

FY 2018 Opportunities for Small Businesses

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Executive Summary

Market primed for growth in fiscal 2018 and 2019

Long-term spending trends are positive

- Most agencies are seeing a multiyear rise in contract spending
- Set-aside spending, usually flat during downturn, is rising in lock-step with year-over-year spending increases

Spending in fiscal 2018 has matched the president's fiscal 2018 budget priorities

- Most agency spending amounts align with the president's request
- Defense agencies accelerated spending; nondefense agencies cut back spending

Congress wanted to spend much more money on:

- Specific defense programs such as weapons and upgrades, readiness support, and upgrades to existing IT systems
- Nondefense agencies, but no detailed plans beyond border security and infrastructure

How to spend it?

- Use of multiple-award contracts
- Small-business spending

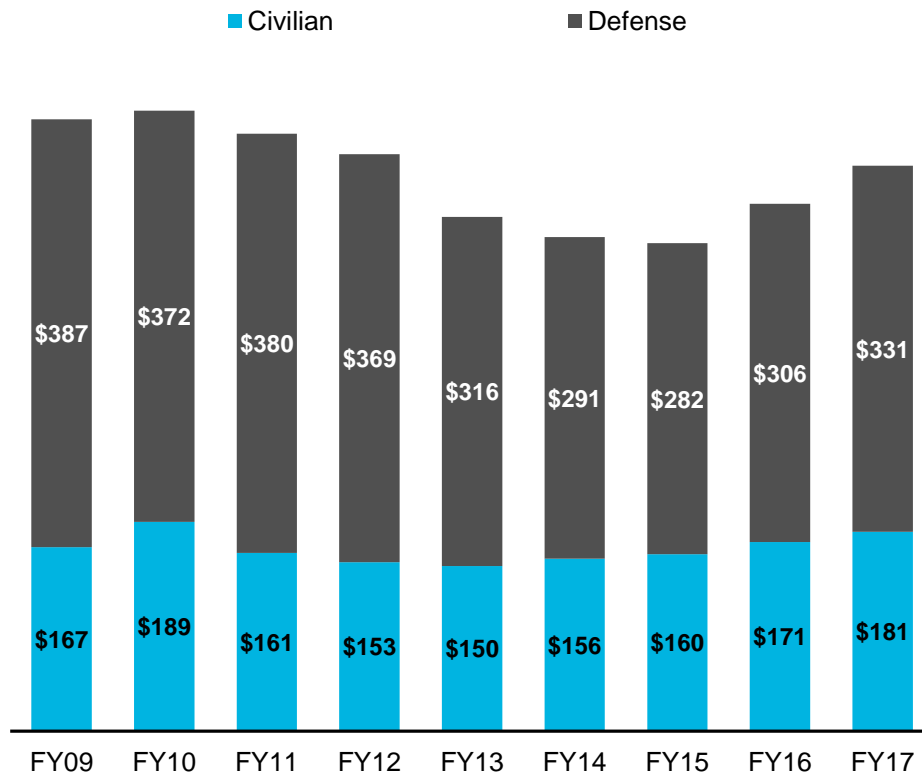
Fiscal 2019 outlook

- Budget caps already raised, but president doesn't have to request or spend up to them

Federal Spending to Rise for Third Straight Year

Fiscal 2017 was the best year since fiscal 2012

Obligations in billions



Source: Bloomberg Government

In fiscal 2017:

- Defense spending rose by \$25 billion, or 8.1 percent, to \$331 billion
- Civilian spending rose by \$9 billion, or 5.4 percent, to \$181 billion

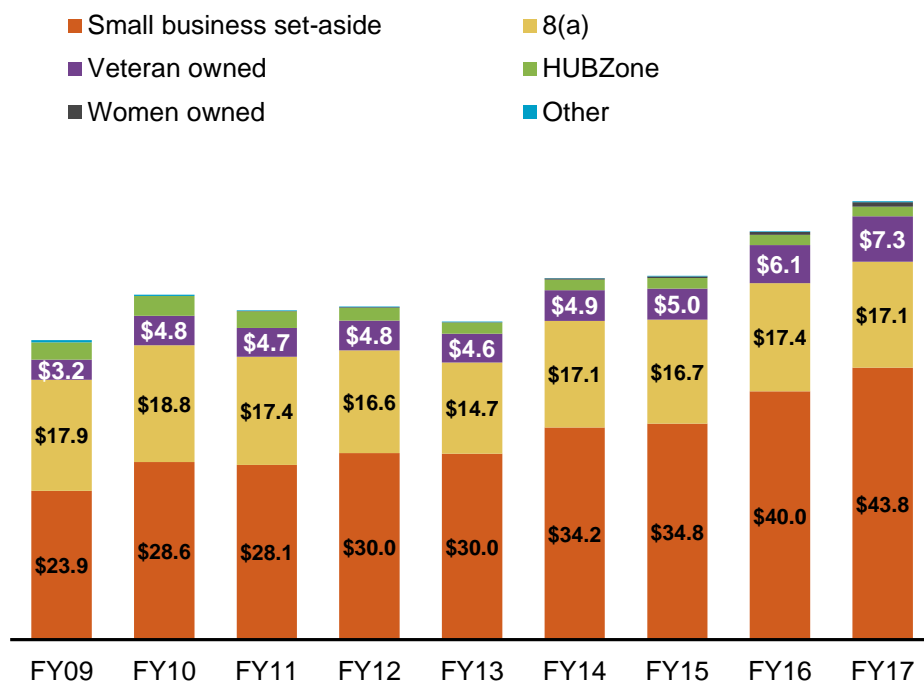
No two-year losers:

