

Federal Procurement Spending Increased to \$66.5 billion in the Washington Area in FY 2008 for a Gain of \$6.1 billion Over FY 2007

By

Stephen S. Fuller, Ph.D.
Dwight Schar Faculty Chair and University Professor
Director, Center for Regional Analysis
School of Public Policy, George Mason University
July 23 2009

Summary of Findings

Federal spending in the Washington metropolitan area, which increased 7.8 percent between fiscal years 2007 and 2008, was the area's major positive force in a generally slow economy. The \$9.8 billion increase in federal spending in fiscal year 2008 boosted economic activity in the Washington area and accounted for the economy's resilience to the downward forces that dragged the national economy negative in the second half of the year. Washington was one of a short list of major metropolitan area that registered net job gains in 2008 and its unemployment rate, while rising, remained the lowest among the nation's fifteen largest metropolitan areas.

Federal spending in the Washington metropolitan area, which totaled an estimated \$134.8 billion in fiscal year 2008, accounted for one-third of the area's gross regional product (GRP)—the value of goods and services produced locally and, with government spending growing faster than the rest of the economy, the Washington area became more dependent on federal dollars for its growth.

Federal procurement spending in the Washington area grew 10 percent in fiscal year 2008, continuing the long trend of more rapid increases in procurement spending than in federal wages and salaries. Federal procurement contract awards to firms located in the Washington area and doing their contract work locally accounted for 49.3 percent of all federal spending in the area, while federal salaries and wages accounted for 24.6 percent. Twenty-five years ago these percentages were approximately reversed.

The \$6.1 billion increase in federal procurement spending during 2008 was the largest dollar increase since the ramp up in spending in response to the War on Terrorism in the 2002-2003 and 2003-2004 fiscal years and more than doubled the \$2.6 billion increase between 2006 and 2007. This substantial increase in federal procurement spending reflected (1) the continuing growth of outsourcing for technology-intensive and professional services (a trend extending back to the mid-1990s) and (2) broader-based increases in the out-sourcing of specialized services by non-defense agencies. The surge in Iraq and growing involvement (both military and non-military) in Afghanistan also helps explain the growth of federal procurement spending in the Washington area.

- Federal procurement spending in the Washington area (excluding the US Postal Service) accounted for 13 percent of all federal procurement outlays worldwide and equated to \$12,756 per capita compared to \$1,619 per capita for the nation.
- The procurement of services increased 7.1 percent to \$47.8 billion in 2008, accounting for 71.9 percent of all federal procurement contract awards. ADP and telecommunications services and professional and managerial services totaled \$34.7 billion, up 6.8 percent and accounted for 72.6 percent of all services procurement and 52 percent of total procurement outlays in the Washington metropolitan area.
- The procurement of research and development in the Washington area totaled \$6.8 billion in 2008, a 9.1 percent increase over 2007, with Defense R&D accounting for 40 percent of this total gaining \$569.3 million (26.9%), an amount equal to the total increase in R&D procurement in 2008
- Federal procurement of supplies and equipment from local vendors grew 24.6 percent to \$11.9 billion in 2008; ADP equipment and software sales accounted for 35 percent of these awards and grew 14.9 percent.

In sum, the increase in overall federal spending in the Washington metropolitan area cushioned the area economy from the full impact of the accelerating deterioration taking hold of the national economy during 2008 and reflected a combination of ongoing and even increasing commitments to the wars in Iraq and Afghanistan and an expansion of outsourcing of professional and other technical services by non-defense agencies within the Washington metropolitan area.

Federal Spending in the Washington Area

Federal spending in the Washington metropolitan area totaled an estimated \$134.8 billion during fiscal year 2008, increasing by \$9.8 billion from 2007 for a gain of 7.8 percent. This percentage substantially exceeded the average annual gain of 4.8 percent over the previous twenty years. However, the 7.8 percent increase in federal spending in the Washington area was less than the national increase of 9.2 percent. With this less-than-average gain, the share of federal spending captured by the Washington metropolitan area decreased from 4.9 to 4.8 percent. On a per capita basis, federal spending in the Washington metropolitan area totaled \$25,860 compared to \$9,042 nationwide.

