, the Vision Federal IT Budget Outlook team found. Team Chair Robert Haas presented the findings at the Vision Federal Market Forecast on November 18.

Sequestration, deficit, and the cycle of short- and long-term continuing resolutions means that agencies and contractors “cannot plan sufficiently far in advance to make decisions,” said Haas. The budget deal, however, holds promise. As does the fact that for the first time since fiscal years 2010, the IT budget actuals were above the president’s request in fiscal years 2015 and 2016, though it is not substantial enough growth in terms of purchasing power, he said. The recent upswing in IT investments is not necessarily sufficient to keep up with technology innovation and requirements.

“From a performance perspective—focus on getting more value out of every dollar spent,” Haas said.

There are, however, areas of opportunity in the IT budget, many of which are driven by the immediate security challenges agencies are facing.

Cybersecurity is a top investment area for both civilian and defense agencies. The evolving threat combined with the government’s general lack of cyber talent, means that agencies will call on contractors to fill the gaps. Additionally, the shift in the mix of O&M and new development spending offers significant business opportunity as agencies transform or replace their aging systems with cloud, mobile, analytics or other new solutions, Haas said. With many government systems running on COBOL, it is becoming harder to find those still “speaking” that language who can maintain such systems.

In addition, contractors can also play a role in developing new, or reengineering existing, government processes around IT to assist clients to become more agile. Similarly, there are opportunities in the policy-making arena when it comes to the adoption of cloud, mobility, big data and other cutting-edge tech areas where the implementation guidance is scant or absent. Finally, contractors can also find opportunities in transforming how the government acquires goods and services through process and policy changes, said Haas.

So opportunities do exist despite budgetary challenges for those trusted partners who can be flexible, innovative and cost-effective in the solutions to government’s problems, Haas said.

TWEET

Heard it was bad...but wow... @USGAO says $7.1B decline between 2010 & 2015 in DME spending says @PSCSpeaks VisionForecast.

Jason Miller @jmillerWFED
David Mader, acting deputy director for management and the controller of the Office of Management and Budget Office of Financial Management, discussed the administration’s top priorities for its final year at the helm of the executive branch, at the 2015 Vision Federal Market Forecast Conference on November 18.

The current top priority is getting the 2016 appropriations through Congress before the current continuing resolution expires on December 11, avoiding a government shutdown.

The deal, he said “should break the cycle of shutdowns and manufactured crises,” which has plagued the government and its private sector support contractors in recent years. He was confident that final appropriations would be enacted by the December 11 deadline. “Nobody wants the government to shutdown,” he said.

The administration is also focusing on fostering shared services among agencies and has launched a shared services governance council to drive from strategy to implementation of those efforts, he said.

Finally, Mader discussed the comprehensive cyber assessment OMB conducted over the summer, which found that many civilian agency systems were at risk. Replacing legacy systems and improving cyber security will be reflected in the budget priorities, he said. In addition, there is a concerted effort to draft more cyber talent into government, though the scarcity of that talent means that government contractors will continue to play a critical role in supplying those skills to agencies, he said. As a result, cyber is the number one budget priority and people is the second, he said.
International development work is an ever-changing landscape of mission priorities and difficult program delivery. Couple that with the need to work with local communities, in-theater logistical issues and complicated geo-political forces and you have an industry that must operate under unique challenges.

The 3rd Annual CIDC Conference builds on the success of our last conference as we explore: The factors shaping the evolution of international capacity building and related shared government and IDC objectives; and the roles and contributions of IDCs supporting U.S. government agencies’ critical missions.

**INVITED SPEAKERS**

**HEATHER HIGGINBOTTOM**, Deputy Secretary of State for Management and Resources

**GAYLE SMITH**, Administrator, USAID

**WHO ATTENDS?** (based on 2014 attendance)

200+ attendees representing more than 70 companies active in the international development space.

#CIDC_CONF @IntDevCompanies @PSCspeaks

Register today at [www.pscouncil.org](http://www.pscouncil.org)!
“FITARA is a great solution from five years ago, but it remains to be seen if it can work in today’s environment.”

—Alan Chvotkin, Executive Vice President & Counsel, PSC
Throughout the Vision Federal Market Forecast interview process, Vision volunteers spoke with acquisition leaders and frontline contracting officers to gauge the state of the acquisition environment. There was clear consensus from top to bottom: the process is too burdensome and needs to be completely overhauled. The policies, they said, are preventing them from doing their jobs.

Both leaders and frontliners encouraged industry to “stand up,” “challenge policies that don’t make sense” and “provide substantive arguments to eliminate crippling bureaucracy,” the Vision Acquisition Outlook Team reported at the Vision Federal Market Forecast Conference.

The government leaders and contracting officers interviewed also expressed concerns that new initiatives like category management could be short-lived and that staff did not have adequate data or understanding to effectively implement them.

A panel exploring the findings at the conference concurred with what the Acquisition Outlook Team found.