- The few large civilian agencies that saw declines in 2017 – Treasury, Transportation, Commerce, Interior, and EPA – had banner years in 2016

Set-Asides Continue Uptick in Annual Spending

While large categories dominate, recent trends portend shifting future

Obligations in billions



In 2017:

- Women-owned set-aside spending rose by \$276 million, or 62 percent, to \$718 million
- Veteran-owned set-aside spending rose by \$1.2 billion, or 19 percent, to \$7.3 billion
- Indian Small Business Economic Enterprise spending rose by \$18 million, or 28 percent, to \$85 million

Source: Bloomberg Government Contracts Intelligence Tool

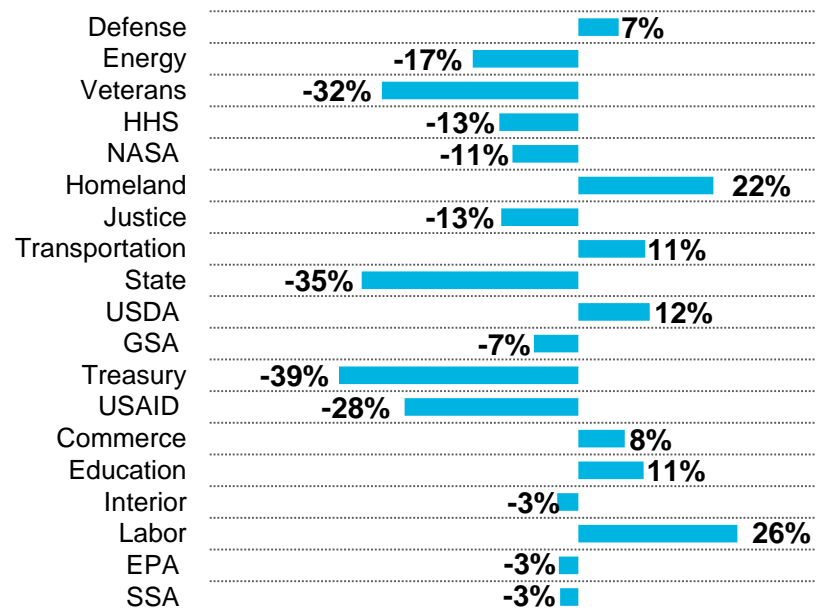
Note: Categories are aggregates of sole-source and competitive programs. For example, "veteran owned" includes set aside and sole-source service-disabled veteran-owned small business spending, as well as sole-source and set-aside veteran spending. Values less than \$2 billion are unlabeled.

Most Agencies Have Spent Less in Fiscal 2018

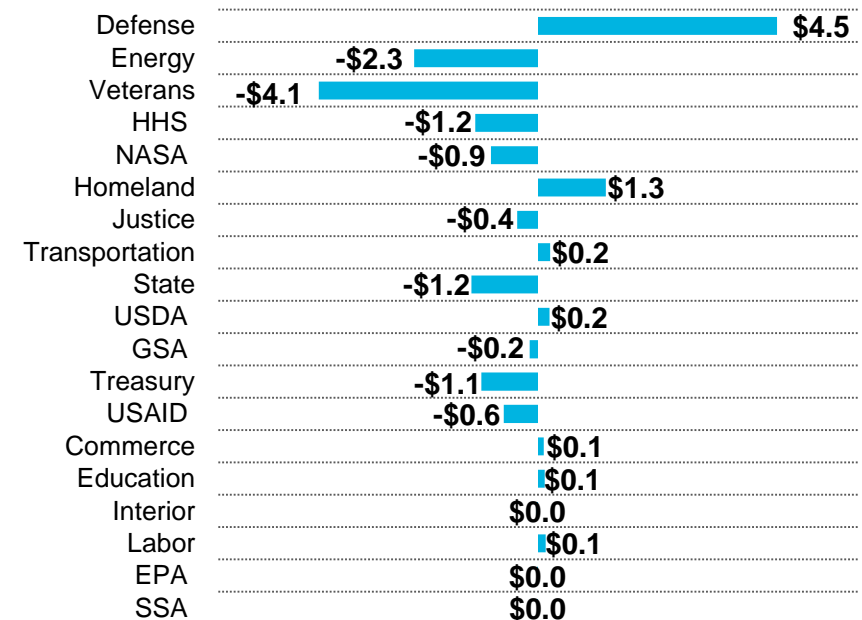
Defense contract spending up in first quarter; most civilian agencies down in the first half