All portions of the Washington area shared in this increase although these gains varied across the sub-state areas, as shown in Table 1. The dollar increases in the District of Columbia and Northern Virginia were closely similar in magnitude while gains in Suburban Maryland lagged due to slower growth in federal procurement outlays and “other” non-wage federal spending categories.

Table 1

Federal Spending in the Washington Metropolitan Area, FY 2007 and 2008
(in billions of current dollars)

Geographic Area	2007	2008	Change	% Change
District of Columbia	\$43.48	\$47.20	\$3.72	8.6
Suburban Maryland	30.90	33.15	2.25	7.3
Northern Virginia	50.61	54.46	3.85	12.4
Metropolitan Area	\$124.99	\$134.81	\$9.82	7.8
United States	\$2,556.21	\$2,792.61	\$236.40	9.2
Washington/US (%)	4.89	4.83		

Sources: Consolidated Federal Funds Report, U.S. Census Bureau
2007 and 2008. *percentages based on unrounded data

Note: federal spending includes all federal funds received within a given jurisdiction: retirement and disability, other direct payments (e.g., Medicare, unemployment compensation, food stamps), grants (e.g., payments to WMATA, Public Broadcasting, Neighborhood Reinvestment Corp.), procurement of goods and services from vendors, and salaries and wages.

Historic Federal Procurement Patterns

The composition of federal spending has changed substantially over the past twenty-five years. In 1983, when total federal spending in the Washington metropolitan area totaled \$27.2 billion, salaries and wages accounted for 44.4 percent and procurement accounted for 24.7 percent. In each subsequent year, procurement spending increased at a faster rate than salaries and wages and, by 1996, with total federal spending of \$59.4 billion, federal procurement accounted for 35.5 percent and exceeded the value of salaries and wages with 35.2 percent.

This pattern accelerated in the nineties with the downsizing of the federal workforce. There were 54,400 fewer federal workers in the Washington area in July 2000 than in July 1993. Even though the federal workforce expanded during the Bush administration, adding 18,500 workers, the share of total federal spending in the Washington area accounted for by local procurement outlays has continued to rise and almost reached 50% in FY 2008. In 2008, salaries and wages paid to federal employees working in the Washington metropolitan area totaled \$33.2 billion, a one-half of the \$66.5 billion in federal contract awards received by contractors in the Washington area for work performed locally. This changing federal spending pattern is shown in Table 2 for selected years between 1983 and 2008.

Table 2

Changing Composition of Federal Spending in the
Washington Metropolitan Area, 1983-2008
(in billions of current dollars, percent share)

Year	Total Spending	% Salaries/Wages	% Procurement
1983	\$27.2	44.4	24.7
1989	39.8	42.6	26.1
1991	47.1	39.5	30.8
1995	56.8	36.4	34.1
1996	59.4	35.2	35.5
1997	62.7	37.0	38.7
2000	74.1	31.2	39.4
2001	79.2	29.2	40.8
2002	87.5	28.9	42.6
2003	97.6	28.0	44.6
2004	108.4	27.8	47.7
2005	110.9	29.2	49.3
2006	119.4	26.3	48.3
2007	125.0	25.7	48.3
2008	\$134.8	24.6	49.3

Sources: Consolidated Federal Funds Report, U. S. Census Bureau

The shift of federal spending from payroll to procurement has contributed to the growth of the area's economy over the last twenty-five years. A report prepared by this author for the National Capital Planning Commission (The Impact of Federal Procurement on the National Capital Region, October 2002) measured the correlation value ($R = 0.956$) between federal spending for procurement and salaries and wages and the region's growth in gross regional product (GRP). While federal spending was found to be highly correlated with the region's economic growth, procurement spending was found to be twice as important as salaries and wages as seen in their respective coefficients: 4.756 and 2.315.