There is a clear worry that there has not been an adequate effort to educate contracting officers and managers about the appropriate use of category management tools, leading contracting officers to take tools meant to baseline prices as price dictation, said Boeing’s Darryl Scott. “It’s supposed to get you in the ball park not to second base,” he said.

Emily Murphy, general counsel for the House Small Business Committee, said that small businesses may suffer under category management and strategic sourcing policies. While set asides may help agencies achieve goals, “agencies need to look not just at small business goals but small business participation rates,” Murphy said. Such sourcing and consolidation initiatives could shut out some small businesses, leading to lower levels of participation, because there would be fewer opportunities to get on contract.

Other regulations and initiatives, such as FITARA, also pose acquisition challenges. “FITARA is a great solution from five years ago, but it remains to be seen if it can work in today’s environment,” said PSC Executive Vice President and Counsel Alan Chvotkin. FITARA was crafted when there were still “bright lines” around what information technology is. Those lines have been blurred by consumption-based and agile acquisition practices, he said.

Additionally, contracting officers are becoming the mechanisms for enforcement on a number of government policies unrelated to government contracting, such as human resources. “The contracting officer business has become incredibly complicated,” said Scott. The clear message from the Acquisition Outlook Forecast is that the workforce, already overwhelmed by government regulations, is being asked to take on more, unrelated regulatory burdens.
The pattern of two-year budget agreements is a trend likely to continue into the next administration, said Mike McCord, the Defense Department’s comptroller. The latest deal struck in September, like the Murray-Ryan agreement two years ago, offers some semblance of certainty, at least for the next two years, giving the department $75 billion back over the sequestration levels, he said.

“It provides predictability on the topline,” he said. “It will give us time to make more rational choices for [fiscal year] 2016 and for 2017.”

The latest deal also means that, since the Budget Control Act sequestration levels were increased, DoD has “never had the worst case outcome of sequester or the best case outcome of what the president requested” McCord said.

The evolving global terrorism threats could shift that middle line between the BCA caps and the president’s request in future years, but so far such threats have not moved the base-budget needle much since the BCA was passed, he said. In recent years, the president’s top line has become the defense budget ceiling, which is different from usual dynamics on defense where Congress used to clamor for more, he said. However, the OCO budget remains, and increased by about $8 billion for 2016 under the agreement.

At the same time, the budget deal’s clarity for other agencies is also a benefit for DoD. It doesn’t help DoD if it is the only agency with a budget and a decent operating level, he said. At the same time a budget deal is not appropriations, so the specter of a shutdown still looms although the threat is not strong.

Further, like Murray-Ryan, it’s only a two year deal and does nothing to address the BCA sequestration caps for 2018 through 2021, but at least it doesn’t extend those caps beyond 2021, he said.
LUNCHEON AWARDS & BREAKOUT SESSIONS

Mike Reilly, The Boeing Company

Christina Andrewes, HPE

Steve Vetter, HPE

Betsy Schwartz, ManTech

Tim O’brien, Enlightened
LUNCHEON KEYNOTE & TECHNOLOGY OUTLOOK PANEL: THE INTELLIGENCE ON TECHNOLOGY

“If most of the dollars for converting basic research into commercial products are in a commercial world, why aren’t we leveraging that?”

—Dawn Meyerriecks, Deputy Director, Science and Technology, CIA
Research and development has shifted from government to industry and government needs to respond in kind by shifting its expectations and allowances when it comes to government-funded R&D projects, said Deputy CIA Director for Science and Technology Dawn Meyerriecks at the Vision Federal Market Forecast Conference on November 19.

For every dollar the intelligence community puts in to R&D, it is matched by $12 in the commercial venture capital community, she said. To further capitalize on these investments, the government needs to allow developers to keep and commercialize their intellectual property so that the government itself can take advantage of the additional innovation and cost savings that come from today’s commercial marketplace, Meyerriecks said.

“If most of the dollars for converting basic research into commercial products are in a commercial world, why aren’t we leveraging that?” she asked.

Despite the shift in R&D funding, there are still government-funded opportunities advertised on the IARPA and In-Q-Tel websites. Though the IARPA budget is relatively modest, their online forecasts provide clear direction about where the IC is going to invest, she said. IARPA and In-Q-Tel are focusing their investments around data analytics, cyber, field deployable tech and mobile technologies, among other areas, said Meyerriecks.

The investments are similar in the broader government community, reported Kim Pack, chair of the PSC Vision Technology Outlook Team. Although concerns have cropped up around “bring your own device” from a policy perspective, mobility is still a key area of growth as the government seeks to take advantage of the Internet of Things and telework, according to the forecast findings. As the mobility movement grows, so does the stabilization and utilization of “as-a-service” purchasing methods, particularly in the “software-as-a-service” environment.

Following their presentations on the technology market, Pack and Meyerriecks joined a panel discussion with PV Puvvada of Unisys and Tom Temin of Federal News Radio. The panel discussed that if the government wants to achieve its goals around technology strategy, security, and innovation adoption, the government has to have the right workforce in place to not only acquire the right solutions, but to execute the mission using those solutions.