DOD outpaces nondefense agencies such as USAID and Energy, which may be experiencing repercussions from planned cuts in fiscal 2018 budget request

Percent change in obligations, year-over-year



Dollar change in obligations, year-over-year



Note: Defense Department contract data is reported with a 90-day delay. Values shown compare first fiscal quarter for defense and first half for all other agencies.

Higher Budget Caps Signal More Spending

Congress raised fiscal 2018 and fiscal 2019 caps on discretionary budgets prior to omnibus

Fiscal 2018 Budget Caps

Budget authority in billions

	New	Old	Change
Defense	\$629	\$541.9	+ \$79.9
Nondefense	\$579	\$515.7	+ \$63.3

This change creates an enormous tension between year-to-date spending and goals for the entire fiscal year

Fiscal 2019 Budget Caps

Budget authority in billions

	New	Old	Change
Defense	\$647	\$562	+ \$85
Nondefense	\$579	\$529.1	+ \$67.9

This change provides the illusion of stability in budgets and contracting. The president does not have to request to these levels, but such new limits were previously a floor, not a ceiling

Source: Bloomberg Government

Agencies Far Behind in Spending

Congress provided many agencies additional funding not requested by the president

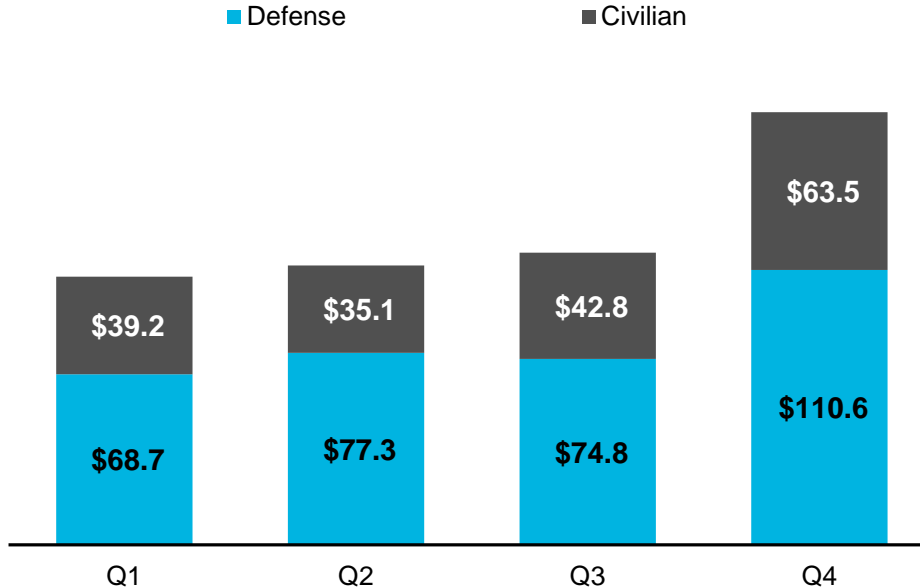
Agency	FY18 appropriation	Change from request	Change from FY17	Appropriations percentage change from FY17	YTD Obligation Change, FY17 to FY18
Commerce	\$11.1	\$3.3	\$1.9	17%	8%
Energy	\$34.5	\$6.7	\$3.8	11%	-17%
HHS	\$177.1	Unavailable	\$16.0	9%	-13%
Homeland	\$47.7	\$3.7	\$5.3	11%	22%
HUD	\$42.7	\$11.3	\$3.9	9%	-8%
Interior	\$13.1	\$2.5	-\$0.9	-7%	-3%
Justice	\$30.3	\$2.0	\$1.4	4%	-13%
NASA	\$20.7	\$1.6	\$1.1	5%	-11%
NSF	\$7.8	\$1.1	\$0.3	4%	3%
State	\$54.2	\$13.5	\$3.4	-6%	-35%
Transportation	\$86.2	\$11.1	-\$10.0	12%	11%
USACE	\$6.8	\$1.8	\$0.8	12%	31%

Notes: Defense Department contract data is reported with a 90-day delay.
Values shown compare first fiscal quarter for defense and first half for all other agencies.