] This research established the relative importance of federal procurement spending and outlays of salaries and wages and suggests that the substantially faster growth of procurement outlays compared to gains in salaries and wages between 1983 and 2008 has contributed to the area's economic expansion over this period and protected it from the full force of the downturn in the business cycles in 1991, 2001 and 2008.

The importance of the federal sector to the Washington area economy can be seen by tracking the share federal spending represents of the Region's Gross Regional Product over the business cycle as presented in Table 3.

Table 3

Economic Growth and Federal Spending in the Washington Area, 2000-2008
(in billions of current year dollars)

Year	GRP*	% Change*	Federal Spending			
			Total	% Change	Procurement	% Change
2000	\$246.01		\$74.7		\$29.2	
2001	258.11	4.9	79.2	6.0	32.3	10.6
2002	272.79	5.7	87.5	10.0	37.3	15.5
2003	290.55	6.5	97.1	11.0	44.2	18.5
2004	312.66	7.6	108.7	11.9	51.1	15.5
2005	336.70	7.7	111.4	14.7	52.1	2.0
2006	360.97	7.2	119.4	7.2	57.2	9.8
2007	383.27	6.2	125.0	4.7	60.4	5.6
2008	\$401.27	4.7	\$134.8	7.8	\$66.5	10.0

Source: GMU Center for Regional Analysis

*current year dollars with annual gain reflecting real and inflationary gains.

Federal Procurement in 2008

Federal procurement spending in the Washington metropolitan area increased \$6.1 billion from 2007 for its third largest annual gain ever following its \$6.9 billion increases in both FY 2002-2003 and FY 2003-2004 reflecting the accelerated spending on the War on Terrorism. This increase brought the total federal procurement outlays in the Washington metropolitan area to \$66.5 billion and increased its share to almost 50 percent of the region's \$134.8 billion in total federal spending.

Where are the federal contractors located?

The sub-state pattern of federal procurement spending is presented in Table 4. This pattern shows that contractors located in the suburbs dominated the gains in procurement awards in 2008 accounting for two-thirds of the total and 80.3 percent of the increase. Contractors located in Northern Virginia accounted for the largest gains (in both dollar and percentage terms) with 57.4 percent of the total increase and increased its share of all procurement outlays to 54 percent. This was the sixth consecutive year in which federal procurement spending in Northern Virginia exceeded 50 percent of the region's total.

Contract awards to contractors located in the District represented almost 25 percent of the total awards in the metropolitan area they only accounted for 20 percent of the year's gain. Contract awards in Suburban Maryland totaled \$12.6 billion accounting for 19 percent of total procurement contract awards in the metropolitan area, up \$1.4 billion from 2007.

Table 4

Federal Procurement Spending in the
Washington Metropolitan Area, FY 2007-2008
(in billions of current dollars)

Sub –State Area	2007	2008	Change	% Change*
District of Columbia	\$15.4	\$16.6	\$1.2	7.6
Suburban Maryland	12.6	14.0	1.4	10.7
Northern Virginia	32.4	35.9	3.5	11.0
Washington Metro Area	\$60.4	\$66.5	\$6.1	10.0

Source: Eagle Eye Publishers, Inc.; GMU Center for Regional Analysis

*percent change based on unrounded data. Note: federal procurement reported here exclude purchases by the US Postal Service and inter-agency purchases that are included in the procurement totals reported by the Census Bureau in the Consolidated Federal Funds Report.

