

The Federal Procurement State of Play

Moshe Schwartz
President, Etherton & Associates

May 8, 2024



Etherton and Associates, Inc.

Services in Federal Relations

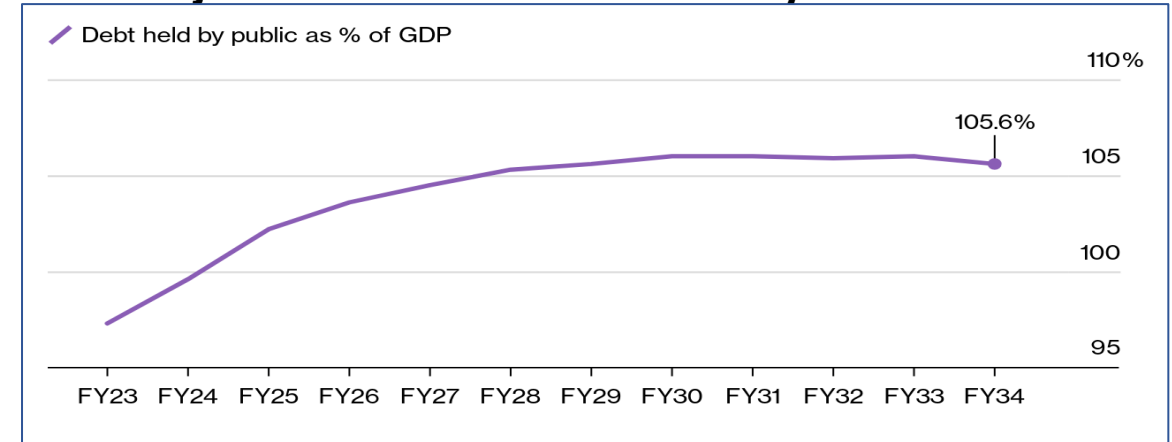
In-depth understanding; focused action

The Economic Landscape

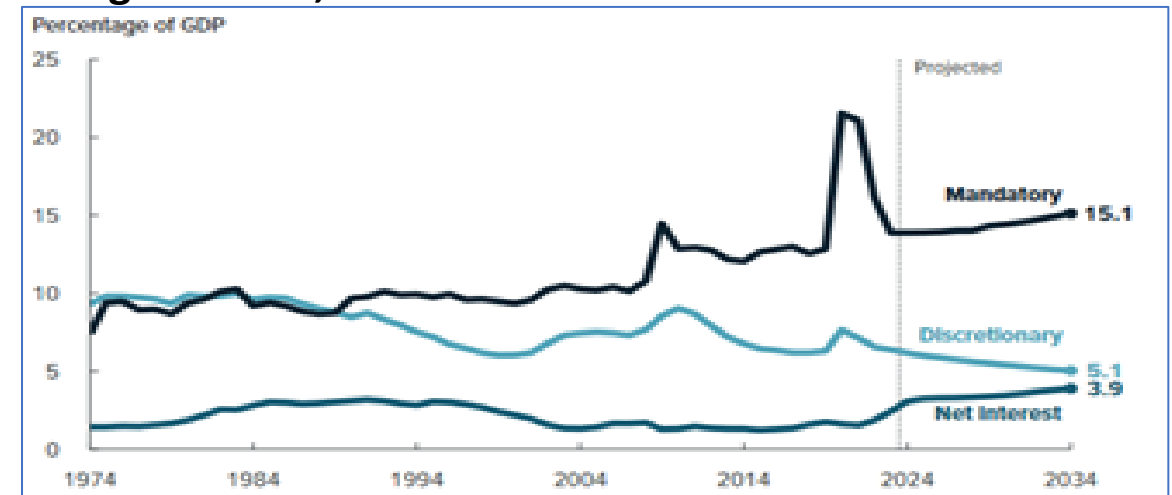
By The Numbers

- The labor market is still tight
- Inflation is still stubborn – stagflation?
- Interest rates remain high
- The Impact:
 - Interest costs up 41% (\$433B) vs. same period a year ago
 - Constrained budgets

