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Federal Outlook: Small Business Contracting Trends to Impact Small Businesses in 2022

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Four Trends to Watch in 2022



Funding Outlook

IIJA passed. Build Back Better in limbo. 2022 appropriations passed Mar 10, 2022. Impact of War in Ukraine. Budget request for FY 2023.



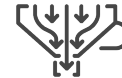
Expanding Compliance Requirements

Vaccination, cybersecurity, supply chain, climate and Diversity & Inclusion.



Focus on Small Business Policies

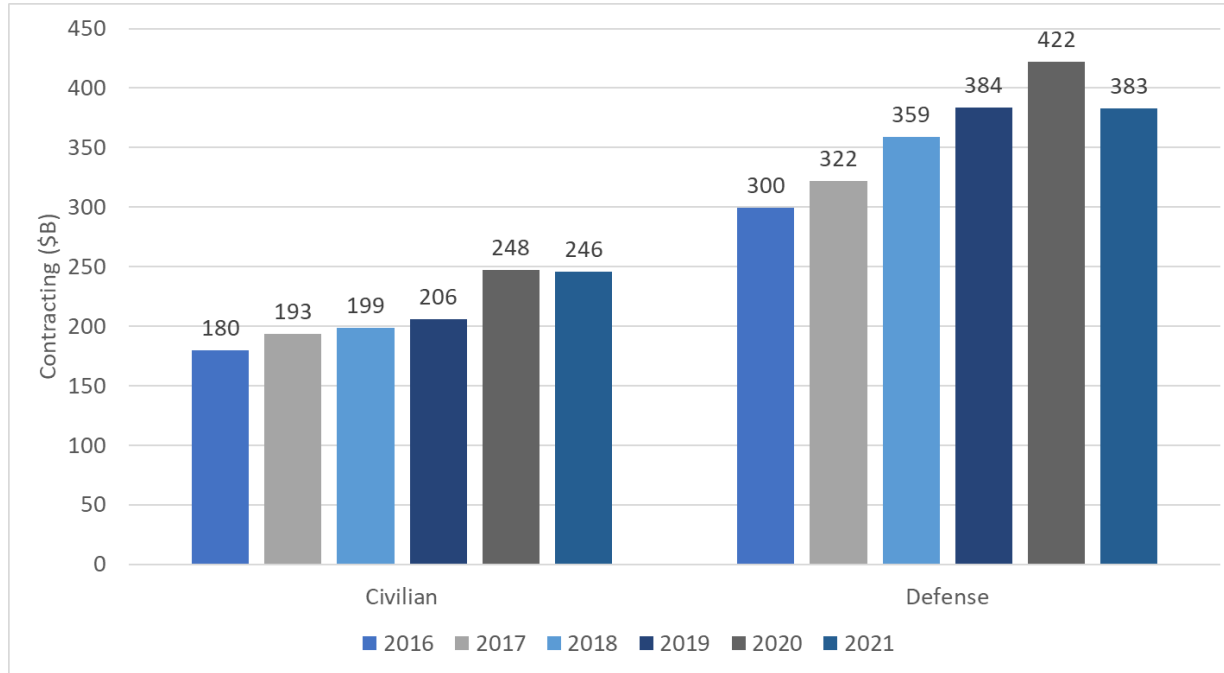
Increase use of small businesses and increasing SDB goal to 15%.



