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# Which contracts are most at risk from sequestration?

Oct. 28, 2012 - 03:33PM | By SARAH CHACKO | Comments

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If automatic sequestration cuts occur in January, the first cuts will be contracts — especially contracts that expire and are up for renewal or re-competition.

A total of \$23 billion in federal contracts are due to expire in January alone, the first month sequestration is due to take effect. For the full 2013 calendar year, the figure is \$291 billion.

While not all of these contracts would have been renewed in a normal year, far more are vulnerable to being stopped or scaled down under sequestration, contract experts say.

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The cuts are required under last year's Budget Control Act unless lawmakers and the Obama administration agree on a plan to cut spending by \$1.2 trillion through 2021.

For fiscal 2013, the sequestration reductions would amount to \$109 billion, split evenly between military and domestic discretionary programs.

Contracts deemed the most flexible — relatively easy and inexpensive to terminate or scale down — would be the most vulnerable to cuts under sequestration, experts say. Those include contracts based on time and materials

or labor hours and contracts that allow agencies to place any number of orders against them. Those contracts represent roughly half of the contracts due to expire next year.

"Agencies are not going to raid contracts for budget dollars," said Ray Bjorklund, chief knowledge officer for Deltek market research firm.

"They will let contracts proceed to natural conclusion. Options may not be exercised; additional contracts may not be written."

In recent years, time-and-materials and labor-hour contracts have dwindled because they provide little incentive for contractors to control

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costs, requiring more oversight and management.

However, agencies have used time-and-material contracts more for professional, administrative and management support services over the last several years, according to an analysis released last year by the Center for Strategic and International Studies.

The total value of support services purchased with time-and-materials contracts grew 14 percent year-over-year between 2000 and 2010, the analysis shows, while fixed-price contracts grew at 11 percent year-over-year during that time.

The use of indefinite-delivery, indefinite-quantity contracts, such as governmentwide acquisition contracts for information technology products and services, has increased in recent years as agencies have looked for faster, simpler procurement methods and procurement officials have pushed for fewer duplicative contracts. IDIQs allow agencies to place orders against a contract. After meeting a minimum order requirement, the agency is under no obligation to keep placing orders against the contract.

"The easiest dollar to save is the dollar you haven't spent yet," said Alan Chvotkin, executive vice president of the Professional Services Council.

Any future work that might have been done through task and delivery orders will likely be delayed until agencies are able to figure out their priorities, he said.

Agencies have increasingly used IDIQs to purchase professional, administrative and management support services, medical services and facilities-related services, according to the Center for Strategic and International Studies analysis.

There is always a concern that the government will cut back its orders and that concern has been heightened with the threat of sequestration, said Rick Turner, vice president of operations for Air Tractor in Fort Walton Beach, Fla.

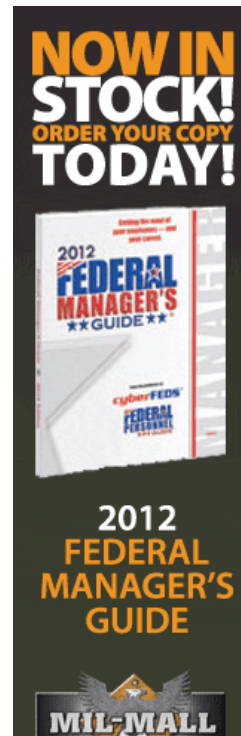
Air Tractor makes and maintains small aircraft for the State Department's Bureau of International Narcotics, the company's only federal customer.

The State Department typically does not buy as many planes as it initially proposes in its contracts, Turner said. However, Air Tractor is far from reaching the ceiling on its contracts.

For example, the State Department has obligated \$5.7 million to Air Tractor on a contract worth up to \$49 million.

The company has commercial business to keep it afloat if State Department work is slow, though the company has no clear sign of how much sequestration would affect future orders, Turner said.

"There's no way you can predict the impact," said Rebecca Merrill, director of contracts for APT Research Inc. in Huntsville, Ala., where many defense contractors have headquarters. The company provides safety engineering services for Defense Department agencies and



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NASA primarily through IDIQs.

While delivery orders may be more temporary than definitive contracts, agencies still need contractor support for safety engineering, Merrill said. There are other possibilities to avoid cutting contracts, such as furloughing federal employees, she said.

Without any indication of how sequestration might affect its work, the company has not planned for any significant revenue changes next year, Merrill said. And since most of its work is federal business, there are few options for survival if sequestration does occur, she said.

“If [sequestration] happens, Huntsville is going to become the new Detroit,” she said.

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