Spending Booms at the End of Year

Yet, even in a normal year, it is extremely hard to predict fourth quarter obligations

Obligations in billions, fiscal 2017



Source: Bloomberg Government Contracts Intelligence Tool

2017 was an average year

Fourth quarter is by far when most of the money is spent

- Defense spent one-third of its annual obligations in the fourth quarter of fiscal 2017
- Civilian agencies spent 35 percent of its annual obligations in the fourth quarter of 2017

Slowest quarter

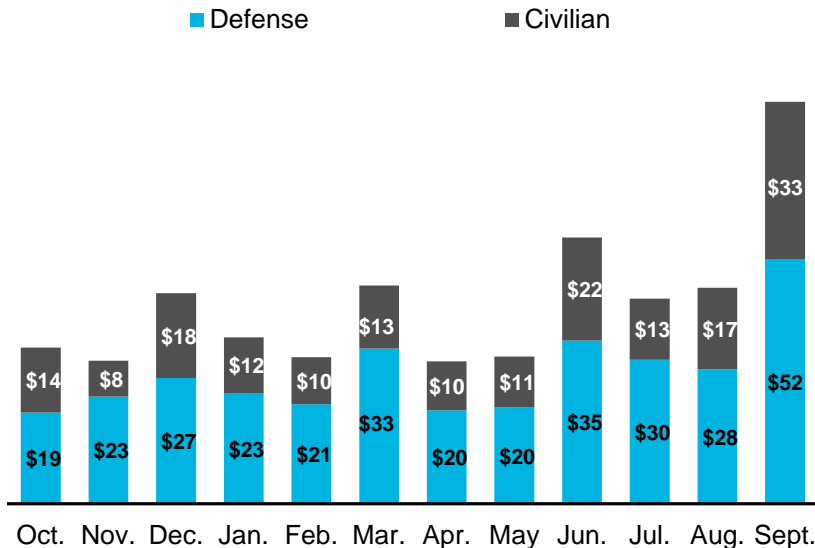
- Defense spent 21 percent of its annual obligations in the first quarter
- Civilian agencies spent 19 percent of its annual obligations in the second quarter

Spending Trends and Cycles Are Predictable

Patterns emerge, but aren't precise enough for market sizing

The fourth-quarter “race to the finish” starts as a marathon, but ends as a sprint on the last day of the year

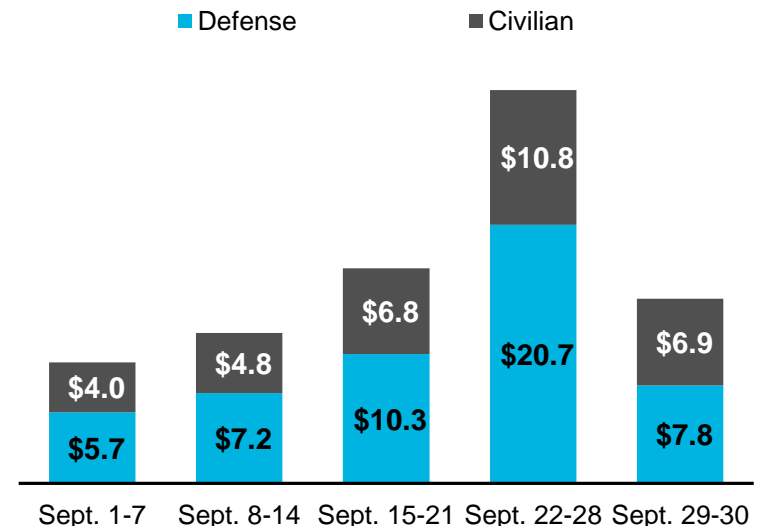
Obligations in billions, fiscal 2017



Fiscal quarters end on high notes

- June and September spending is 80 percent higher than prior months
- December and March spending is 45 percent higher than prior months