Debt Projected to Near 106% of GDP by 2030



Budget Trends, 2024-2034



Source: CBO

VETERANS AFFAIRS



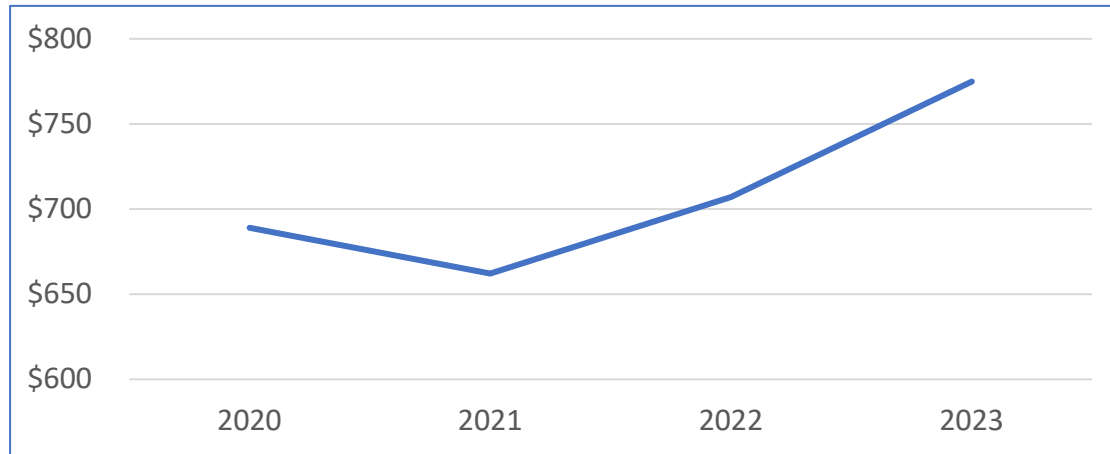
Discretionary: \$129.3B

VA/Account (in billions)	FY 2023	FY 2024	FY25 Request	
Discretionary	\$135	\$134.8	\$129.3	-4.2%
Mandatory	\$135	\$137.9	\$129.3	+22%

- Highlights:
 - \$17.2 billion for mental health services and suicide prevention
 - \$6.2 billion for IT office, plus funds to expand use of AI to improve veterans' care (-2.6%)
 - Electronic records -52%

