S. Hrg. 113–25

THE COSTS AND IMPACTS OF CRISIS BUDGETING

HEARING

BEFORE THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

MARCH 13, 2013

Available via the World Wide Web: http://www.fdsys.gov/

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

80–220 PDF WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

THOMAS R. CARPER, Delaware *Chairman*

CARL LEVIN, Michigan	TOM COBURN, Oklahoma
MARK L. PRYOR, Arkansas	JOHN McCAIN, Arizona
MARY L. LANDRIEU, Louisiana	RON JOHNSON, Wisconsin
CLAIRE McCASKILL, Missouri	ROB PORTMAN, Ohio
JON TESTER, Montana	RAND PAUL, Kentucky
MARK BEGICH, Alaska	MICHAEL B. ENZI, Wyoming
TAMMY BALDWIN, Wisconsin	KELLY AYOTTE, New Hampshire
HEIDI HEITKAMP, North Dakota	

RICHARD J. KESSLER, *Staff Director*
JOHN P. KILVINGTON, *Deputy Staff Director*
JOHN G. COLLINS, *Professional Staff Member*
HOLLY A. IDELSON, *Senior Counsel*
SUSAN B. CORBIN, *DHS Detailee*
KEITH B. ASHDOWN, *Minority Staff Director*
CHRISTOPHER J. BARKLEY, *Minority Deputy Staff Director*
CATHARINE A. BAILEY, *Minority Director of Governmental Affairs*
TRINA D. SHIFFMAN, *Chief Clerk*
LAURA W. KILBRIDE, *Hearing Clerk*

CONTENTS

THE COSTS AND IMPACTS OF CRISIS BUDGETING

WEDNESDAY, MARCH 13, 2012

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:33 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Committee, presiding.

Present: Senators Carper, Begich, and Coburn.

OPENING STATEMENT OF CHAIRMAN CARPER

Chairman CARPER. Good afternoon, everyone. Senator Coburn and I are happy to see you all, and we welcome you here before us today.

I have just come from a meeting where we were talking about potential Government shutdowns, continuing resolutions (CRs), sequestration, and on and on and on. So I think this topic is certainly timely, and hopefully that tale of horribles will soon come to an end and we can start running our Government maybe a little bit more like we try to run our own families and budgets in our businesses—at least most of us do. But we are happy to welcome all of you here today.

Over the past several years, as we know, our Federal Government has had to operate through a number of debt ceiling crises, numerous and sometimes lengthy continuing resolutions—people keep asking me, "What is a CR?"—and the threat of Government shutdowns, the prospect of going over some fiscal cliff, and now across-the-board budget cuts to most Federal programs through sequestration. President Obama addressed this flawed approach to governing in a prominent passage in his most recent State of the Union address that some of you may recall when he said, "the greatest Nation on Earth cannot keep conducting its business by drifting from one manufactured crisis to the next." I think the American people know this. It is not the way, that they run their family budgets; it is usually not the way they run their businesses. This kind of crisis budgeting, as we all know, represents a bicameral and bipartisan failure of leadership.

We are going to hear from our witnesses today thatour failure in this area has made our Government not only less effective but also more costly to taxpayers. It has also degraded Federal employee morale and the confidence of our citizens in us. It has created harmful ripple effects for State and local governments. I heard from some of them today. It has hindered efforts to help our Nation's economy as it recovers from one of the worst economic recessions in our history.

I hear every day, including today, that our businesses need predictability, they need certainty in the Tax Code, on the spending side. They want to know that we can govern, that we can be fiscally responsible.

Some of our budget battles stem from fundamental disagreements over the role of Government and how much money we ought to spend on it. However, today's hearing is not so much about how much we spend, but how we spend it. And it is about the price tag attached to our inability to come to timely agreements on spending, no matter what the eventual amounts are—I will call it an "uncertainty tax," if you will.

I have stated any number of times at hearings and elsewhere in recent months that, given the serious deficit and debt problems that our country faces, we need to shine a light into every nook and cranny of the Federal Government and ask ourselves at least this one question: How do we get a better result for less money in almost everything we do?

Dr. Coburn and I along with our colleagues tried to do that on the Federal Financial Management Subcommittee that we have taken turns leading. I have made it one of my top goals as Chairman of this Committee, and it is a goal I believe I share with him.

Today's hearing takes things a step further, focusing not just on a particular program and its inefficiencies, but rather on a way of doing business in Washington that makes it impossible for the Federal Government as a whole to give taxpayers the results they demand in an effective and affordable manner. By failing to provide timely, predictable budgets, we are generating waste throughout our Government and exporting some of that waste to our State and local partners and everyone who relies on us.

Dr. Phil Joyce from the University of Maryland, who is with us today, has written a report detailing the costs of this budget uncertainty. Based on his past research of Government practices as well as extensive interviews with current and former Government officials, Dr. Joyce found that—in fact—this uncertainty does not just deny us opportunities to get better results and save money, but actually gives those we serve and partner with worse results for more money. Among the findings that are disturbing:

For example, the Government Accountability Office (GAO) found that because of a series of funding delays, the Bureau of Prisons was unable to lock in contracting prices for a new facility in West Virginia. This resulted in about $5.4 million in additional costs.

In another instance, because of a 2011 funding delay, the Navy canceled seven ship repair contracts. Deferring this maintenance is expected in the long haul to increase costs and decrease operational effectiveness down the road.

In 2006, the Veterans Health Administration (VHA) awarded 60 percent of its maintenance budget in the last month of the fiscal year. Compressing that much spending in that small amount of time creates an environment in which error, fraud, and just plain bad spending decisions are inevitable.

And those examples do not include the countless hours of time wasted as managers and employees attempt to prepare for multiple possible outcomes, perhaps several times within a single fiscal year depending on what Congress might have in mind. Colleen Kelley, President of the National Treasury Employees Union (NTEU), will discuss today some of these kinds of unseen costs.

Our other witnesses, Scott Pattison of the National Association of State Budget Officers and Stan Soloway of the Professional Services Council, will detail some of the ripple effects that States and private businesses face as a result of the budget uncertainties we create. As a recovering Governor, I know that State budgeting is a zero sum game. It is incredibly difficult to plan and budget effectively if you do not know what is, or is not, coming your way from Washington. And as someone who has focused recently, as most of my colleagues have, on how we can get our economy moving at a faster clip, it is clear from this work that the uncertainty our Federal budget situation is creating is not helping businesses create jobs. In fact, it may be hurting them.

As I have said before, and I suspect you will hear me say again—I believe the best route we can take is to pass a comprehensive, bipartisan plan that gives Government and business certainty and shows the American people that we can lead—not unlike the plan that the man to my right here worked on, the Bowles-Simpson Deficit Commission, for many months. Then after we do that, we need to translate those plans into timely appropriations bills that will let agencies and their partners spend their time trying to get much better results for the taxpayer dollar, not hastily putting together contingency plans. I hope today's hearing strongly reinforces the President's statement, puts a couple of exclamation points after it, and just helps bring this irresponsible behavior to an end.

Before I turn it over to Senator Coburn, I will just mention that I just came from meeting with a group of Close Up students from a high school in central Delaware, just south of Dover, and they were asking, "What is this sequestration all about? And why is it harmful from time to time?"

Well, obviously, we need to reduce spending, but I will just give you an example, and this is a hypothetical. This high school—I just met these kids—is about 10 miles from the Dover Air Force Base. The Dover Air Force Base is a big airlift base. We have C–5s; we have one of the biggest airplanes in the world, cargo aircraft; we have C–17s, the newer, smaller version of the C–5. We can buy new C–17s for, I do not know, about $250 million a copy. We can overhaul, modernize I think two C–5s for about that same amount of money. So for the price of one new C–17, we can buy two C–5s. Why would we want to do that? Well, modernized, they will fly for another 30, 40 years. They can carry twice as much as a C–17, fly twice as far. They can take off out of Dover Air Force Base, a C–5, with new engines and all, they can fly out of Dover Air Force Base nonstop all the way to Afghanistan, right over the top. And save a lot of money in doing that.