Obligations in billions, September 2017

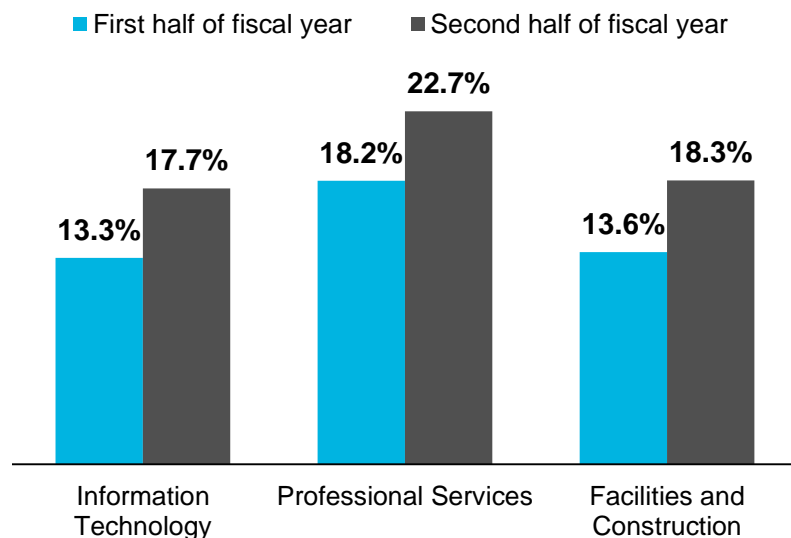


Agencies Buy More I.T & Services Later in Year

Substantial increases in share of spending across most categories

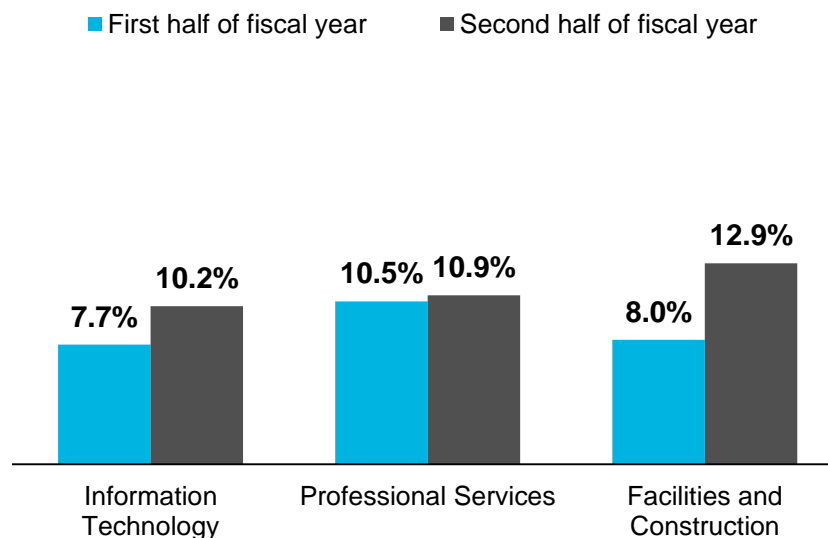
Civilian Agencies

Share of spending by category in fiscal 2017



Defense Department

Share of spending by category in fiscal 2017



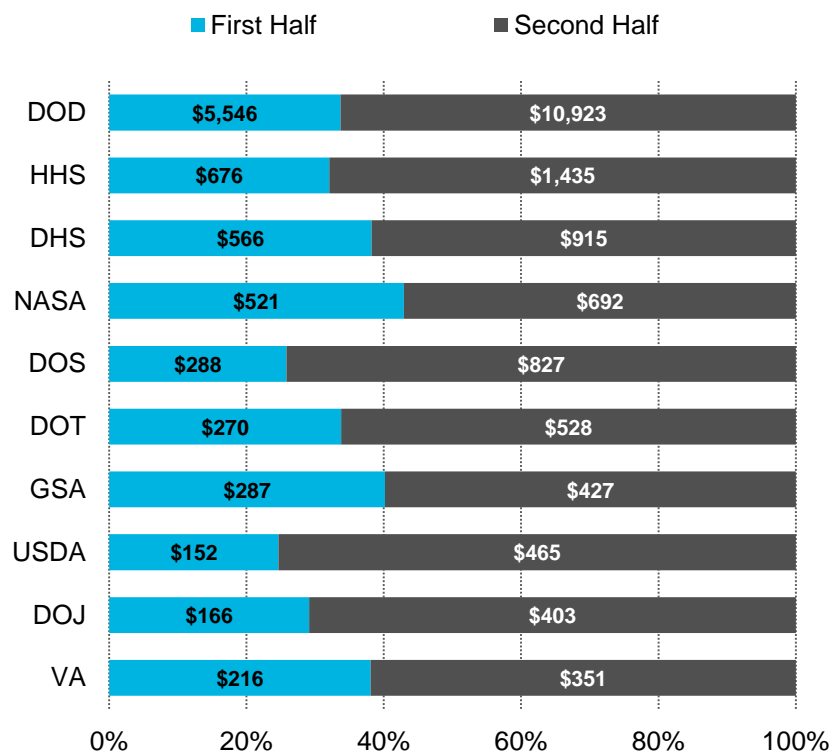
Notes: Uses definitions of information technology, professional services, and facilities and construction provided by the General Services Administration