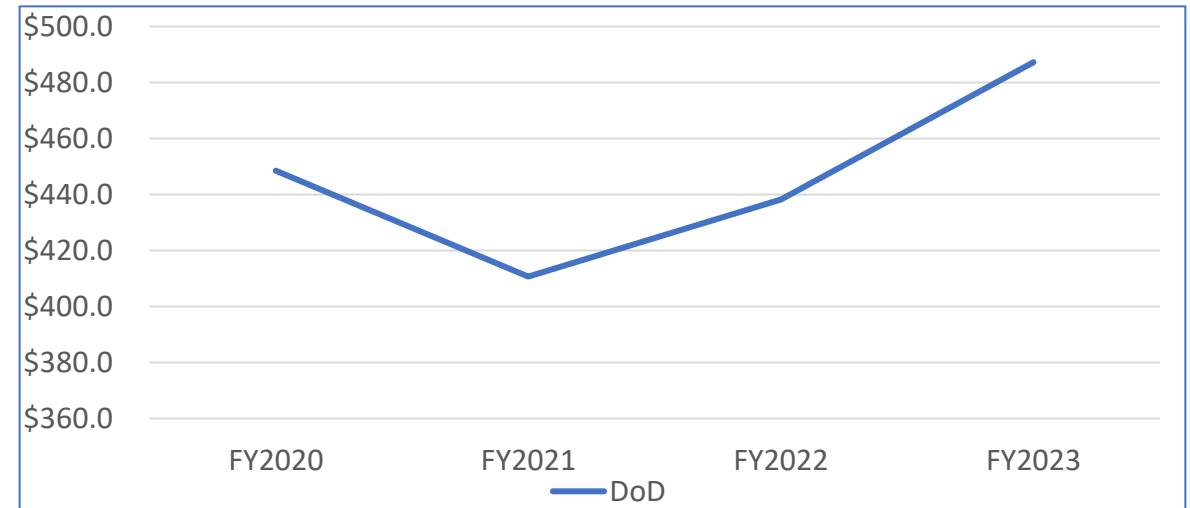
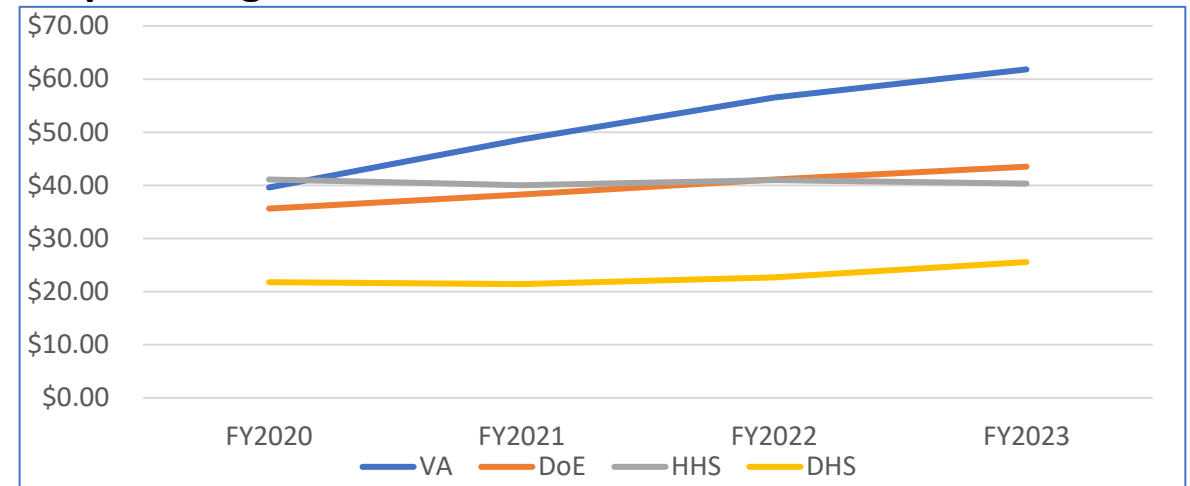
Federal Government Contract Spending

Government-wide Contract Spending



- **FY2024 Estimate:** \$762 billion in total federal government procurement, including \$113 billion for professional services (Bloomberg estimate)

Top Five Agencies



Annual Threat Assessment of the US Intel Community

- The U.S. “faces an increasingly fragile global order strained by accelerating strategic competition among major powers, more intense and unpredictable transnational challenges, and multiple regional conflicts with far-reaching implications“

The era when Europe bought its energy and fertilizers from Russia, had production in China, and entrusted its security to the US is over