When we enter into a contract with, say, Lockheed or some other defense contractor, we actually make a contract to promise them we are going to try to modernize six planes, for example, a year and we get a decent price. Maybe not a low price, but a pretty good price. What happens when we can only do one or we can only do two? We end up paying a whole lot more money for the aircraft that eventually we will have modernized. It is just a dumb way to do business. And that is just one example out of money that come to mind for me today.

We can do better than this, and our goal is, when we finish up by the end of this fiscal year, we will have put in place a long-term comprehensive deficit reduction plan, a balanced plan that gets us on the right track to bringing down our debt as a percentage of the gross domestic product (GDP), does it in a responsible way, and really follows the model that Senator Coburn, whom I am pleased to serve with, has helped to shine a light on.

Thank you, Tom.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Well, let me thank you for being here, and I would like to submit my statement for the record and give you a quote from Will Rogers. Just so you know, this is not a new problem in Congress. In the 1930s, he said, "I do not make jokes. I just watch the Government and report the facts." And so, the fact is we have not had a budget in 4 years. The reason we have not had a budget does not have anything to do with the needs of the Government or in the best interests of the country. It has to do with the needs of politicians.

So even with the attempts of the 1974 Budget Act and all the things we have done, the process still gets manipulated for political gain, and our real problem is we are focused on the short term and not the long-term best interests of the country. My partner on this Committee has demonstrated an attitude that is other than that, and that is why we are such good friends, and we are focused on the long term.

I want to welcome you here. My criticisms are of both parties because both have done it. In 16 of the last 20 years, Congress has failed to pass and send the President all the appropriation bills on time. That kills the agencies. A continuing resolution kills the agencies. It does not allow for innovation. It does not allow for changes. It does not allow for judgment. And we have been doing that for 4 years, which has markedly hurt their ability to do what they are asked to do.

So I am thankful that you are here on a day when a new budget is being marked up. This is a good hearing, but I think we all know what the consequences are. It is inefficiency, it is increased costs, and it lays at the feet of the Members of Congress for not doing their job.

It also lays at the feet of the President. He is 2 months late in putting forth his budget—that is the first time that has happened in a long time in this town—to see what his priorities are as we put out what the Congress' priorities are.

So we do not have the benefit of what their ideas are, the very people at the Office of Management and Budget (OMB) who actually get to see at a much closer level than we do what works and what does not. And so we are at a disadvantage because the President has failed to comply.

Nevertheless, there is enough blame to go around in Washington for every party and every branch, and what we ought to be about is the leadership that solves that, which means knowing what you are voting on, thinking about what is in the best long-term interest of the country, and not what is the best short-term interest of any party or politician. I thank you.

Chairman CARPER. Thank you.

We have been joined by Senator Begich from Alaska. Welcome, Mark. Good to see you.

Before I introduce Dr. Joyce, I will just mention one other thing, if I could. We are going to have some tough choices to make today and this week with respect to the kind of continuing resolution or mini omnibus appropriations bill we are going to pass. Some really hard choices are going to have to be made when the House and the Senate create a conference committee and try to hammer out the differences between our two different bills.

We are going to have some tough choices on the budget resolution that will be before us next week in the Senate and finally in a conference with the House. We are going to have some really tough choices that will enable us to avert or get into another debt crisis later this summer.

And one of the things I want from this hearing is just the ammunition to enable us to remind our colleagues when we are trying to make those tough decisions, struggling with making those tough decisions, that there are real consequences for our failure to make those tough decisions, and there are consequences that can be measured in some cases in dollars and cents, in other cases not. But we welcome you here today and appreciate your testimony and your presence and the work you do.

Our first witness is Dr. Phil Joyce, Professor of Management, Finance, and Leadership at the University of Maryland's School of Public Policy. Dr. Joyce recently authored a widely cited report for the IBM Center for the Business of Government examining the costs and impacts of Federal budget uncertainty. And before his academic career, Dr. Joyce worked in both the Illinois State Budget Office and with the United States Congressional Budget Office (CBO), where he received the Director's Award for Distinguished Service. That is quite an accomplishment.

Our next witness is Mr. Scott Pattison, Executive Director of the National Association of State Budget Officers (NASBO), which represents budget officers from all of 50 States. Prior to his service in the association, Mr. Pattison served as Virginia's State Budget Director, and before that head of the Regulatory and Economic Analysis Section of the Virginia Department of Planning and Budget. Is that in Richmond?

Mr. PATTISON. Yes.

Chairman CARPER. That is where young Ben Carper lives today, our youngest son.

Our next witness is Ms. Colleen Kelley—Colleen, very nice to see you—the National President of the National Treasury Employees Union, which is the largest independent Federal sector union in the country. A Pittsburgh native and a certified public accountant (CPA), Ms. Kelley has served in her current position since 1999 and has been here more than a few times. We welcome you back.

The final witness is Stan Soloway, the President and Chief Executive Officer of the Professional Services Council, which represents over 360 member companies. And prior to his current position, Mr. Soloway served as Deputy Under Secretary of Defense for Acquisition Reform and director of former Secretary of Defense Bill Cohen's Defense Reform Initiative. That is good.

I thank all of you for joining us today, and your entire testimony will be made part of the record. We welcome you and look forward to your comments and to a good conversation after that. Dr. Joyce.

TESTIMONY OF PHILIP G. JOYCE,[1] PH.D., PROFESSOR OF MANAGEMENT, FINANCE, AND LEADERSHIP, SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Mr. JOYCE. Thank you, Chairman Carper, Senator Coburn, and Senator Begich. It is good to be here.

Thank you for asking me to testify today on this important topic. I want to congratulate the Committee for deciding to highlight the subject of the insidious effects of budget uncertainty. You have done a good job of outlining the long-term nature of this problem, the fact that we have recently limped along from one crisis to another.

It would be a bit reassuring to think that this recent experience was exceptional and we could now return to normal. But normal is not too good either. We have not passed a budget resolution actually in 7 of the last 15 years, and we have not passed all appropriation bills on time in 16 years, and only 4 times in the 37 years since the Congressional Budget and Impoundment Control Act became law.

So this is not a problem that has come to us recently, and it is also, as you suggest, not a partisan problem. It is a bipartisan problem.

Any organization—whether it is the Federal Government, a State or local government, or a business—needs to plan for the funds that it is going to have available in order to effectively budget and manage. And my message to you is that late appropriations not only create negative consequences for Federal agencies, but also for people who get money from the Federal Government. And my colleagues on the panel are, I am sure, going to be talking about the effects on recipients and know more about it than I do, so I want to focus on some of the main negative consequences for Federal management and for the costs of providing services.

First, budget uncertainty disrupts service delivery and lowers employee morale and productivity. Agencies engage in hiring freezes. The problem with hiring freezes is it leads you to not having staff in the places where you need them because you do not have turnover that happens equally across the agency. And people leave Government because of this lowered morale, and the people who leave are precisely the ones who have options, who are precisely the ones who you do not want to leave.

Second, CRs tend to freeze priorities in place. Agencies have difficulty responding to new threats and problems, and they are required to keep funding outdated or ineffective programs.

[1] The prepared statement of Mr. Joyce appears in the Appendix on page 43.

Third, CRs require governments to engage in hurried or short-term contracting. Agencies have to squeeze 12 months of contracting work into perhaps less than half a year. They also enter into multiple contracts, month to month, or even week to week in some cases, because of the length of CRs. This leads to more work and higher costs. Contractors dealing with the Federal Government may even charge a higher rate, a risk premium, if you will, in order to be compensated for this uncertainty.