Contract Consolidation

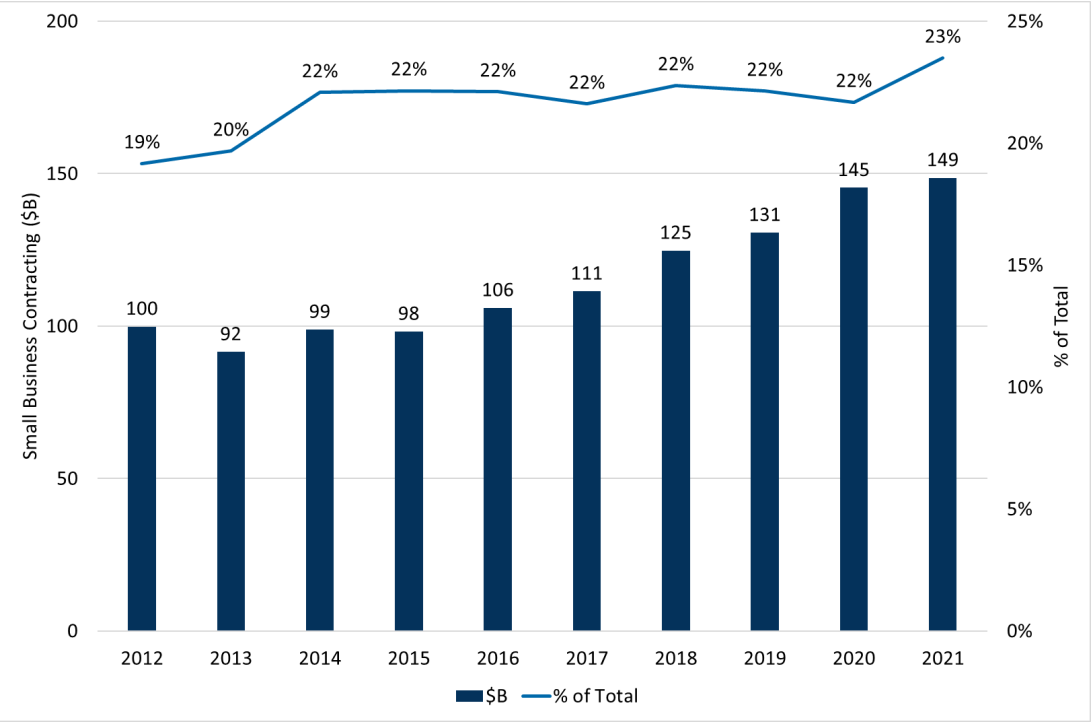
Focus on category management and adoption of IDIQs reducing the number of prime positions.

2021 Was Another Strong Year



- » Contract spending totaled \$629B – slight decline from 2020, but still up \$39B vs. 2019
- » Civilian decreased 0.8% over 2020
- » Defense declined 9.2% vs 2020

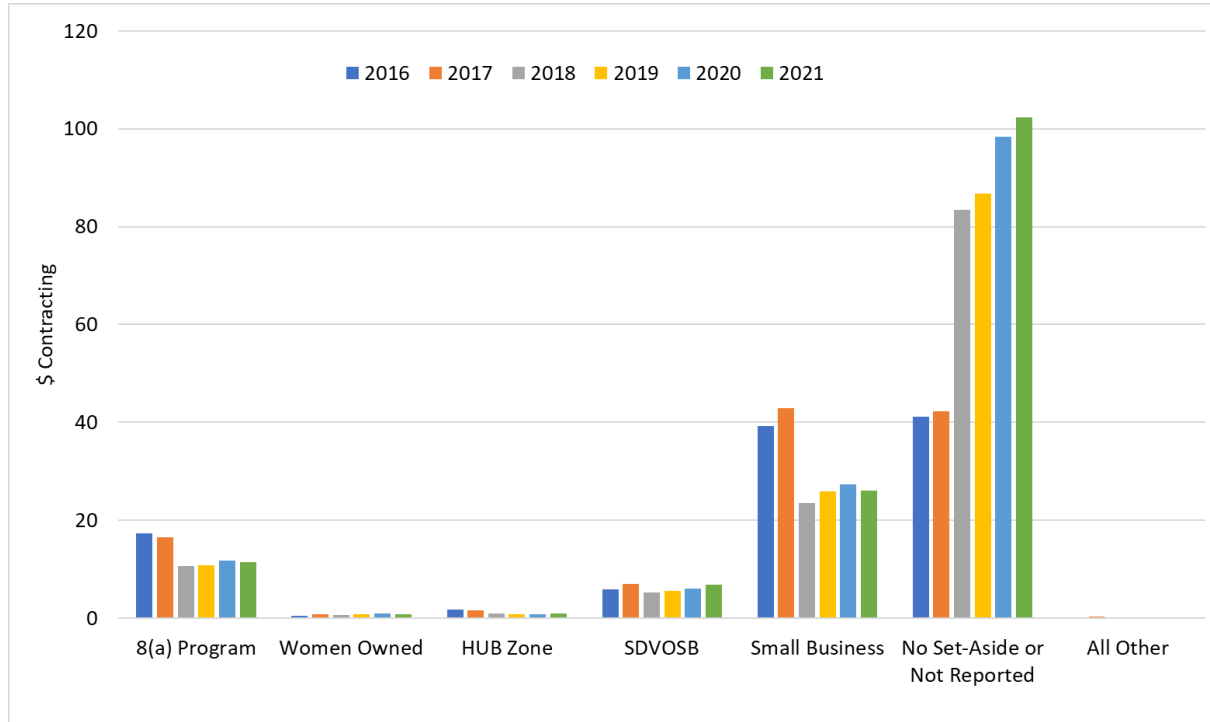
2021 Was Another Record Year for Small Business