Most of the Market Ahead for 8(a) and WOSB

USDA and State have greatest share of spend left to the second half of year

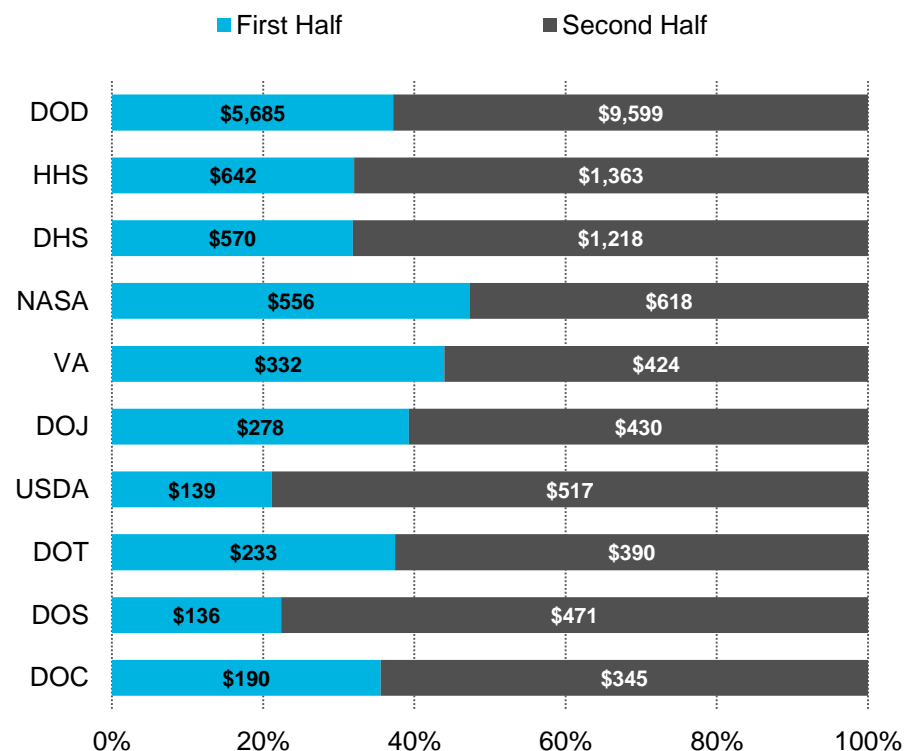
8(a) spending in 2017

Dollars in millions



Women-owned business spending in 2017

Dollars in millions



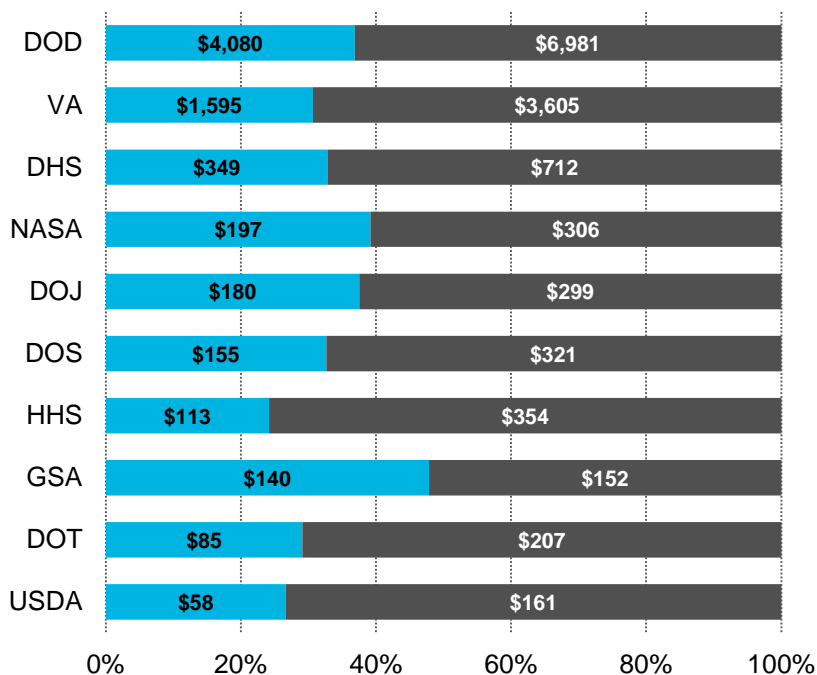
Set-Aside Spending is Concentrated at Year End