Fourth, agencies, OMB, and congressional staff waste a great deal of time preparing for potential Government shutdowns and CRs and then figuring out how to comply with them after the fact.

Finally, agencies defer investments in people or in physical assets, which compromises their effectiveness and leads to higher future costs.

Ultimately, I think it may be the apparent invisibility of these negative effects that creates the greatest impediment to fixing the problem. Frankly, we hear a lot in this town about waste in Government, which undoubtedly exists, but at least part of the waste in Government is caused by these very practices. That is, many of the same people who decry waste in Government are ones who are contributing to it.

No State or local government would be able to get away with this. You know this, Senator Carper, from having been a Governor. If you had chronic funding delays at the State level, it would result in lowered bond ratings and increased borrowing costs and political fallout.

Given all of this, of course, the best thing that could be done would be to just enact appropriations on time. And, of course, that would be the best possible outcome. I find that to not be a completely helpful suggestion, so I am going to move on to some things that, if we are stuck with late appropriations, might tend to at least lower the costs of them.

First, I think the Congress should give agencies more flexibility in spending. For example, you could increase the percentage of money that is available on a multi-year or no-year basis and also avoid the temptation to micromanage the budget execution process. My point on this latter is that sometimes we have appropriations that are 4 months or 6 months late, but agencies are still required to get approval of spending plans before they can begin spending. Frankly, that is a luxury we cannot afford if we are going to have late appropriations.

Second, I would make it harder to pass continuing resolutions than regular appropriations bills. If we could not pass CRs, the options would be either a full-year appropriation or a Government shutdown. That would raise the apparent cost, and I think perhaps more urgency in enacting appropriations would increase the odds of their being enacted on time.

Third, I think CRs should be limited to only one or two per year that do not extend past the end of the calendar year. Frankly, if we are going to have CRs, they are not all created equal. It matters how many there are, and it matters how long agencies have to operate under them. Problems created by multiple CRs—and there have been as many as 21 in a single year—or CRs lasting 6 months or more are well documented.

It seems particularly important to focus on these improvements now because the problem is becoming worse and the threat of sequestration compounds it. Even without sequestration, we are going to need to reduce Federal spending, and that is going to result in less than a zero sum game for Federal agencies. Having sufficient time to plan for these budget reductions I think is more important than ever.

So my bottom line is that funding delays have costs, and there are both financial costs and costs felt through compromised Government effectiveness. Either way, these are completely self-inflicted wounds, and the Congress and the President should do what is necessary to mitigate them.

I thank you, and I look forward to any questions you might have.

Chairman CARPER. Thank you, Dr. Joyce. Mr. Pattison.

TESTIMONY OF SCOTT D. PATTISON,[1] EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

Mr. PATTISON. Thank you, Mr. Chairman.

Chairman Carper, Ranking Member Coburn, and, of course, all of the Members of the Committee, I want to thank you for inviting me here today on behalf of the National Association of State Budget Officers, and I want to tell you that the State finance and budget commissioners across the country are very appreciative of your doing this hearing because they feel that any increase in certainty and less crisis budgeting would be a huge benefit.

What we have found and what I must report to you today is that the uncertainty at the Federal level presents numerous challenges to sound financial management and long-term strategic planning at both the State and local government levels, as you know.

One thing that I really want to point out is the Federal Government provides one-third of all of the resources that States spend, and, therefore, by having this persistent uncertainty through the CRs and fiscal crises like the fiscal cliff, it has led to a short-term focus. And so what really is a shame is State and local governments do not have the opportunity to achieve the results that we all want them to under the programs, either in part or fully funded by the Federal Government.

Our current board chair, the South Dakota Chief Financial Officer (CFO) Jason Dilges, has a good quote. He told our group recently, "The uncertainty causes many more problems than do specificity and certainty, even when that certainty is not good news."

Now, before I discuss the impacts of the——

Chairman CARPER. Would you say that again? Give us that quote from South Dakota again.

Mr. PATTISON. Oh, sure. He said, "The uncertainty causes many more problems than do specificity and certainty, even when that certainty is not good news."

Chairman CARPER. Thank you.

Mr. PATTISON. Now, before I discuss the impacts of the crisis budgeting—and I will just list some of these—let me mention that with the economy improving, you still have a situation where the State money is very tight. We had an average of 6 percent year-

[1] The prepared statement of Mr. Pattison appears in the Appendix on page 56.

over-year growth in State budgets for many years before the recession. Now it is down to about 2 to 3 percent.

What is important about that, whether one thinks it is good or bad that the levels have declined, is that it means that money is very tight at the State and local government levels. This uncertainty and crisis budgeting that we are talking about today has important impacts on States and localities and their ability to plan budgets, as we know, but also to effectively deliver Government services. And, of course, as we have talked about, it costs money.

There are also other impacts such as impacts on cash-flow and, as has been talked about and I know will be talked about further, definitely on contracts. I want to highlight some of the impacts that we have found when we deal with the budget officers across the country.

Uncertainty about Federal funding prevents strategic planning and disrupts program management. And I have heard the word "disruption" from the CFOs across the country many times. It forces many State programs to focus on the next few weeks and not the next few months. So rather than focus on long-term results, they are just focusing on the short term.

I will give you some examples that I have just heard in the last few days. For example, we are hearing from States like California that they have difficulties in planning for the next school year. School districts have to determine exactly how many teachers they want.

I have also heard several Midwestern States talk about how they need a huge lead time to determine how to plan for certain pests so that crops are not devastated. This is something that is harder to plan for with only a few weeks or months.

State CFOs also report that Federal funding volatility can lead to program instability, increased staff turnover, and decreased productivity. Ramping up and down of the staffing is a huge problem, and an Arizona finance official told me he calls it "roller-coaster costs." And I think that is a great name for it. He says, "It is just up and down. We ramp up and down. It costs us money, and it does not allow us to focus on the long-term results that we want to focus on." And as far as contracts, uncertain funding levels prevent State and local governments from signing long-term agreements that, of course, can save money.

Lack of funding certainty from Congress can lead to forgone investments and, of course, costlier ones. I will give you an example. Delays in road construction because of short-term funding can actually be a huge problem, particularly for Northern States, with shorter seasons to build roads, et cetera.

Just in March of last year, when we had another temporary extension of the surface transportation programs, for example, North Carolina delayed projects that affected 41,000 employees. Michigan cited that 3,500 jobs were at risk as a result of those transportation funding delays.

Now, if the uncertainty continues, what we are concerned about at the State and local governmental levels is that we are going to look at problems that are a problem now but will get worse. One of them is we really feel the continued uncertainty will have an impact on our bond ratings even more than they do now. And this, of course, will affect the ability of States and localities to borrow money for roads, bridges, buildings, transit.

Also, when State budget officials lack confidence in the Federal Government's ability to provide good certainty as to spending, they may not engage in partnering with the Federal Government in the future. And, of course, I mentioned there are huge cash-flow problems that we believe will get worse and delay payments in the future.

To conclude, more certainty about Federal funding levels and greater flexibility can enhance States' ability to make informed decisions, address tough fiscal challenges, improve program performance, and plan for the long term. Any actions that provide increased certainty of Federal appropriations amounts to us will be exceptionally positive and will decrease some of the harms I have talked about today. This will lead to saving money and focusing on programs results.

So, in our view, we would like to see us all work together to make budget preparation, financial management, and strategic planning more efficient, more certain, and less costly.

Thank you very much.

Chairman CARPER. Thank you very much, Mr. Pattison. Ms. Kelley, please proceed.

TESTIMONY OF COLLEEN M. KELLEY,[1] NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Ms. KELLEY. Thank you very much. Chairman Carper, Ranking Member Coburn, thank you very much for the opportunity to participate in today's hearing. I think it is particularly important for the Committee to hear about the implications of crisis budgeting on those who are most directly affected by it in the Federal Government, and that, of course, is the Federal workforce.

