

State of the Union Highlights: Contractor Implications

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On January 29, President Obama delivered his sixth [State of the Union](#) address, and the themes are familiar. The President urged Congress to work with him to pass much needed legislation to address key administration priorities, such as job creation, healthcare, immigration, national defense, tax reform, pay equality and income security, and education and training.

Although there was not much detail, my team of analysts and I walked away from the speech with a few takeaways with contracting implications:

- **No more budget crises.** While Obama lauded the efforts of Congress in passing a two-year budget deal, he encouraged Congress to continue with investments that will both support our future and reduce the deficit. He also reiterated another key way to address the fiscal bleeding, which is to close tax loopholes, like those that give \$4 billion to the fossil fuel industry each year, that impact our revenue.
- **Give Americans a raise.** Although he does not have the power to enforce a national minimum wage increase, President Obama intends to sign an Executive Order requiring federal contractors to pay their federally-funded employees at least \$10.10 an hour. This will be an interesting story to watch unfold, considering the burden this will place on the profitability of gov. contracts, especially for small businesses. We may see contractors restructuring their rate schedules to build in increased wage requirements, which would indirectly lay the burden of higher wages onto the government and therefore U.S. taxpayers. It may also inadvertently impact the number of vendors in the federal market – and therefore price competitiveness – if businesses decide it just isn't profitable enough to work with the federal government.
- **Accept Obamacare or propose a new solution.** Now that healthcare.gov is functional, there seems to be renewed confidence in the possibilities of Obamacare. The President challenged Republicans to come up with a better solution that makes financial sense rather than spend time on another 40 votes to repeal the Affordable Care Act.
- **Don't skimp on R&D.** The President called for Congress to restore cuts to basic research that facilitates the development of leading edge technology and will help America regain global dominance in technology, medical research and manufacturing. Obama noted two high-tech manufacturing hubs where businesses and research universities are working together, and the launch of six more hubs. More emphasis on federal R&D could give contractors more opportunities in this area. Funding basic research has been mentioned as a priority by officials from both the Pentagon and the Army. Work done by DARPA, DOE labs, NASA, and other technology-focused parts of the government would also benefit.
- **Refocus on CONUS defense.** There will be an interesting shift to using the Department of Defense here at home, which is a huge historical shift from restrictions on this that date back to the founding. A major part of that strategy is to shore up cybersecurity defense capabilities and as the President stated, "keep faith with our men and women in uniform and invest in the capabilities they need to succeed in future missions." Not surprisingly, cybersecurity remains a critical area with gaps that agencies will need contractor support to fill.
- **Take care of our veterans.** Judging by the moving reaction to wounded Army Ranger Sergeant First Class Cory Remsburg, veteran care is a one of those rare, bipartisan issues that draws agreement from both sides of the aisle. President Obama indicated that the administration will "keep slashing that backlog so our veterans receive the benefits they've earned and our wounded warriors receive the health care – including the mental health care – that they need." VA's Medical IT Support and claims processing budget accounts will continue to have consistent (and growing) funding, at least in the near-term.
- **Create new jobs and train people for jobs of the future.** President Obama continues his focus on the national infrastructure – rebuilding roads and upgrading ports. This could mean opportunities for federal and state and local contractors with Architecture, Engineering and Construction expertise. With a declining federal workforce, training programs are likely to translate into contractor opportunities. Vice President Biden will lead the reform of America's training programs, which will give employees the skills required to match with company needs. Implications: Could help contractors looking for specific talents/skills.
- **Invest in education and the technology to support excellence.** The President targeted investment (either grants or contracts) to select providers in his pledge to connect 99 percent of students to high-speed broadband over the next four years. With support from the FCC and companies like Apple, Microsoft, Sprint, and Verizon, more than 15,000 schools and 20 million students will be connected without a negative impact to the deficit.
- **Invest in energy efficiency and independence.** The President restated his commitment to working with industry to support natural gas production and set higher fuel efficiency standards, and with business and communities to reduce energy consumption. This implies additional policy, subsidies and training in "green" professions to help facilitate America's shift to a cleaner energy economy."
- **Fix the immigration problem.** President Obama encouraged the House to follow the Senate's lead and act on immigration reform, which could result in economic growth (and therefore job creation) and a deficit reduction of almost \$1 trillion in the next two decades.

Compared to last year's State of the Union address, there was much of the same. The President's priorities have not significantly shifted. However, he did raise new issues that will have both positive (defense focus on CONUS and cybersecurity) and negative (higher contractor employee wages) ramifications for companies serving the federal government. As we typically see in federal contracting, the main issue will be in effectively translating policy into execution.