The distribution of federal procurement outlays varies widely within the Washington area's sub-state portions reflecting their different patterns of commercial development and relative competitive positions within the metropolitan area. Federal contractors located Fairfax County, including Fairfax City and Falls Church, accounted for the greatest percentage of procurement awards in 2008 with these totaling \$20.7 billion and accounting for 31 percent of all federal procurement dollars in the Washington area. This total exceeded the District of Columbia's total (\$16.6 billion) and was the largest total among all counties nationwide (Los Angeles County which is nine times as big as Fairfax County received \$14.9 billion). Procurement outlays in Fairfax County's have grown steadily. In 2003 they totaled \$13.6 billion and in 2007 they totaled \$17.6 billion. Fairfax County's increase of \$3.1 billion between 2007 and 2008 accounted for 51 percent of the region's total gain of \$6.1 billion. The jurisdictional distribution of federal procurement outlays in 2007 and 2008 are presented in the Appendix.

What is the Federal Government Buying?

By far the largest category of federal procurement outlays in the Washington area is services, followed by supplies and equipment, and research and development, as shown in Table 5. In 2008, the federal government spent \$47.8 billion for services provided by

local firms accounting for 72 percent of total procurement value. Procurement of supplies and equipment accounted for \$11.9 billion in sales and represented 17.9 percent of the region's total procurement outlays while research and development, totaling \$6.8 billion accounted for 10.2 percent of the total. Overall procurement outlays by the Department of Defense accounted for 50 percent of all purchases but accounted for a greater share of purchases of supplies and equipment (61%) and R&D (56%) than non-DOD agencies that accounted for 54 percent of services procurements.

Table 5

Federal Procurement by Type of Purchase, FY 2007 and 2008
(in billions of current dollars)

Type of Procurement	2007	2008	Change	% Change*
Research & Development	\$6.2	\$6.8	\$0.6	9.1
Services	44.6	47.8	3.2	7.1
Supplies & Equipment	9.6	11.9	2.3	24.6
Washington Metro Area	\$60.4	\$66.5	\$6.1	10.0

Source: Eagle Eye Publishers, Inc.; GMU Center for Regional Analysis

*percent change based on unrounded data.

Among services, professional, administrative and management support services was the largest subset accounting for \$20.7 billion in contract awards in 2008, up \$2.6 billion or 14 percent from 2007. ADP and telecommunications services was the second largest subset accounting for \$14.0 billion in purchases from area firms. However, in 2008, sales of ADP and telecommunications services were down 2.3 percent from 2007. These two categories represented 72.6 percent of total service procurements.

Other major sub-categories of services included: facility construction (\$2.2 billion, up \$1.2 billion or 130.3%); maintenance, repair and rebuilding of structures (\$1.6 billion, up \$264.8 million or 19.3%); lease or rental of facilities (\$1.3 billion, down \$131.6 million or -9.1%); utilities and housekeeping services (\$1.3 billion, up \$52.2 million or 4.2%); special studies and analyses (\$1.2 billion, down 268.7 million or -18.7%); and architect and engineering services (\$1.0 billion, up \$138.3 million or 15.3%).

The supplies and equipment category has the widest range of products but, given the structure of the Washington area economy and its domination by services, most of these federal purchases occur outside of the Washington area. Still this category of purchases totaled \$11.9 billion in 2008 and experienced a 24.6 percent increase. ADP equipment and software are the principal source of local awards in this general category accounting for 35 percent of all sales or \$4.2 billion and increased 14.9 percent in 2008.

Which Agencies Are the Big Spenders?

Ten federal agencies had at least \$1 billion in sales to firms in the Washington metropolitan area (for work performed locally) in 2008 totaling \$59.4 billion up from \$53.5 billion in 2007 for a gain of 11.0 percent and represented 89.3 percent of all procurement awards in the Washington area. The increased procurement by these ten agencies accounted for 96.7 percent of the increase in the area's federal procurement awards. These agencies and their procurement values for 2007 and 2008 are shown in Table 6.

DOD procurement in the Washington area increased by \$2.7 billion in fiscal year 2008, the largest value gain of any agency with Homeland Security accounting for the second largest gain of \$2.1 billion and the largest percentage gain of 37 percent. Three other agencies among these ten largest—HHS, Commerce, State and Transportation--also experienced above-average rates of gain while three agencies experienced decreases in the values of their local procurement outlays.