-- French President Macron

- "The fields of AI and biotechnology, in particular, are rapidly advancing“

Government Shaping Markets

Specific Technologies

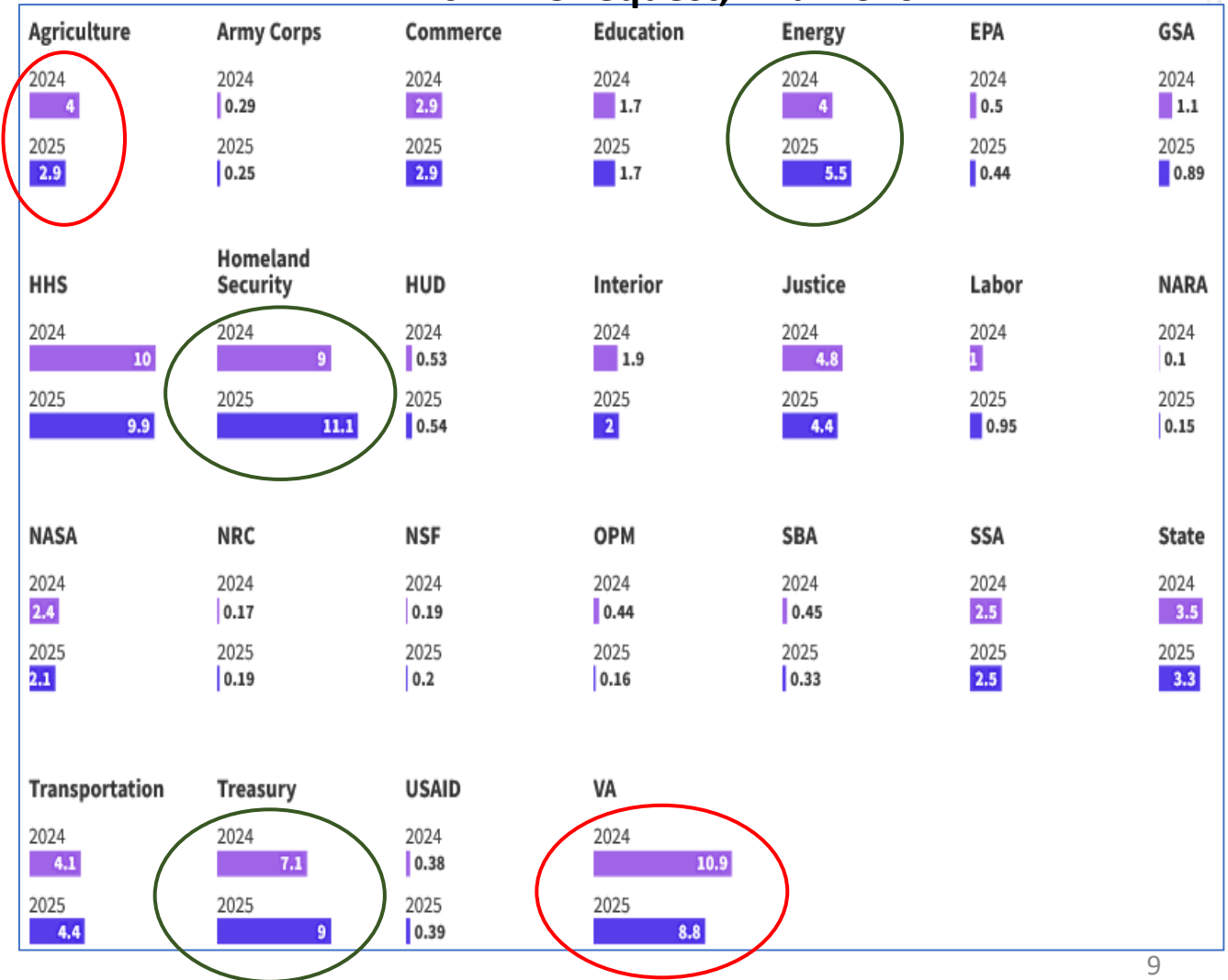
- The FY24 [Investment Strategy for the Office of Strategic Capital](#)
 - “Focuses on component-level technologies with broad commercial application that are also relevant to” national security
 - Uses financial tools (including loans and loan guarantees) to attract private capital for “critical technologies” whose cost of capital, timelines for repayment, or technical challenges hamper private sector investment
- The Technologies:
 - Nanomaterials and Metamaterials (Advanced Materials)
 - Bioenergetics (Biotechnology)
 - Synthetic biology (Biotechnology)
 - Open RAN (FutureG and 5G)
 - Sensor hardware (Integrated Sensing and Cyber)
 - Assembly, Testing, and Packaging (Microelectronics)
 - Materials (Microelectronics)
 - Quantum computing (Quantum Science)
 - Quantum security (Quantum Science)
 - Quantum sensing (Quantum Science)
 - Battery storage (Renewable Energy Generation and Storage)
 - Space-enabled services and equipment (Space Technology)