- » Small business contracting reached nearly \$150B
- » Achieved 23%* of spending with small business in 2021

* Note: Will differ from SBA calculation

Small Business Contracting Trends



- » Of the \$150B in SB contracting, 2/3rds awarded without set-aside
- » SB, 8(a) and SDVO comprise vast majority of preference program spending
- » Average of 18% of preference program spending using Sole Source awards

Infrastructure Investment and Jobs Act (IIJA) - Key Bill Features

- » **Adds roughly \$550B** to already-planned infrastructure appropriations
- » About **2/3 of funding will transfer to state, local** and tribal governments; industry, and individuals
- » The vast majority of funding will be doled out over **5 years**
 - » About \$120B has no expiration date
- » Some funding pools are **blended and shared** across recipient types
- » Includes establishment of **new offices and programs**
 - » Advanced Research Projects Agency–Infrastructure (ARPA–I) (DOT)
 - » Chief Travel and Tourism Officer (DOT)
 - » Cyber response and recovery fund
 - » S&L cybersecurity grant program
 - » Office of Multimodal Freight Infrastructure and Policy
 - » DOT Interagency Infrastructure Permitting Improvement Center
 - » Rural Opportunities to Use Transportation for Economic Success Office (ROUTES)
 - » Advanced transportation research pilot initiative

Infrastructure Investment and Jobs Act

Investment Area	Funding (\$M) <i>(across all years)</i>
Airports	25,000
Broadband Infrastructure	106,850
Electric Vehicle Infrastructure	2,500
Facility Maintenance	429
Low and no carbon bus/ferry	7,500
Natural Resources	6,948
New Office/Function	1,600
Passenger and Freight Rail	103,656
Point of Entry Maintenance	3,848
Policy/Other	76,086
Ports and Waterways	19,844
Power Infrastructure	119,638
Public Transit	21,000
Reconnecting Communities	515
Remediation of Superfund and Brownfield sites	14,793
Roads, bridges major projects	516,545
Safety	28,644
Water infrastructure	48,213
Western Water Infrastructure	8,300
Total	1,111

Source: Congress.gov

Infrastructure Funding by Recipient

Recipient	FY 2022 (\$M)	FY 2023 (\$M)	FY 2024 (\$M)	FY 2025 (\$M)	FY 2026 (\$M)	No Year (\$M)	Total
S&L	195,408	57,129	58,307	59,285	62,239	118,063	550,430
Fed	151,711	40,845	39,446	39,073	37,676	50	308,801
Fed/S&L	59,961	39,942	40,550	41,295	41,960	2,500	226,208
S&L/Other	16,912	62	62	62	62		17,160
Fed/Industry	1,200	1,200	1,200	1,200	1,200		6,000
Industry	1,519						1,519
S&L/Industry/Indiv	120	120	120	120	120		600
Industry (Non-Profit)	120	60	60	60	60		360
Fed/Academia	307						307
S&L/Industry	250						250
Individuals	40	40	40	40	40		200
Fed/S&L/academia/non-profit	60						60
Academic/Research Org	12	2					14
Total	427,620	139,399	139,785	141,135	143,357	120,613	1,111,909