During fiscal year 2011, Federal employees faced the possibility of Government shutdowns and unpaid furloughs due to appropriations lapses no less than eight times, including three times in December 2010 and once in April 2011, when detailed plans were disseminated listing who was excepted and non-excepted from the furlough and how they were to shut down their work stations. In many of these cases, employees had only hours of notice as to whether they should go to work the next day or not.

Fiscal year 2012 saw five continuing resolutions before an Omnibus Appropriations bill was enacted on December 23, 2011. While there has been a CR in place since September 2012, employees are yet again bracing for the possibility of a Government shutdown when it expires on March 27.

In addition to Government shutdowns due to lapses in appropriations, Federal employees have also recently faced the prospect of loss of pay or job loss due to hitting the debt ceiling. This threat was only resolved at the last minute in August 2011 with the enactment of the Budget Control Act. And Federal employees know that they will face a similar debt ceiling threat again this summer.

The current and most debilitating budgeting crisis impacting the Federal workforce is sequestration. On March 1, the sequestration

[1] The prepared statement of Ms. Kelley appears in the Appendix on page 65.

order was issued requiring most Federal agencies to implement across-the-board cuts of 5 percent of their annual budget or 9 percent of their remaining fiscal year 2013 budget. Federal employees have since been notified of unpaid furloughs they will have to serve of up to 22 days that could reduce their pay by 20 percent for the rest of the year.

Professor Joyce's report, "The Costs of Budget Uncertainty," noted that:

Employees may respond to furlough notices by spending otherwise productive time seeking other employment. . . . An actual shutdown, or even a credible threat of one, can push people out the door. It can also be one factor that discourages people from wanting to work for the Federal Government.

We are seeing that employees are leaving, and we are beginning to see a different twist on Professor Joyce's observation. There has recently been a very large increase in the number of workers leaving the Federal workforce, primarily to retire. In February 2013, 20,374 Federal employees retired. That is more than three times the number who retired in February 2012. And so far in 2013, over 42,000 employees have retired; that is 40 percent of what retired in the entire year of 2012. A large increase in retirements is especially alarming since approximately 53 percent of the Federal workforce will be eligible to retire by next year, and a significant loss of these experienced employees could leave agencies, already stretched very thin, in dire circumstances.

With the implementation of sequestration, Customs and Border Protection (CBP) employees, who are represented by NTEU, have received notice that they will need to serve up to 14 days of unpaid furlough beginning in April. That will be a 10-percent pay cut in every 2-week paycheck for the rest of the fiscal year. The cuts to Customs and Border Protection will also increase already long wait times at airports and at land border crossings to as much as 4 or 5 hours. Wait times at the border cost the U.S. economy in jobs, output, wages, and tax revenue.

NTEU-represented employees at the Environmental Protection Agency (EPA) have been told to expect to take 13 unpaid furlough days by the end of the fiscal year. That will result in an estimated 1,000 fewer inspections by EPA.

The Internal Revenue Service (IRS) employees represented by NTEU have been told they will face 5 to 7 furlough days under sequestration. The IRS has announced that it will delay implementing these unpaid furloughs until after the tax filing season ends on April 15. Due to funding cuts and planning for sequestration, the IRS has nearly 5,000 fewer employees today than it did just 2 years ago. Despite delaying furloughs, wait times for taxpayers trying to get help on the telephone and at walk-in centers have increased dramatically.

Due to the late enactment of the American Taxpayer Relief Act in January, which included a retroactive Alternative Minimum Tax patch as well as other tax extender provisions, the IRS was forced to delay the start of the current filing season until January 30 for most taxpayers. According to the National Taxpayer Advocate, the extensive work the IRS must perform to accommodate late-year changes has an opportunity cost. It requires the IRS to pull employees from other priority work, reducing service to taxpayers and potentially reducing revenue from voluntary compliance as well as collection efforts.

Professor Joyce's report cites a number of actions that agencies rely on in times of budget uncertainty that reduce efficiency, and these include hiring freezes, furloughs, training, and travel delays. All of these inefficient practices are being utilized by agencies right now due to the uncertainty of the congressional budgeting process.

The Federal employees I represent have been under a pay freeze for more than 2 years. They are facing significant pay cuts due to sequestration. As they see the waste that comes from the lack of timely congressional action, it is not surprising that they think that the wrong people are getting their pay cut.

Thank you again for this opportunity to testify today, and I am very happy to answer any questions you have.

Chairman CARPER. Ms. Kelley, thank you for sharing that valuable perspective with us today. Mr. Soloway, please proceed. Thank you.

TESTIMONY OF STAN Z. SOLOWAY,[1] PRESIDENT AND CHIEF EXECUTIVE OFFICER, PROFESSIONAL SERVICES COUNCIL

Mr. SOLOWAY. Mr. Chairman, Senator Coburn, thank you again for the opportunity to testify here today. I am pleased to join my colleagues and join the voices providing you with ammunition for the discussions ahead.

Let me be clear from the outset that, as an organization representing more than 360 companies doing business with the Government, we take no position on the specific solutions to the current fiscal debate. We recognize and respect that funding decisions are within the purview of Congress and the Administration. We have a very strong point of view with regard to the question you have posed in today's hearing.

When our member company Chief Executive Officers (CEOs), gathered just over a month ago to identify our top policy priorities for 2013, achieving budget stability emerged by far as their No. 1 objective. The consensus among our leaders can be summarized in four simple words: "Rip off the Band-Aid."

We recognize that no stakeholders will be unscathed, but we also believe that it is in the best interest of the Nation and the Government to finally come to grips with the fiscal challenges we face.

Indeed, on virtually every level, restoring a reasonable degree of predictability and stability to Federal budgeting—the return to regular order, if you will—is essential to the right functioning of Federal agencies, successful program execution, and the ability of our industry to bring to the table the best and most innovative and effective solutions.

Let me briefly set forth the four key areas in which today's lack of stability and certainty in budgeting are impacting our industry.

First, and most obviously, the lack of stability and predictability significantly increases the risks faced by companies serving the Government. This is a most basic economic fact. And with in-

[1] The prepared statement of Mr. Soloway appears in the Appendix on page 70.

creased risk comes unnecessarily increased conservatism with regard to investments in people, capabilities, and technology.

When I speak of risk, I do not mean simply the risks associated with whether one wins a contract or not. I am speaking more broadly of the risks associated with whether the contract on which one is bidding will be significantly delayed or even ever awarded.

There is broad agreement that procurement lead times today are stretching longer than anyone has seen in recent history, in some cases as much as 3 or more years from the submittal of bids to award decisions.

I am also speaking of whether margins, which in the Government market have always been somewhat lower than the commercial environment, will be pressured lower and lower as agencies seek any and every tool at their disposal to save money, even when doing so is contrary to smart practice. We are not talking here about margins begin driven down from the unreasonably high to the reasonable. We are talking about margins being driven from the reasonable to the unreasonable.

In fact, an authoritative annual report recently released by Grant Thornton documents this trend very clearly. One year ago, 35 percent of the more than 100 Government contractors surveyed reported margins below 5 percent. This year that number has jumped to 60 percent, despite the fact that a substantial percentage of those firms provide very high end, often complex solutions to the Government. Needless to say, the absence of reasonable margins directly impacts a company's ability to invest in future capability, in people, or in excellence generally.

I am also speaking of a range of impacts playing out in acquisition strategy and practice. For example, across our more than 360 member companies of all sizes, there is a consensus that the Government is defaulting to procuring virtually everything from the simple to the most complex on a "lowest-price technically acceptable" (LPTA) basis. There are many reasons for this, but clearly uncertainty is one of them. Under the rules, when what is known as an "LPTA contract" is awarded, the Government must award to the lowest bidder meeting the minimum technical requirements. For a wide range of commodities, that makes eminent sense. But for the many far more complex professional and technology requirements the Government has, it is both counterintuitive and counterproductive. Unfortunately, it is also dominating today's marketplace.