Though there is a long lead time on hiring at the CIA, Meyerriecks said its mission attracts the talent it needs. But mission alone is not enough; agencies and companies need to shift their culture around the employee experience to help retain young, skilled talent, said Pack. It’s important to engage new hires on high-value projects, even if it is work outside the regular workday. Those interested in building that skill and having that involvement will be more likely to stay, Pack said.

Meyerriecks said the CIA practiced this approach regarding projects that were outside hires’ normal workflow and soon made it part of the regular eight-hour work day.

It can even work in the private sector space if the company is willing to take the risk, said Puvvada. It is a better return on investment to provide this time rather than lose a highly skilled employee to a competitor...or the government.
INDUSTRY OUTLOOK: MERGE AHEAD? OR MAYBE A FORK IN THE ROAD?

“Silicon Valley attitude is ‘what do you care, do you think it’s worth a dollar or not?’”

—Frank Finelli, The Carlyle Group
The government contracting industry is going through a time of convergence and divergence, depending on corporate investment strategies and the market space a company fills, according to the Vision Industry Outlook Team and a panel of capital market experts convened at the Vision Federal Market Forecast Conference on November 19.

“Will there be another last supper?” is the wrong question, said Steve Grundman of the Atlantic Council. “Strategy is back.”

Companies are now making the decision between paying shareholders and investment, said Pierre Chao of Renaissance Strategic Advisors. In an economic downturn, the government industry does better than others in handing back cash to shareholders, but now that we’re entering a recovery phase some will find ways to start making investments in transformation. Chao predicts that we’ll see a fragmentation in the industry before we see consolidation.

Those fragmenting are looking for “coherence” in their business model, rather than the pre-downturn strategy of being all things to all customers, Grundman said.

The military drawdown will also affect the government market and how companies position themselves, said Frank Finelli of the Carlyle Group. As the government reduces its military end strength, money will become available to services companies, he said.

Still the drawdown in defense spending and the overall budget environment continue to drive the buy, sell or grow organically mindset, said Ed Caso of Wells Fargo Securities. In recent years, there is no sense of whether buying a capability guaranteed your work from existing contracts, as there had been in the past, putting companies on an organic growth trajectory, he said.

The next space to watch: computer science, said Caso.

But computer science shouldn’t mean the government defaults to Silicon Valley to meet its needs.

“The perception is that Silicon Valley will do something economic to help DoD, and that’s not the case,” said Finelli. But it is not a financial problem the government faces, it’s a policy one, he said.

Chao agreed. “Silicon Valley was a great innovation center 10 years ago,” he said. Today, however, if the government wants innovation, it needs to be also looking at Austin, Portland, Shanghai and Geneva too, he said. At the same time, government needs to abandon the policies that limit access to the private sector innovation that agencies are trying to obtain, he said. Where government wants companies to tell them how much it costs to make a product, the “Silicon Valley attitude is ‘what do you care, do you think it’s worth a dollar or not?’” he said.

If government is looking to change executive behavior to drive investment into innovative firms, Grundman said government needs to change policies to make defense companies’ venture investments in IRAD reimbursable, which would let DoD execute a development policy in a defensible way. “There has to be more to it than there is now for it to change behavior,” Grundman said.

TWEET

Good reminder.. @USGAO authority to hear bid protests from #govcon on task orders expires next Sept. @PSCSpeaks #VisionForecast. Jason Miller @jmillerWFED
Follow us on Twitter @PSCSpeaks
@PSCSpeaks Senator Warner says we aren’t out of the woods on appropriations til Dec 11.

Brad King @bradkingsr

Heard it was bad… but wow.. @USGAO says $7.1B decline between 2010 & 2015 in DME spending says @PSCSpeaks #VisionForecast.

Jason Miller @jmillerWFED

@MarkWarner priorities for the region: Leader in Big Data, Cyber capabilities devpt, Unmanned systems #visionforecast.

Samantha O’Neil @sonel16

@PSCSpeaks #VisionForecast: State/USAID - SB IDIQ HITS2 - if it ever gets awarded, not clear who would use it.

CIDC @IntDevCompanies

OMB’s Dave Mader - critical priorities are 1. Cyber & 2. Workforce. @PSCSpeaks #VisionForecast.

David Wennergren @davewennergren

@SSA DME 30% of budget- higher than other agencies- but still not enough to modernize systems #VisionForecast.

Eva Kwan @ekwan1126

Good reminder.. @USGAO authority to hear bid protests from #govcon on task orders expires next Sept. @PSCSpeaks #VisionForecast.

Jason Miller @jmillerWFED

@DSS knowledge based svcs highest spend category most tied to innovation where customer is buying thought #VisionForecast.

Eva Kwan @ekwan1126

Wow.. @USArmy says every dollar invested in cyber saves $7 in post intrusion clean up.

@PSCSpeaks #VisionForecast.

Jason Miller @jmillerWFED

@CMSGov is the @HHSgov OpDiv with the most #govcon addressable market #VisionForecast.

Bradley Saull @BradleySaull

Day 2 wrapping up; great info gained at #VisionForecast conference.

Chris Cusano @ChrisCusano1