Build Back Better Act – Biden Framework

Policy	\$B
Child Care and Preschool	400
Home Care	150
Child Tax & Earned Income Tax Credits	200
Clean Energy and Climate Investments	555
ACA Credits, Including in Uncovered States	130
Medicare Hearing	35
Housing	150
Higher Ed and Workforce	40
Equity & Other Investments	90
Total	1750

Source: White House

Potential areas of contractor-addressability

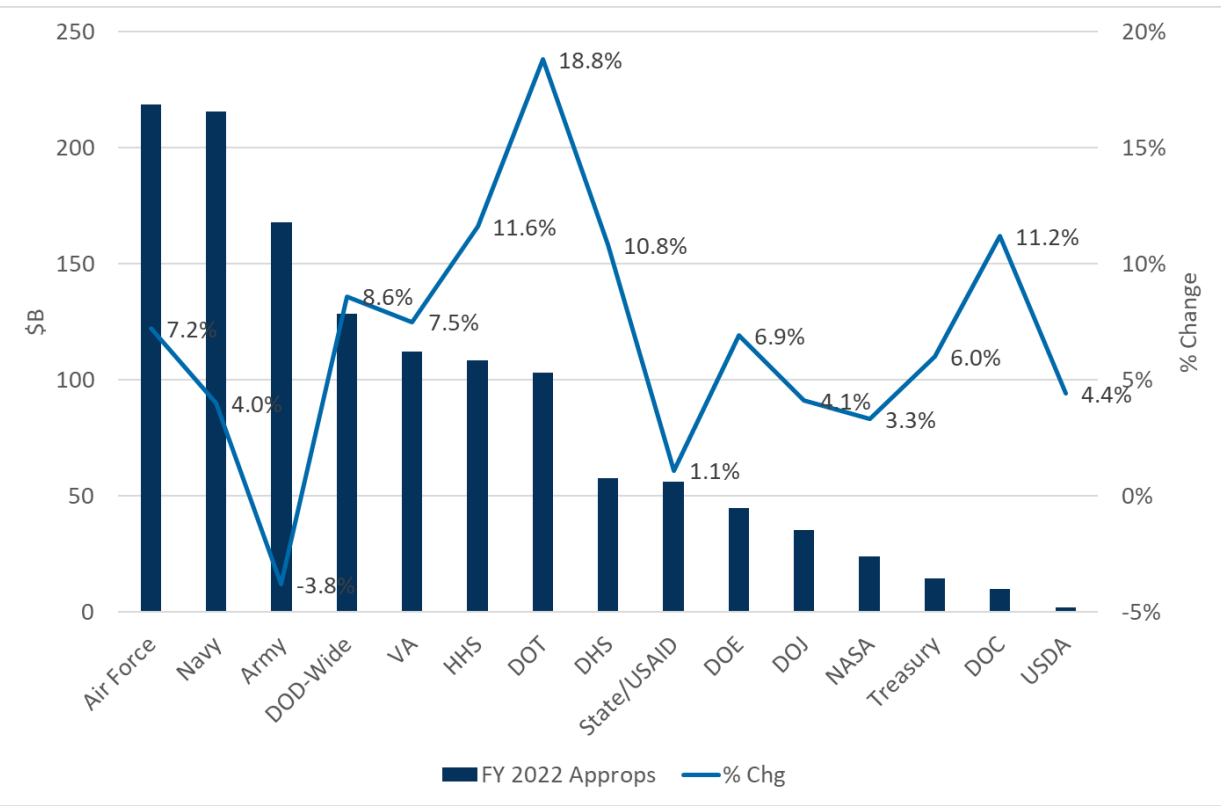
- » Climate/clean energy R&D
- » Clean energy
 - » R&D (e.g. transportation, industry, electricity, and agriculture)
 - » Procurement (i.e. federal acquisition of long-duration storage, small modular reactors, and clean construction materials)
- » Climate resiliency
- » Housing construction and rehabilitation
- » Capital maintenance and enhancements

Lacking sufficient support in Congress, legislation is in limbo.