We are facing a potential race to the bottom where companies have to do whatever they can to survive. But the depth of that race is ultimately controlled by the Government customer and the behaviors and attributes it rewards and incentivizes—rewards and incentives that are impossible in the face of uncertainty.

We can also see these impacts very clearly with regard to the workforce. On the public sector side, our partners have been living with a long-term pay freeze, often increased workloads, and the difficult challenges of managing in an unstable environment. This is not to mention the potential for furloughs as a result of the sequester.

All of this comes at a time when the Government workforce faces daunting demographic and skills gap challenges and when the Government itself is struggling to be competitive for critical skills, particularly in the technology sphere.

In the private sector, the impacts have also been acute. Over the last couple of years, thousands of jobs have been eliminated across the industry as a direct result of the budget uncertainty and related program instability. Many of the individuals who have exited those jobs have also exited the Government sector altogether and are unlikely to return. Still thousands more positions have not been filled by companies who simply cannot justify the investments required, given the uncertainty in their marketplace.

There is also increasing pressure on the Government market to arbitrarily cap contractor employee salaries, even when such caps bear little relationship to what the broader human capital marketplace has deemed certain skills to be worth. Most of the attention is being focused on how contractor salaries compare to Government salaries rather than on the far more pertinent question of whether those salaries enable contractors to compete for the best talent with the rest of the commercial world.

Finally, and perhaps most importantly, is the impact on mission. Here the message is also quite simple. The combination of uncertainty and potential funding reductions force agencies to forgo or delay new initiatives to improve performance or delay planned technology refresh and scheduled maintenance and upkeep, all of which causes long-term costs inevitably to rise and mission effectiveness to suffer. They require agencies to fund their initiatives incrementally, which is often, by definition, inefficient and costly.

Budgetary pressures lead to reduced investments in people and technology in both industry and Government and are further exacerbated by the trends I discussed earlier: Awards on the basis of lowest rather than best price, unprecedented pressures on margins, and the reduced ability of both companies and the Government to hire needed skills, all of which poses great threat to the effective and optimal execution of the Government's mission.

Mr. Chairman, I have much more detail in my written statement, but would be happy to answer any questions that you may have, and thank you again for the opportunity.

Chairman CARPER. Good. Thank you, Mr. Soloway. Leading off the questions is Dr. Coburn.

Senator COBURN. Mr. Soloway, I am somewhat perplexed. Most of the businesses that are in your group, one of their mantras is to do more with less every year. Most of them believe in markets, that markets allocate scarce resources.

In listening to your testimony, I get the other impression. If, in fact, we get too cheap on our prices, you will quit supplying it. If you cannot supply it, if the business is not good for your business, you are not going to be there. And, therefore, as people drop out, the market price goes up. So markets will take care of a lot of the things that you outlined in your testimony.

Do you disagree with that?

Mr. SOLOWAY. I do not disagree with it in terms of markets in general, but in the Government market there are a lot of unique aspects which lead me to question the presumption a little bit. I think clearly our member companies believe in markets and market forces. I think that what we have in the Government market are often unnatural market forces that do not bear any relationship to what you would see in a commercial environment, where the Government actually can manage things like profit, can manage salary caps and so forth, in ways in which you cannot do in the commercial space.

I think the difference here is that in the Government market a large percentage of companies do a significant amount of work with the Government. The Government is their customer. So it is not easy just to exit the Government and go into the commercial marketplace.

Senator COBURN. But, again, in a market-based system, it is the classic Walmart syndrome. If you become too big of a supplier to Walmart, you will not exist.

Again, I want to get back to the markets. To me, your testimony does not ring true because if you want to be in this business, and there is no real market, the market is what the Government is going to say, it will have a negative effect. And so either you will go out of business and somebody else will come in to do that, and ultimately if enough go out of business, the market will—the price will rise because the Government will want to buy it.

Mr. SOLOWAY. Let me try to address that. I apologize if I am not being clear, because I do not disagree with you in general terms, but let me paint a slightly different picture.

If you go back a little bit to the 1990s when we went through—this Committee was very key in passing some very major reforms to acquisition policy. The whole goal was to expand the Government's access to a much wider range of capabilities.

What we have seen in recent years, absent the pressure of the budgets, is a bit of a regression from some of those efforts, and so that creates a problem.

The Government market is different than the commercial market in a number of ways; companies in the Government market recognize that their margins are going to be lower than they might get if they were commercial companies. But in return, it is a relatively stable, predictable customer; it provides a reasonable degree of clarity to the space. But when that clarity and that predictability disappear, the tradeoff no longer becomes as viable.

Senator COBURN. Oh, I agree.

Mr. SOLOWAY. The problem is it is not as easy to take a company that is doing engineering support for military systems and say, "I am going to do engineering in a commercial world." That shift is not that easy. We have lots of companies in the Government space that are highly commercial and Government is a small customer. They are, in fact, going to be decreasing some of their investments in the Government space. I have many member companies that are beginning to look at other markets because of the uncertainty and unpredictability of the Government space.

So, yes, you could argue that the markets will take care of themselves and these issues of margins. But for the people in the market today who are investing in supporting the mission of the U.S. Government, that answer is not actually a very helpful one because they are faced with the challenge of either finding an entirely new market or very significantly declining margins and, therefore, declining competitiveness and ability to drive value in the market that they have grown up in. So it is not an even switch.

Senator COBURN. Again, but it is a choice to be in that market.

Mr. SOLOWAY. Absolutely, and they choose to be in the market to serve the Government.

Senator COBURN. That is right. And what is in front of us as a country—with the unsustainability of where we are, that is not going to get better.

Now, the timing of it, what we are talking about today, disrupting that and making people make poor economic decisions because of Congress' irresponsibility. I agree with you. We do not want that to come on the suppliers that are coming to the country. But what is a significant point is once you become reliant on the Government, it is very difficult for you. But if you were balanced in terms of where you sold and what you sold, it is less.

So I understand the problems. To me, it is obvious. Your testimonies are obvious to me. Right? And they are to the rest of the people in the country. They know this is expensive, what we are doing. They know it interrupts planning. They know it is a poor way to run the Government. Everybody agrees with that. The question is: Will the grownups, like Tom and I, get together and solve the bigger problem so you do not have those problems?

Mr. SOLOWAY. Senator, could I just clarify one point? Because I want to be clear, if I was not in my testimony. There is nothing, no position we would take or statement we would make to suggest that we think we ought to be protected from the austerity we face. We recognize that piece.

I think from a Government perspective, putting on my former Government official's hat, what I want as a marketplace supporting my missions is an innovative, agile, technologically current marketplace. The more the Government as a customer creates an unnatural marketplace, minimizes the abilities to drive value and reasonable margins, the less agile, less innovative, and weaker the market that is serving me becomes. So it is in the Government's interest to have that kind of marketplace.

For a company other than large commercial companies, it is actually exceedingly difficult to be in both markets at once, because it is very expensive to do business in the Federal Government market. Accounting systems are entirely different. There are a lot of tremendous differences. But I just want to be clear. We are not expecting any protection. That is my point about "ripping the Band-Aid off." We will plan to whatever scenario is out there. As Mr. Pattison said in the quote from one of the State budget directors, it was absolutely——

Senator COBURN. I agree with you. I was not trying to give you——

Mr. SOLOWAY. No, I understand that. I just want to be clear.

Senator COBURN. I actually have done Government contracts before when I was in the manufacturing business, and I decided I did not want to have anything to do with it, and I quit. In other words, I chose to not go as a Government supplier rather than to go as a Government supplier. Mr. Pattison, I have one other question for you, and then I am going to submit, if I may, Mr. Chairman, all my questions to the record.