Table 6

Federal Agencies With At Least \$1 billion In Procurement Awards
In the Washington Metropolitan Area, 2008
(in billions of current dollars)

Agency	2007	2008	Change	% Change*
Defense	\$30.4	\$33.1	\$2.7	9.0
Homeland Security	5.6	7.7	2.1	37.0
HHS	4.0	4.6	0.6	15.4
GSA	3.8	3.7	- 0.1	- 3.6
Justice	2.4	2.2	- 0.2	- 7.6
Treasury	2.0	1.9	- 0.1	- 7.2
NASA	1.6	1.7	0.1	5.9
Transportation	1.3	1.6	0.3	25.6
Commerce	1.2	1.5	0.3	25.8
State	1.2	1.4	0.2	14.4
Sum 10 Agencies	\$53.5	\$59.4	\$5.9	11.0
All Agencies	\$60.4	\$66.5	\$6.1	10.0
10 Agencies/All	88.6%	89.3%	96.7	

Sources: Eagle Eye Publishers, Inc.; GMU Center for Regional Analysis

*percentages based on unrounded data.

What Explains the Large Procurement Increase in 2008?

With annual federal procurement spending growing at an average of 7.5 percent over the previous 15 years in the Washington area, the 10 percent gain in federal purchases in 2008 represents a continuation of double-digit growth that has characterized the post-9/11 period. If federal procurement spending had increased at the 7.5 percent average rate, the total value of awards in 2008 would have been \$64.9 billion for a gain of \$4.5 billion. The difference of \$1.6 billion between the average and the actual gain represents the continuing growth of federal spending associated with the Wars in Iraq and Afghanistan War and changes in federal spending patterns in the aftermath of September 11th Terrorist Attacks.

The emerging spending pattern also suggests that the Washington area economy has benefited from the shifts in federal spending priorities caused by these crises and may portend other procurement spending changes in FY 2009 and beyond in response to the current recession and financial crises as well as the changes in the role and shifts in domestic priorities of the federal government in the national economy under the Obama Administration. An early indication of this change is the continuing growth of federal jobs in the Washington area in contrast to job losses in all but two other sectors that have resulted in employment decreases each month since December 2008 (at least through May of 2009).

The detailed analysis of spending by the agencies accounting for the major procurement increases in 2008 provides some clues regarding the future direction federal procurement in the Washington area. While seven of the ten agencies with local contract outlays exceeding \$1 billion had increased spending in 2008, those agencies that experienced decreases had previously experienced an upward trend in local outlays. These spending patterns over several years suggest that the upward trend in federal procurement spending is broad based although gains in Defense and Homeland Security contracting remain the foundation of this spending accounting for 6 percent of the total and almost 80 percent of the annual gain. Still, continuing procurement gains by HHS, Transportation, Commerce, and State confirm the breadth of contracting activity in the Washington area and its growing diversification across federal government program.

An examination of the purchases by these agencies from Washington area firms identified several product categories that experienced an unusually large dollar value and/or percentage increase. These major sources can be grouped into several distinct categories of purchases: technology-intensive and professional/managerial services, research and development, facility repair and construction. Procurement outlays for these groupings are presented in Table 7.

Conclusions

Federal spending in the Washington metropolitan area increased 7.8 percent to \$134.8 billion with federal procurement outlays gaining 10.0 percent to \$66.5 billion in 2008. This continuing strong growth in federal spending, and in procurement outlays in

particular, helped to protect the area economy from the full effect of the national recession that began in December 2007. While the national economy experienced job losses beginning in December 2007 and these losses continued in each subsequent month through FY 2008 (and have continued to the present), the Washington area economy, while growing more slowly, remained positive through FY 2008 and added net new jobs each month until December 2008, three months following the end FY 2008.