HHS leaves 75% of SDVOSB to second half; many HUBZone agencies with 80% ahead

SDVOSB spending in 2017

Dollars in millions

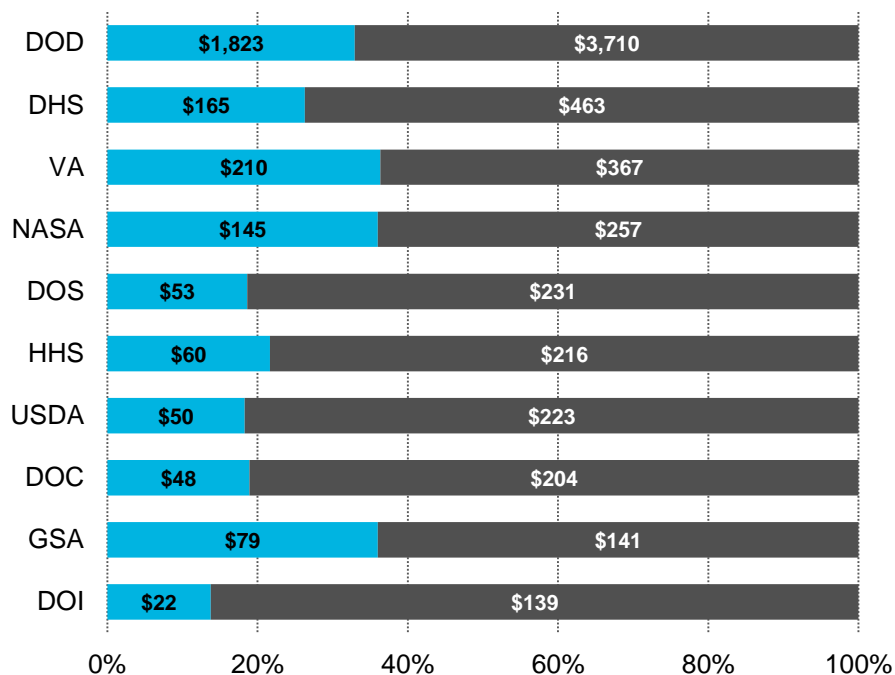
■ First Half ■ Second Half



HUBZone spending in 2017

Dollars in millions

■ First Half ■ Second Half



Energy Department Details

13 percent fiscal 2018 funding increase counters 18 percent spending decline at NNSA

Funding

Budget authority in millions

Agency	Bill	Vs. FY 2017	Vs. request	% Change
National Nuclear Security Administration	\$14,669	\$1,731	\$738	+ 13%
Energy programs	\$12,918	\$1,634	\$5,407	+ 14%
Environmental and other defense activities	\$6,828	\$76	\$445	+ 1%
Power Marketing Administration	\$105	(\$2)	\$0	- 2%

Contracting

Obligations in millions

Agency	First half of FY17	First half of FY18	First half change	% change
Nuclear Security & National Nuclear Security Administration	\$6,746	\$5,518	-\$1,228	- 18%
Undersecretary for Science	\$3,402	\$2,646	-\$756	- 22%
Undersecretary for Management & Performance	\$3,215	\$2,889	-\$326	- 10%

Source: Bloomberg Government

Commerce Department Details

Four percent fiscal 2018 funding increase counters 13 percent spending decline at NOAA

Funding

Budget authority in millions

Agency	Bill	Vs. FY17	Vs. request	% change
National Oceanic and Atmospheric Administration	\$5,909	\$234	\$1,139	+ 4%
Patent and Trademark Office	\$3,500	\$270	\$0	+ 8%
Census Bureau	\$2,814	\$1,344	\$1,317	+ 91%
National Institute of Standards and Technology	\$1,199	\$247	\$474	+ 26%

Contracting

Obligations in millions

Agency	First half of FY17	First half of FY18	First half change	% change
National Oceanic and Atmospheric Administration	\$646	\$563	-\$84	- 13%
Patent and Trademark Office	\$457	\$459	\$2	0%
Economics and Statistics Administration	\$201	\$361	\$160	+ 79%
National Institute of Standards and Technology	\$59	\$69	\$10	+ 17%
Office of the Secretary	\$44	\$39	-\$5	- 11%
Bureau of Industry and Security	\$7	\$7	-\$1	- 8%

Source: Bloomberg Government

State Department Details

Widespread spending cuts countered by additional funds to many programs

Funding

Budget authority in millions

Agency	Bill	Vs. FY17	Vs. request	% change
Global health programs	\$8,690	(\$35)	\$2,210	0%
Security assistance	\$7,602	\$1,180	\$1,700	+ 18%
Diplomatic & consular	\$5,744	(\$403)	\$461	- 7%
Development assistance	\$3,000	\$5	\$3,000	0%
Embassy Security	\$2,243	\$1,125	\$1,101	+ 101%
International organizations	\$1,786	(\$30)	\$617	- 2%

