

Obama's FY2012 Budget Request: Cuts and Investments Promise Contentious Debate

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On Monday, President Barack Obama unveiled his \$3.73 trillion budget proposal for fiscal 2012 which highlights reducing or cutting more than 200 federal programs, while investing in the areas of education, transportation infrastructure and research. With his 2012 budget proposal, the President is aiming to invest in the future of America while reducing overall budget deficits. The goal: reduce deficits down to 3% of GDP by the middle of the decade.

GovWin Federal Industry Analysis (FIA) Initial Observations:

The majority of the proposed cuts are focused in 4 key areas, which don't have significant impact on most federal contractors:

- Community development grants
- Housing assistance programs
- Environment (EPA) and energy efficiency programs
- Reductions in OCO and Supplemental spending that has occurred in the past

The DoD budget proposes overall spending of \$727.4 billion, off 5.8% from fiscal 2011 estimates, with \$670.6 billion in discretionary spending. The DoD budget reiterates many of the cuts which have already been announced by Defense Secretary Robert M. Gates. DoD budget highlights include:

- Cybersecurity: \$2.3 billion will be allocated to support improved cybersecurity capabilities within DoD and greater joint planning efforts between DoD and DHS to increase the effectiveness of cybersecurity efforts across Government.
- Cyber Command will get \$119 million to support full operational capability for U.S. Cyber Command, which was established in 2010 to direct the operation and defense of specific DoD information networks.
- There will be \$7 billion in cuts to military construction (not surprising given the amount of money spent on construction under the stimulus package).
- DoD will begin implementing an innovative satellite acquisition approach in order to reduce costs and strengthen the industrial base.

The budget estimates a small increase in federal workforce in 2012 (+0.7% over fiscal 2011 estimates).

According to the budget document, hiring will be focused in national security related agencies: the Department of Defense (DoD), the Department of Veterans Affairs, the Department of Homeland Security (DHS), the Department of Justice, and the Department of State.

- In general this workforce level doesn't bode well for the government's ability to do any significant amount of insourcing, so it will be targeted based on ongoing analysis of internal talent.
- This is a major driver behind the IT Workforce Capability Assessment being conducted by the CIO Council right now.

On the IT front, there's not much new information within the 2012 budget proposal. Overall, the budget seems to be a continuation of existing plans which have already been discussed. Notable IT highlights include the following:

- IT budget edges up 1.9% to \$79.5 billion. Depending on how the CR plays out, the increase over FY2010 could be higher.
- Continued focus on cloud computing and the 25-point Implementation Plan.
- The continued build-out of the Challenge.gov and Performance.gov portals.
- Increased emphasis on cybersecurity, although much of what's in the budget in terms of target areas is well-known.
- Sets agency-specific targets for data center consolidation (to be covered in a separate blog), intended to track to the goal of consolidating at least 800 data centers by 2015.

Specific IT budget information is still trickling in, but early indicators point to a mixed bag of positive and negative growth. We anticipate moderate growth in the request for Transportation and Education departments considering Obama's pledge in these areas in his State of the Union address. Justice is positioned for a potential hit – both the budget request and the House Appropriation committees proposals target cuts to the Justice budget.

GovWin's Take:

- Whether this budget is a starting point for Congress or will be completely scrapped by and started fresh, expect a highly contentious battle over the depth of cuts. The Obama administration has positioned this as a down payment for the future, which critics are interpreting as a lukewarm attempt at making hard decisions about cuts.
- Expect close scrutiny of the highlighted savings. We believe that some line items presented as savings may be objected to during political debate. For example, some agencies have major declines in 2012 vs. 2010 are due in large part to significant reductions or elimination of supplementals (e.g., military OCO and supplementals to DHS of \$5B in 2010 that don't exist (at least not yet) in 2012 budget), which will undoubtedly be debated as true "savings".
- Despite the potential criticism of touted program savings, the "Administratively Implemented Savings," as reported in the budget (aka "things we've done on our own to improve efficiency and reduce costs") highlight a reliance on IT. The budget request lists 16 initiatives/actions that will result in \$120M in savings in FY12, 10 of which rely on the use of IT to streamline operations (see table below).

Agency	Initiative/Action
Department of Health and Human Services	<ul style="list-style-type: none"> • Expand the Use of Electronic Platforms to Conduct Research Grant Review • Reduce Travel Costs and Support Telework Participation
Department of Homeland Security	<ul style="list-style-type: none"> • Post Public Notice for Seized Property Online, Not in Newspapers
Department of Labor	<ul style="list-style-type: none"> • Electronic Reporting at the Mine Safety and Health Administration and Bureau of Labor Statistics
Department of State and other Int'l Programs	<ul style="list-style-type: none"> • Limit Printing/Copying and Procure Multi-Function Devices
Department of the Treasury	<ul style="list-style-type: none"> • Increase Paperless Transactions • Information Technology Consolidation
Environmental Protection Agency	<ul style="list-style-type: none"> • Electronic Emissions Reporting • Reduce Travel Costs Through Video-Conferencing
National Science Foundation	<ul style="list-style-type: none"> • Virtual Desktop Computing Environment

Source: FY2012 President's Budget Request

The ability of IT to reduce costs by introducing efficiency and integrating redundant systems bodes well for IT in the future, and may even be spurred by the pressure on topline spending. The FIA team is knee-deep in budget documents and will continue to provide analysis. Stay tuned for future blogs and our upcoming report focused exclusively on the FY2012 budget request.