Implications of Ukrainian Invasion

- » **Funding Avenues:** Presidential Drawdown Authority (PDA), Ukraine Security Assistance Initiative, European Deterrence Initiative, Foreign Military Sales, Excess Defense Articles, Direct Commercial Sales
- » **Funding Assistance:**
 - » To-date: \$600+M in security assets from DOD stockpile
 - » Future: Between \$757-859M for the Ukraine Security Assistance Initiative (DOD/State)
 - » \$13.6B in funding support in 2022 appropriations and potential impact on 2023 budget
- » **Ukraine Support Needs:**
 - » PDA limits contractors to select services, including possible transport of security assets to the Ukraine
 - » Needed assets included: Javelin anti-tank missiles, air defense systems, small arms and ammunition, electronic warfare detection and secure communications, satellite imagery/analysis, medical support/combat evacuation equipment
- » **Contractor Implications:**
 - » Contractors with existing contracts for relevant security assets and services
 - » Contractors doing business in Russia or the Ukraine
 - » Future expansion of Ukrainian defense and humanitarian needs
 - » Enhanced cybersecurity for all contractors

FY 2022 Appropriations



6.2% Increase in Appropriation Over 2021

- Defense spending set at \$782B (up 5.7% from 2021)
- Non-Defense spending set at \$730B (up 6.7% from 2021)
- Vast majority of agencies see increases over 2021

FY 2023 Discretionary Budget Summary*



Discretionary Budget

\$1.6T

Defense

\$773B
(+9.8%)

FY 2021 vs. 2023

+14.9%

Civilian

\$855B
(+19.9%)

- » Proposes a \$64B increase for the Department of Defense - largest Procurement and RDT&E budget (\$276B)
 - » *Select aircraft and unmanned systems, new battle force fleets and combat vehicle/equipment modernization*
 - » *Nuclear Enterprise Modernization (\$34.4B)*
 - » *Space capabilities and enhanced space command and control (\$27.6B)*
 - » *Cyberspace activities (zero trust, cyber support to the Defense Industrial Base)(\$11.2B)*
- » Prioritizes funding boosts for cybersecurity, veteran care, public health infrastructure and preparedness, climate change and resilience, and R&D
- » Proposes shifting the Indian Health Service in HHS and select costs within Interior's Bureau of Indian Affairs to the mandatory side of the federal budget.

**Due to the timing of final FY 2022 appropriations, investment levels in the FY 2023 budget are compared to 2021 funding.*

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Expanding Compliance Requirements



Executive Order on Improving the Nation's Cybersecurity

Standardized Contract Requirements

CISA to review existing agency-specific cybersecurity requirements and recommend standardized contract language to the FAR Council.

Data Collection

Updates to contract regulations to ensure appropriate data collection by all federal IT service providers – including cloud service providers.

Information Sharing

Sets guidelines for contracted service providers to share cyber incident data and collaborate with federal agencies in incident investigations.

Software Supply Chain

Updated FAR language
Software Bill of Materials (SBOM)
NIST list of “critical software”
Legacy software remediation
Software testing standards

CMMC 2.0 – Program Updates

In early November, DOD announced revisions to CMMC coming out of their program review. CMMC 2.0 consolidates the levels, eliminating CMMC 1.0 levels 2 and 4, and makes other changes going forward.

Level 1 Foundational

- » 17 practices
- » Annual self-assessments with an annual affirmation by DIB company leadership

Level 2 Advanced

- » 110 practices aligned with NIST SP 800-171
- » Bifurcated assessment requirements:
 - » Triannual third-party assessments for prioritized acquisitions involving CUI

Level 3 Expert

- » 110+ practices based on NIST SP 800-172
- » Triannual government-led assessments.