IT, AI, Cyber Focus

IT & AI Request

- FY25 Request – \$75.1B
 - smallest spending increase in civilian IT since 2013
- Technology Modernization Fund – \$75 million
 - Received \$1B in American Rescue Plan Act (2021)
 - \$0 in the FY24 approps bills
- Artificial Intelligence
 - \$70 million for agency Chief AI Officers

FY24 vs. FY25 request, in billions



Data and IT: A Tale of Two Cities

- Data
- Technology Modernization Fund
- IRS – customer experience
- VA IT Healthcare System
- Defense Travel System
- The DoD IG report [Audit](#) found
 - “DoD plans to spend \$727.9 million between FYs 2024 and 2027 on 24 systems that OUSD(C)/CFO management has stated “can and should” retire

The Industrial Base

“The current U.S. defense industry base is producing neither enough nor on time the hardware to meet global demand”

- Taiwan Vice President-elect Bi-khim Hsiao

\$19 billion backlog of U.S. weapons deliveries

The Industrial Base

FIGURE 2. Trends in Contractor Participation in the Government Marketplace

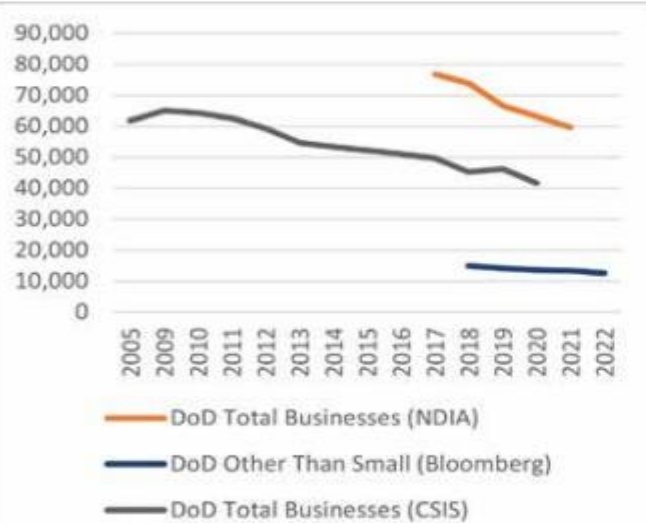


FIGURE 3. Trends in Small Business Participation in the Government Marketplace

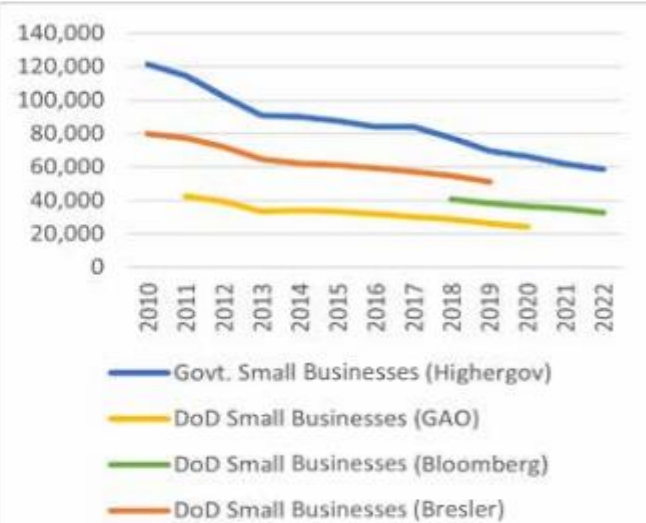
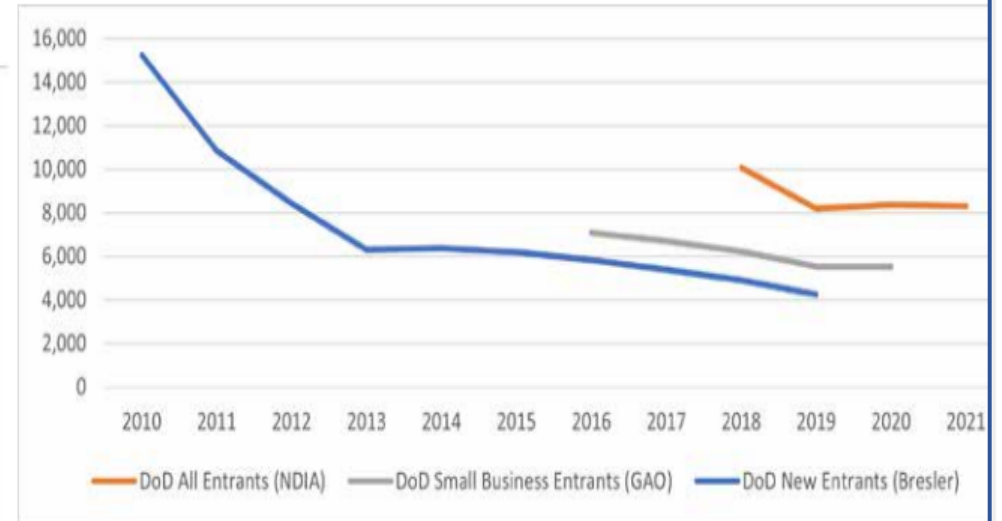