Looking at your testimony, outlining it, for example, education—Ms. Kelley talked about education, and you talked about education. Less than 10 percent of a State's budget is Federal education dollars. It seem to me the smarter the State is, given our dysfunction over the past 18 years, is to become less and less reliant on the Federal Government, because as you outline, the States know how to do this. They do it themselves. Senator Carper did it himself when he was Governor of Delaware. But when you have a question—and it is really a problem for my home State because a vastly greater percentage of our budget comes from the Federal Government than is in our local budget. And so there are ramifications. And there is this big movement in Oklahoma for us to start becoming independent of the Federal Government in terms of our needs. And so you are seeing this move, to not take advantage of things that are promised because the very high likelihood is, given our budget difficulties, there is going to be less in the future, not more, in terms of real dollars. I am talking absolute dollars.

Do you have any thoughts on that?

Mr. PATTISON. Well, I think one thing is, depending on how the future goes, I have heard a lot of comments from State CFOs that they will probably—especially if new programs are proposed or money is moved—I would not be surprised if they do look at those more carefully than always automatically taking the Federal money.

I will say, though, politically it is really hard in a lot of States not to accept the Federal funds.

Senator COBURN. Yes.

Mr. PATTISON. In addition to that, they often feel——

Senator COBURN. It is called an "elixir."

Mr. PATTISON. Yes, and they often feel they have to make up for it or there is an enormous amount of pressure, particularly if there are programs, for example, for special education and disabled children. So there are a lot of pressures on that——

Senator COBURN. They are mandates.

Mr. PATTISON. Yes.

Senator COBURN. That we have never met our obligation on yet.

Mr. PATTISON. And that is one thing I do have to tell you that States are extremely worried about right now, is they expect that cuts will come. We are willing to take the Band-Aid off, as Mr. Soloway has said, but we are worried about the requirements not changing and less money to do the same——

Senator COBURN. Yes, I agree. And that is a legitimate criticism.

I want to thank all of you for your testimony. I am sorry I cannot stay for the rest of the interchange between my two colleagues and you. But I will submit my questions for the record, and I would appreciate it if you would get back to me with answers. Thank you.

Thanks, Tom.

Chairman CARPER. Dr. Coburn, I just want to thank you for adjusting your schedule to be here for this portion of our hearing. Thank you.

Dr. Coburn mentioned that I spent some time as a Governor. Another guy who was a chief executive officer not of a State but of a big city is right here, and he served for a number of years as the Mayor of Anchorage, Alaska. I will not say that it has more people than Delaware, but it has a lot of people. And he brings that expertise with him, and a lot of others, and I am happy to recognize him for questions. Thank you. Thanks for being here, Mark.

OPENING STATEMENT OF SENATOR BEGICH

Senator BEGICH. Thank you very much, Mr. Chairman. We would describe it in Alaska, not that we would be ripping off a Band-Aid, but we would be tearing off the duct tape. And we use duct tape quite a bit, and actually I describe that in somewhat of a serious way, that whatever we do on this budget will be painful. And I think people are not yet adjusting to it, and clearly the political environment has not adjusted. I had to do this when I was Mayor, and the former Governor, now Chairman of the Committee here, had to do it. We make tough calls. You have to deal with it.

Mr. Soloway, I think what you were trying to describe, I am going to give you a couple examples. In the road construction business, you can take the low bid and potentially pay for that between two elements: Cost overruns, adjustments they would require during the project, or a product that later down the road—down the road literally—that you have to repair because it was poorly done.

We switched to an effort called "best value," which was we will pay a little bit more, but we will get a better product. But it is more competitive, because then everyone starts playing and you increase the pool. Because if you are just low-balling it, no one wants to do that, and they hope, they pray, and play off of change orders.

Is that one of the examples that you are trying to describe, that that is another way to do the business, if you had a long-term plan, in service delivery and product delivery, that best value is another way to manage things to get the best value and also create a larger competitive pool, which gets more competition but gets better value for what you are paying?

Mr. SOLOWAY. I think it is precisely the point I was trying to make, and you have given an excellent example. I think the bottom line is there are certainly a lot of commodities we buy, from pencils to laptops these days, to other things that maybe even a few years ago had not been a commodity.

Senator BEGICH. Right.

Mr. SOLOWAY. Low price makes eminent sense. But when you are dealing with anything complex, you get what you pay for, and we are finding more and more that the Government, partially because of these pressures and this uncertainty, is more about driving price down at the expense of long-term quality than it is about re-evaluating what we are doing. We are not critically relooking at the requirements saying, "What can we do better? How do we do more with less? Or how do we do less with less?"

Senator BEGICH. Also, I think on the service end—again, I am asking this so I make sure I am thinking the same thing here. When we bid out services, we looked for first quality of the delivery of the service, for example, engineering services for the city to construct, versus price. Because if you are looking for quality, then you get a better product. Then when you put those bid packages out, you do not have people coming back for multiple change orders.

But the issue in the service industry is—I will use engineering as an example. It takes an expertise to have a civil engineer, mechanical engineer, or any of those types of engineers that work on Government projects versus a private sector project. There is a difference. There are a lot of similarities. But there are sometimes different requirements of the paperwork that goes over here, the mill that we create, but to keep that kind of staff available, you cannot just go out to the marketplace tomorrow, put an ad in, and get a whole bunch of engineers, because one thing we do not have a lot of in this country because we do not do good STEM education—we are trying—is to have actually a lot of qualified, ready-to-go engineers.

Is that a fair statement? One of the challenges with a service company is making sure you have a cadre that you can tap into, not just have them reassess what they are going to do from a company standpoint, they are not just going to keep them on line waiting for the Government.

Mr. SOLOWAY. They cannot afford to keep them on line.

Senator BEGICH. Right.

Mr. SOLOWAY. I think your example is exactly right. The point is that we have a shortage of high-tech skills, of engineering skills in the country. Our member companies are competing primarily with the purely commercial marketplace for that talent. The Government is competing as well for that talent and struggling to get it because of the way the Government pay and other personnel policies are structured. So I think, yes, the dichotomy you reference is very accurate.

Senator BEGICH. Let me ask Dr. Joyce, if I can, I think the way we do the business here—I mean, I come from the small business world. I would be bankrupt the way we do the business around here. As Mayor, I would have been kicked out of office without—because in local government, just kind of like State government, you cannot—in my case now—be thousands of miles away from your constituents. They will find you as a Mayor, and as a Governor I am sure they would, especially in Delaware. They would find you.

Chairman CARPER. In Delaware, our State is about 6 miles wide. In one part it is actually 35 miles wide. But there are not many places to hide, so you are right.

Senator BEGICH. Yes, that's right.

So I think your general testimony here from all of you—and I am going to focus, if I could, Dr. Joyce, and others that want to give some thoughts here. The system of how we do CRs, these half-baked kind of appropriation bills, budget resolutions that the President never even has to sign at the end of the day, which makes no sense to me, because there is no responsibility then. The system is convoluted and broken. Is that a fair statement based on the testimony? I heard systematically maybe at different levels, but is not that how we do these? There is no penalty. In other words, we keep doing CRs. So what? The penalty is taxpayers lose a ton of money. And we are a service company. That is what the Federal Government is. We deliver services. And if we cannot deliver them with some certainty, then it has a ripple effect, and the system is broken.

So I guess I am interested in—we did a 2-year budgeting in the city. When I first got here, the Department of Veterans Affairs

(VA) budget we worked on, we got them a 2-year budget, which makes a lot of sense. I know it would be problematic here because all the politicians want to have every pound of hide they can get out of every department for every inch and every month. But does it not make sense for us actually as a Federal Government to make a 2-year budget as well as finally do what State budgets do, local budgets do, and the private sector, operating budget, capital budget? Does that not make more sense?