Program-wide changes

- » Removes CMMC-unique practices and all maturity processes from all levels
- » Allows companies to make Plans of Action & Milestones (POA&Ms) to achieve certification, under certain limited circumstances
- » Allows waivers to CMMC requirements under certain limited circumstances
- » Suspends CMMC pilots and CMMC requirements from solicitations until DOD finalizes rule changes to Title 32 and 48 of the Code of Federal Regulations (CFR)

Implications: The changes reduce the number of firms needing third-party assessments and thus the demand on independent third party assessment organizations (C3PAOs). Administrative and cost burdens on small and medium sized businesses should also be reduced. The timeline for when CMMC will take full effect depends on how quickly the DOD moves forward on the rulemaking process, however DOD estimates it will take from 9 to 24 months to fully complete the process.

Supply Chain Security

Policies

- » Section 889 telecom equipment exclusions
- » Secure Technology Act
- » Executive Order on America's Supply Chain - Recommendations to fortify the U.S. defense, IT, energy, public health, transportation and agriculture commodities/food products industrial base
- » Executive Order on Ensuring the Future Is Made in All of America by All of America's Workers - potential reversal of Buy American IT exemption

Processes

- » NIST "Cyber Supply Chain Risk Management Practices for Systems and Organizations" (800-161)
- » CISA "ICT Supply Chain Risk Management Toolkit"
- » CMMC
- » Federal Acquisition Security Council exclusions

Supply chain disruptions are impacting some procurements.

Equity in Federal Procurement

“Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government” (January 2021)

- » Directs the Domestic Policy Council to remove systemic barriers to and provide equal access to opportunities and benefits, identify communities the federal government has underserved, and develop policies designed to advance equity for those communities.
- » Directs agency heads to:
 - » Conduct “equity assessments” to include: barriers in access to federal programs and contracting opportunities; need for policy, regulatory and guidance development; and status and resources of federal organizations with civil rights responsibilities or mandated to serve underserved communities.
 - » Engage with underserved communities to inform plans aimed at addressing barriers to equal participation in federal programs and agency procurement.
- » Directs OMB to promote equity in the annual budget submission and agencies to allocate resources in a manner that better addresses needs of underserved communities.

OMB Guidance: “Advancing Equity in Federal Procurement”

- » Sets new agency FY 2022 SDB contracting goals to reach a cumulative goal of 11%
- » Adjusts category management practices to boost small business opportunity
- » Plan to increase new small business market entrants
- » Builds small business utilization into SES performance plans
- » Normalizes OSDDBU directors’ access to agency leadership
- » [Shares](#) SBA contracting data by race and ethnicity

<https://iq.govwin.com/neo/marketAnalysis/view/New-OMB-Guidance-Sets-the-Stage-for-Increased-Small-Business-Contracting/6291?researchTypeId=1&researchMarket=PFPAP>

Climate Change

Executive Order on Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability

Directs the federal government to use its scale and procurement power to achieve five goals:

- 100 percent carbon pollution-free electricity (CFE) by 2030, at least half of which will be locally supplied clean energy to meet 24/7 demand;
- 100 percent zero-emission vehicle (ZEV) acquisitions by 2035, including 100 percent zero-emission light-duty vehicle acquisitions by 2027;
- Net-zero emissions from federal procurement no later than 2050, including a Buy Clean policy to promote use of construction materials with lower embodied emissions;
- A net-zero emissions building portfolio by 2045, including a 50 percent emissions reduction by 2032; and
- Net-zero emissions from overall federal operations by 2050, including a 65 percent emissions reduction by 2030.

Directs the federal government to orient its procurement and operations efforts in line with the following principles and goals:

- Achieving climate resilient infrastructure and operations by transitioning federal infrastructure to zero-emission vehicles and buildings
- Building a climate- and sustainability-focused workforce
- Advancing environmental justice and equity
- Prioritizing the purchase of sustainable products, such as products without added perfluoroalkyl or polyfluoroalkyl substances (PFAS)
- Accelerating progress through domestic and international partnerships
- Increasing the sustainability of federal supply chains

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Focus on Small Business Policies



Small Business

Increased focus on equitable distribution of contract opportunities

Increased set-aside goals for Small Disadvantaged Businesses (SDBs)