FIGURE 4. Fewer Firms Are Entering the Defense Industrial Base



Industrial Base Strategy

Department of Defense

- Resilient Supply Chains
 - Invest in capacity
 - Diversify the supplier base
 - Enhance industrial cybersecurity
 - Greater inventory
- Private Sector Workforce Readiness
 - Targeting STEM and manufacturing
- Flexible Acquisition
 - MOSA
 - R&D investment
 - Increase access to IP and data rights
 - Flexible contracting strategies
- Economic Deterrence
 - Protect against cyberattacks

European Union

- The European Commission published a [new European Defence Industrial Strategy](#)
 - "investing massively...in the required defence capabilities, including in relevant critical infrastructure"
 - Invest and buy European - target: procuring at least 50% of defence investments within the EU by 2030 and 60% by 2035
 - Ensuring Security of Supply at the EU level
- EU Concerns
 - "Europe's share of world GDP has fallen from 20% to 15% while China's has risen from 7% to 19% over the last half century"
 - "Our general approach towards China is to de-risk, not decouple"

Contracting Strategy

OMB Better Contracting Initiative

- Leverage data across govt. to get better contract terms
- Negotiate common enterprise-side software licenses
- Get contract requirements right the first time
- Get better value from sole source and high-risk contracts

Other Hot Issues

- Best Value vs. Lowest Price
 - GSA schedules
 - Counter-drone technology
- Intellectual Property
- Mergers and Acquisition

China

Peering into the Future

Washington Landscape

- *Elections*

- Biden vs. Trump – the sequel
- Senate – Republicans have the advantage (23 vs. 11)
- House – Democrats have a slight advantage
 - At least 33% of the House will have 2 years or less of experience

- *Issues in Play*

- Budget levels (particularly defense)
- Cyber
 - Who replaces Rep. Gallagher and Sens. Sasse and Langevin?
 - Rep. Garbarino? Rep. Luttrell? Rep. Zach Nunn?
- Ability to execute?
 - Will the Republican civil-war be settled?
 - How long will a CR last?
 - Debt limit expires January 1

What to Expect Post-Elections

Biden Administration

- NATO/allied-focus approach?
- Continued focus on environment?
- Flat budgets?
- Business environment?
- Use gov't. procurement system to push policies?

Trump Administration

- Allied uncertainty?
- More focus on the border?
- Budget cuts?
 - CISA, IRS, Dept. of Justice?
- Business environment?
- More administration unpredictability?

What questions do you have for us?



Etherton and Associates, Inc.

Services in Federal Relations

In-depth understanding; focused action