Mr. JOYCE. Well, two responses to that.

On biennial budgeting, which has been proposed for a long time—I mean, when I worked at the Congressional Budget Office in the early 1990s, there were active proposals for biennial budgeting. There was even one that came from President Clinton. On biennial budgeting, I think the first thing to say is that we do not actually do annual budgeting very well.

Senator BEGICH. We do not monthly budget.

Mr. JOYCE. I mean, the benefits of biennial budgeting were typically sort of stated as a counter to annual budgeting. But I would say we do not even do annual budgeting very well.

Senator BEGICH. Well, that gives us a good basis to start from.

Mr. JOYCE. Right. And I think the thing that one would have to keep in mind on biennial budgeting is that in the first place it would create more certainty, but it would only create more certainty if it worked as advertised. The way it is advertised is that you would budget in, say, the odd-numbered year and then you would do oversight in the even-numbered year.

Senator BEGICH. Right.

Mr. JOYCE. You would have to make sure that people did not come in and do wholesale changes to the budget in the second year, because at that point you just have a biennial process on paper.

Senator BEGICH. Good point. Yes.

Mr. JOYCE. And I think on capital budgeting, I think that the concern that I have heard expressed is only that it would be sort of difficult to enforce what was called capital and what was called operating in the Federal Government context.

Senator BEGICH. I would totally disagree with any Federal agency that says that. State governments do it, local governments do it. We can tell the difference. People can tell the difference between capital—so I have heard that same thing, and every time an agency brings that up, I say, "Are you kidding me?" The private sector does it. I mean, in my household, I know what a capital budget—I mean, a roof is a capital budget.

Mr. JOYCE. Right.

Senator BEGICH. Putting a string of lights at Christmastime is not.

Mr. JOYCE. Right.

Senator BEGICH. And I think as long as the parameters are there, right, the base, then they could actually do a capital budget because when you think of our budget and the debt that we accumulated, part of that is for capital. We are building all these roads and ports. This is capital investment. It is like when we buy a home. But people view it as, oh, we are just borrowing money to operate the Government. Yes, but we are also investing, and that capital investment is no different than the private sector would do borrowing from the markets, as well as an individual would do when they want to buy a house.

Now, some are lucky and fortunate enough to pay cash for a house, but a majority of Americans do not. They borrow. But to pay the utility bills, they use operating dollars. It seems so simple to me.

Mr. JOYCE. Well, and I agree with you absolutely that there needs to be more attention paid not to just spending as spending, but asking the question, What is it we are buying for that spending? A dollar of spending for consumption is not the same thing as a dollar of spending for investment. And that is where having some distinction between at least what is investment spending and what is consumption spending is a useful thing to do.

Senator BEGICH. Can I ask one last question, Mr. Chairman? This is maybe a set-up question to any of you that want to answer this, because I will editorialize in the question.

I do not think Congress does enough oversight in this area. We are always just running and moving from place to place. And I appreciate the Chairman's focus here not only today but on multiple levels. I have seen multiple hearings being set up, and it is about oversight. I do not think Congress does a really good job. We do oversight on the crisis, but we never do oversight on the operations. We are good with a crisis. I mean, if something happened tomorrow, we would be all here sitting around, yelling screaming, and then the next week, new day, new story.

Do any of you want to comment? And you can criticize us. I am OK with that. I have alligator skin. Once you have survived being Mayor, once you have survived being Governor, huh, this is an easy job compared to that. Give me your thoughts. I just do not think we do enough of this kind of review and say, this program should not exist anymore because it is inefficient. Give me your thoughts on that. And I will stop there, Mr. Chairman. I apologize.

Mr. JOYCE. Well, I have a couple things I could say, but I do not want to monopolize. But I think you are exactly right. I think the reason for that is because there is no incentive to do oversight, it is not sexy. The kind of oversight——

Senator BEGICH. We think it is. Right?

Mr. JOYCE. Well, I know. This is a great Committee for that. But many other committees do not view it as sexy.

Senator BEGICH. Right.

Mr. JOYCE. And they view oversight as defined as sort of rooting out the big-headline kind of problem. And the real work of oversight is hard work. It is getting sort of into the weeds.

Now, I think that some of the things that have happened in the past several years—for example, the Government Performance and Results Act (GPRA) and then the Government Performance and Results Modernization Act—are trying to get at that kind of issue, trying to sort of emphasize how well it is the programs are working. But, still, I do not think there is nearly enough attention paid in forums such as this on questions of what programs are working and what programs are not working.

Senator BEGICH. Does anyone else want to comment?

Mr. SOLOWAY. I would like to just second what Dr. Joyce said about the definition of "oversight" and the hard work involved. As he said, a lot of oversight is about rooting out bad actors, which is important. It is certainly one of the responsibilities of the Committee. But a lot of it is also delving into understanding not only what programs work and do not work but why they work and why they do not work and, therefore, what changes are needed in personnel policies, organizational structures, or whatever it might be, to learn those lessons and apply them later on. And too often it is a quick hit and move on. With discussions like this where you really get into the impacts of the budget process on management of the agencies, you begin to see where a lot of those problems are and things that need to be done to address it, as opposed to just pointing to bad actors and moving on from that.

Mr. PATTISON. I will just add, Senator, that there are a lot of States and localities, including Delaware and Alaska, where we have seen some really exceptional examples, and, frankly, strong incentives, where they provide really good oversight. And it is certainly not perfect, but I think there are some examples that I would love to see Federal agencies and departments and, of course, you in the Congress look at as models for looking at when programs are effective and what changes should take place to really put the money toward results and effectiveness and not just appropriate on a short-term basis for a program.

Senator BEGICH. Will you share those with the Committee at whatever time?

Mr. PATTISON. Certainly.

Senator BEGICH. Great.

Mr. PATTISON. I would be happy to.[1]

Senator BEGICH. Mr. Chairman, thank you for letting me go on a little longer there. I appreciate it.

Chairman CARPER. You can go on longer almost any time, including this time. Thank you really for the valuable perspectives you bring here, and a lot of common sense.

I am Presbyterian, but I have a news break here. In terms of uncertainty, there is less uncertainty in the Vatican, and apparently our Catholic brothers and sisters are going to have a new Pope. He is from Argentina, and his name is—he is not Irish. When I say this name, you will say, "This guy is not Irish." His name is Jorge Bergoglio, and he is going to go by "Pope Francis." I do not know if that is in honor of St. Francis of Assisi, who has a great prayer. I will not say his prayer today, but it is one that we could probably take to heart here in our work in the U.S. Senate. So I just wanted to wish him well, and now we will go back to our questions.

Senator BEGICH. They made a decision in a timely manner.

Chairman CARPER. Yes, they did. Something we can learn. [Laughter.]

There you go. No sequestration there, no fiscal cliffs. They just did it.

I have a number of questions that my staff has been good enough to help prepare, and I am going to go to those in a minute. But I want to followup on a little bit of what Dr. Coburn and Senator Begich were saying.

[1] The information provided by Mr. Pattison appears in the Appendix on page 99.

I am not one who likes just to focus on symptoms of problems. I like to go to the underlying cause. One of my favorite things I like to do, as my staff knows, is ask people who have been married a long time, "What is the secret for being married 50, 60, or 70 years?" And I get funny answers, hilarious answers. I almost use them in a comedy monologue sometimes at home. I am not going to go there today.

But I get some great serious responses, too. One of my favorites from over the years is the two C's. The first time I heard that, I said, "What do you mean, the two C's?" And the answer was, "Communicate and compromise." And I really think part of—if you go back not really to just symptoms but the underlying causes, we do not do a real good job here of communicating. And some of us are better than others at trying to find the middle and reaching a compromise.