Table 7

Major Sources of Federal Procurement Spending Increases, 2008
(in millions of current dollars)

Major Source	Dollar Change
Technology-intensive and	
Professional/Managerial Services	\$2,237.1
Research & Development Services	563.9
Defense	\$569.3
Medical	99.4
Sciences (nec)	123.2
Facility Repair and Construction	1,497.8
Other Major Sources	1,174.9
Training Aids and Devices	\$114.8
Medical/Dental Supplies	317.3
ADP Equipment	545.2
Chemical Products	197.6
Total	\$5,473.7
Percent of Total Annual Increase	90.3%

Sources: Eagles Eye Publishers, Inc.; GMU Center for Regional Analysis.

The relative importance of federal spending in the Washington area is seen in its per capita value of \$25,860 compared to \$9,042 nationwide. The per capita values for federal procurement spending (\$12,756 vs. \$1,620) underscore how important federal procurement outlays are in differentiating the Washington area economy from other major metropolitan areas and helps explain why this economy performs differently than other metropolitan areas that are dependent on more cyclical and vulnerable markets and sources of income. With the increasing the federal role in the national economy under the policies of the Obama Administration and shift of federal funding to domestic programs, the Washington region could be positioned for an accelerated recovery from the current economic downturn.

**Table 1: Federal Procurement by Substate Area, FY2007 and FY2008
(Actual Dollars)**

Amount State	County	Fiscal Year		Change	Percent Change
		2007	2008		
Washington, DC					
	DISTRICT OF COLUMBIA	\$15,388,592,555.12	\$16,555,387,082.45	\$1,166,794,527.33	7.58%
Washington, DC Total		\$15,388,592,555.12	\$16,555,387,082.45	\$1,166,794,527.33	7.58%
Suburban Maryland					
	CALVERT	\$20,291,427.55	\$14,768,498.79	-\$5,522,928.76	-27.22%
	CHARLES	\$73,843,858.55	\$161,170,747.18	\$87,326,888.63	118.26%
	FREDERICK	\$985,364,721.56	\$1,325,007,719.29	\$339,642,997.73	34.47%
	MONTGOMERY	\$6,821,556,421.13	\$7,564,108,326.53	\$742,551,905.40	10.89%
	PRINCE GEORGE'S	\$4,739,298,784.77	\$4,923,678,435.59	\$184,379,650.82	3.89%
Suburban Maryland Total		\$12,640,355,213.56	\$13,988,733,727.38	\$1,348,378,513.82	10.67%
Northern Virginia					
	ALEXANDRIA CITY	\$4,174,098,233.11	\$3,231,546,210.28	-\$942,552,022.83	-22.58%
	ARLINGTON	\$6,643,285,050.02	\$7,862,345,699.38	\$1,219,060,649.36	18.35%
	FAIRFAX	\$13,508,134,217.81	\$16,725,159,855.32	\$3,217,025,637.51	23.82%
	FAIRFAX CITY	\$1,832,694,044.86	\$1,915,564,744.98	\$82,870,700.12	4.52%
	FALLS CHURCH CITY	\$2,252,590,521.29	\$2,067,293,479.20	-\$185,297,042.09	-8.23%
	LOUDOUN	\$2,001,458,058.95	\$1,269,091,191.76	-\$732,366,867.19	-36.59%
	MANASSAS CITY	\$411,594,270.31	\$353,201,298.91	-\$58,392,971.40	-14.19%
	MANASSAS PARK CITY	\$80,184,074.85	-\$28,382,294.06	-\$108,566,368.91	-135.40%
	PRINCE WILLIAM	\$1,419,726,930.68	\$2,443,897,422.65	\$1,024,170,491.97	72.14%
	STAFFORD	\$44,091,510.23	\$74,086,258.14	\$29,994,747.91	68.03%
Northern Virginia Total		\$32,367,856,912.11	\$35,913,803,866.56	\$3,545,946,954.45	10.96%
Grand Total		\$60,396,804,680.79	\$66,457,924,676.39	\$6,061,119,995.60	10.04%