Promoting Competition

Executive Order on Promoting Competition in the American Economy



Acquisition Policy

- » Increasing SDB set-aside goal to 15% by FY 2025
- » Provide \$31B in small business programs



FY 2022 Budget

- » Eliminate contracting barriers to small businesses in under-represented communities
- » Improve supplier data for agencies



Legislation

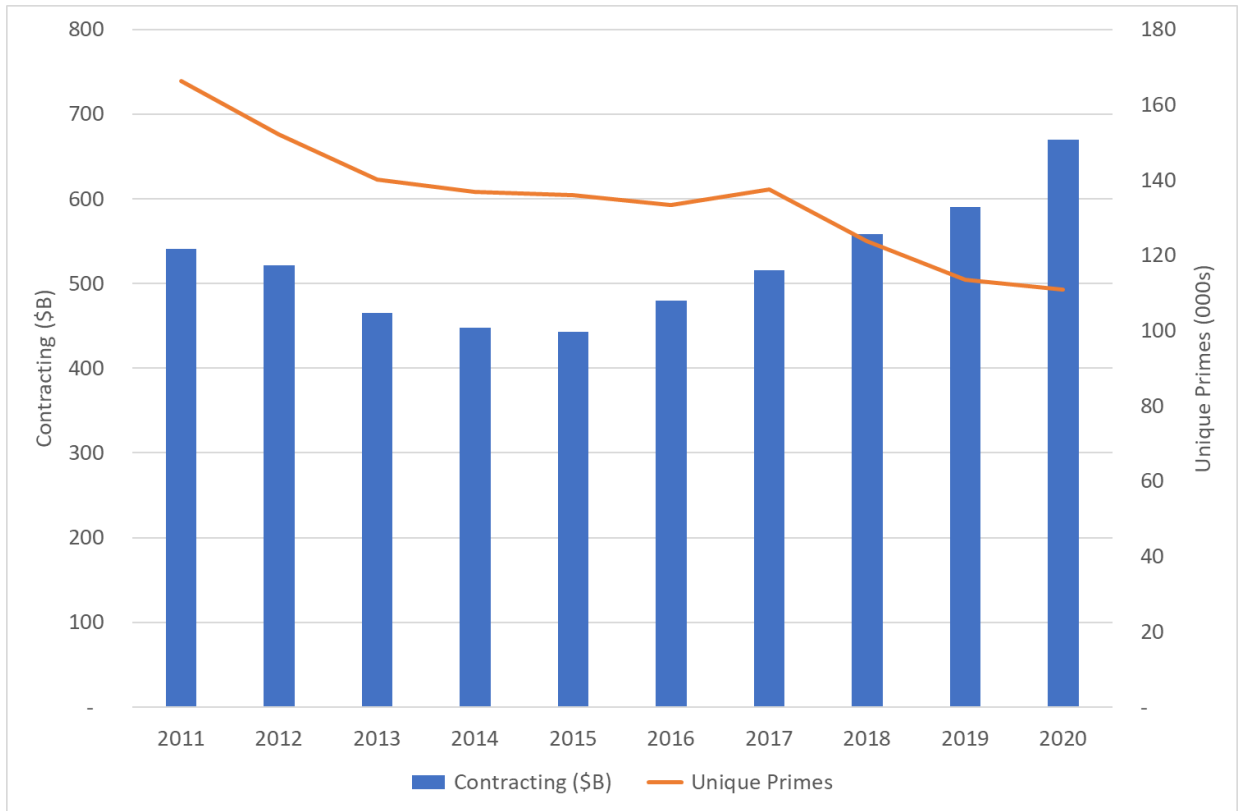
- » Technical assistance programs for 8(a) companies
- » Reform subcontracting network to create additional pathways to prime contracting

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Contract Consolidation



Consolidation in Federal Contractors



Despite Increased Spending, Fewer Awardees

The number of firms receiving federal awards is declining despite significant increases in federal spending driven by

- Agencies adopting IDIQ contracts offering fewer prime positions
- Barriers to entry driven by rising contract compliance requirements (e.g., CMMC)

Drives M&A

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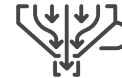
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