Contracting

Obligations in millions

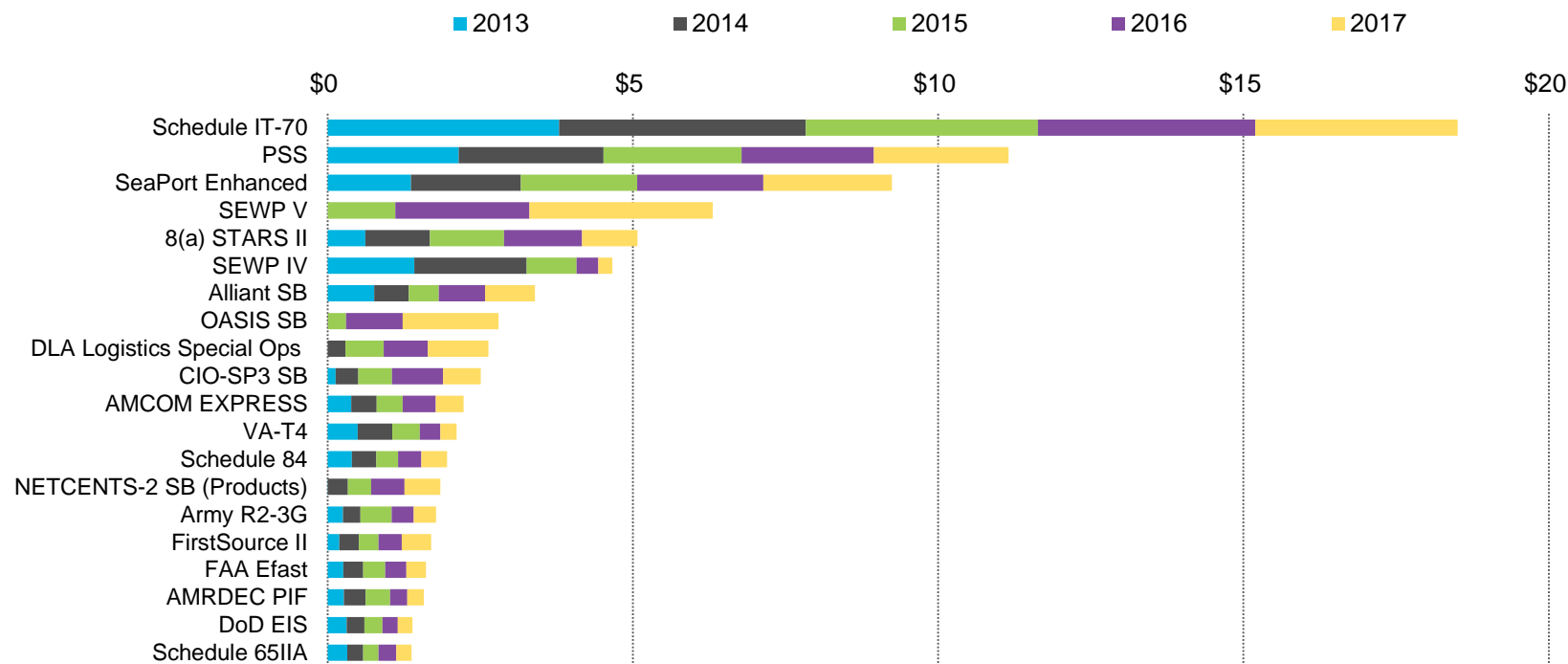
Agency	First half of FY17	First half of FY18	First half change	% change
Undersecretary for Management	\$2,662	\$1,431	-\$1,231	- 46%
Undersecretary for Political Affairs	\$459	\$501	\$42	+ 9%
Undersecretary for Civilian Security, Democracy and Human Rights	\$295	\$275	-\$20	- 7%
Undersecretary For Arms Control and International Security	\$43	\$35	-\$8	- 18%
Undersecretary for Public Diplomacy and Public Affairs	\$24	\$23	-\$1	- 6%

Source: Bloomberg Government

Major Small-Business MACs

- Agencies will likely continue to satisfy requirements using many of the same multiple-award contracts that have been used since fiscal 2013
 - Some existing vehicles such as Alliant SB, Seaport-e, VA-T4, and others are being eclipsed by follow-ons

Dollars obligated, in billions, by fiscal years.



IT 70 - Schedule 70: General Purpose Commercial Information Technology Equipment, Software, and Services; PSS – Professional Services Schedule; SEWP - Solutions for Enterprise - Wide Procurement; OASIS - One Acquisition Solution for Integrated Services; DLS Logistics Special Ops - DLA Special Operational Equipment Tailored Logistics Support Program IDIQ; CIO-SP3 SB - Chief Information Officer - Solutions and Partners 3 Small Business; AMCOM EXPRESS - Army Aviation Missile Command Expedited Professional and Engineering Support Services; T4-NG - Transformation Twenty - One Total Technology; Schedule 84 - Total Solutions for Law Enforcement, Security, Facilities Mgmt, Fire, Rescue; NETCENTS-2 SB - Network Centric Solutions 2: Products (Small Business); Army R23G - Rapid Response Third Generation; eFAST - Electronic FAA Accelerated and Simplified Tasks; ARMDEC PIF - Aviation and Missile Research, Development, and Engineering Center Prototype Integration Facility; EIS - Enterprise Software Initiative; Schedule 65IIA: Medical Equipment and Supplies

Conclusion

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