I am happy that the President has been reaching out to Republicans and Democrats on Capitol Hill. I think he is doing that again today. He took some of our colleagues out to dinner last week. I talked to several of them. They thought that was good. They had a good conversation, and I hope we hear and see a good deal more of that, and that is going to be helpful.

At the end of the day, we have to figure out how to compromise on some of these issues. And one of the things I have asked my staff to do is to literally go through your testimony and pull from that just some of the most telling, undeniable truths that you are saying today so that when we find we are struggling to get to a compromise on a continuing resolution, when we are struggling to get to a budget resolution, I will be able to say to my colleagues, "All right. I know this is not easy, this is hard, but just keep in mind these four or five points. And that is why it is important for us to not give up."

In terms of solutions, let us talk a minute about solutions, and then I will go to a list of more prepared questions. But Senator Begich has raised an idea that we both heard Senator Enzi of Wyoming bring forth for a number of years, the idea of a capital budget, maybe a biennial budget. And we have had some discussions of that. I just want us to drill down on that a little bit more. He is one of the most thoughtful people we have here, and I think he is either a CPA or accountant by training, and a Mayor of Gillette, Wyoming, in his past. So he comes at it from a number of different directions. But just help us drill down. I will give you an example.

We have a whole lot of surplus property, like tens of thousands of pieces of Federal property, that we do not use or we underuse. We pay utilities for them, have security for them. We spend a lot of money, maybe a couple billion bucks a year. But we do not really need these pieces of property. Some of them are buildings, some of them are not. Some of them are in great shape, some are not.

But one of the reasons we spent a whole lot of money for space for the Federal Government is because we are on a cash basis of accounting. And you say to an agency, you can go out and lease a place for a year or two, and that is going to be—that is fine. Or you can go out and buy a place for forever. But if you go out and buy a place—and let us say it costs, I don't know, $1 million—or you can lease a place for $100,000 a year. Within about 10, 11, 12 years you have more than paid for the place by what you are paying for it. But the way we run our accounting system here, a cash basis of accounting, we discourage agencies from making a smarter decision. That is just one example where we waste money in terms of space allocation and acquisition of buildings.

But go ahead, just help us drill down on some solutions. One of them could be what Senator Begich has mentioned here. What are some others? In other words, if we could wave a magic wand and get everybody around here to communicate and compromise, that would certainly help. I think the President could play a big role in that, and I am encouraged with the role he is playing. But just help us with some common sense solutions here. Go ahead, please, anybody.

Mr. SOLOWAY. Senator, one of the points that we raised in our testimony—and I think it is related to the question you are posing—is in the face of uncertainty, what can we do to be smarter about how we manage? And one thing, which seems simple but is unfortunately not terribly prevalent in the Government environment today, to build on your communication theme, is to really—and this Committee play a significant role here—lead and even direct agencies to get with their stakeholders. There are companies, non-governmental organizations (NGOs), universities, others who work with Federal employees every day of the week together to figure out how to drive sustainable savings as opposed to cuts. It is one thing to cut the cost of something. But if you are not really looking at it strategically, the cut may be temporary, it may drive costs up later on, or it may be unwise. But if we could create an environment in which all of the stakeholders are actually collaborating, to look at program X, everything we are requiring in it, and I as a company give up some revenue because, that does not really add value to what you are doing, and the Government says, well, I do not really need to do this, you actually have a much better chance of getting at some sustainable savings and actually some paradigm shifts in how we do business. Right now it is so siloed, so distant, and exacerbated by uncertainty, but in the near future, something like that to help build a different environment I think would be very helpful to agencies.

Chairman CARPER. Thank you. Others, please?

Mr. JOYCE. The other thing—and I mentioned this briefly in my testimony, but Senator Begich's question really, sort of suggested this to me again—is that when you are talking about making more certainty available on a longer-term basis, you are talking about something like biennial budgeting. Biennial budgeting in its kind of classic sense is saying you are only making budget decisions every other year as opposed to every year. But there is also the issue of how long you allow agencies to have funding available; that is, if we made more funding available on a multi-year as opposed to an annual basis, or even on a no-year basis, that would mean that there would be less serious consequences for agencies when they came up to the sort of end of the fiscal year because not as much of their money would be at risk.

And when I was doing this IBM report, when I went out to talk to people in agencies, the agencies that had more money that was available to them to obligate over a longer period of time were agencies that had a much less difficult time dealing with this problem, and they had much more flexibility when the time came when a CR was about to run out, because a lower percentage of their funding was at risk at that point.

Chairman CARPER. Thank you. My father used to say, to followup on what you said—I remember all these adages that my mom and my dad raised us with. You probably can, too, from your own childhood. But my dad used to say, "Work expands to fill the amount of time we allocate to a job." And I would like to think that if we had a biennial budget, 1 year to legislate, 1 year to do oversight, I would like to think we would get it done—the first year we would do what we are supposed to get done in terms of budgets and appropriations. That may not work that way. We may think, well, we actually have 2 years here, and we will just, like, let it bleed into the second year.

All right. Please?

Mr. PATTISON. Well, one thing that we find with the uncertainty—and I am not sure exactly the best solution, but I think it is helpful to point it out. From a State and local government perspective, in addition to the uncertainty or the very short-term CRs and that type of thing, there are the communication issues. And it is totally understandable. I am not being critical of the Federal Government or Federal agencies, but they are afraid to say or communicate anything until something is actually passed. And so it compounds the problem we have at the State and local level because not only is there uncertainty because we do not know amounts, we have to wait for a CR or the fiscal cliff to be dealt with.

In addition to that, once that occurs, then we begin getting communications of how to technically implement and make the actually changes, or we get the exact amounts and that type of thing.

So I think a lot of problems we have, especially in that regard, and allow us to do more long-term planning, which could be beneficial in many ways and decreases costs, would be to end the compounding of the uncertainty by somehow improving the communication over time, too.

Chairman CARPER. Ms. Kelley.

Ms. KELLEY. Chairman Carper, I have been trying to think of suggestions for you since I learned about the hearing last week, and I do not like telling you that I have a blank piece of paper right now. But I am still thinking, so I will send them as I think of them.

But for me, it is trying to figure out how to not put Federal employees in the middle of the uncertainty. States, governments, and the American public are who are getting caught in the middle of all this right now. I just think it is so disheartening for the workforce and it will be for the country, once it hits. Because sequestration is different than a shutdown, of course, the severe impact and the immediate impact of it has not been seen yet. But it will be, and then I think the American public is going to be saying, "What the heck is going on down there?"

When I thought about the multi-year budgeting, I do not really have a position on it one way or the other because, as we have all noted, we have not been able to get it right for an annual budget yet. So I worry a little bit about trying to set the goal for a 2-year until we can do it for the 1-year. But we will keep working on it at NTEU, and I will send any ideas that we have.

Chairman CARPER. OK. That would be great. Thanks.

All right. A couple other questions I would like to ask while you are still here with us. One of the those is that the types of budget issues that we are discussing today can be difficult for a lot of folks to understand. And for those people at home and those that are here with us today, could you just give us a couple—maybe a real sort of basic definition of what a continuing resolution is and how it works?

Mr. JOYCE. Well, a continuing resolution, a classic continuing resolution, is just a short-term appropriation that permits spending to continue until a full-year appropriation is enacted. And so in a sense, it is just allowing you to continue doing what you are already doing. And one of the problems with that, of course, is that it freezes past priorities in place, and also it does not permit for increases, inflationary increases, for example, that you know are going to occur; or in the case of agencies where they are going to experience, let us say, an increase in the demand for their services, it does not enable them to sort of adjust for that. But in a classic sense, it is just a short-term appropriation that just allows you to limp along at the prior year's spending level.

Chairman CARPER. That was nice. I would call it Continuing Resolution 101. Every now and then you hear a great truth, and I ask one of you to repeat something you said today, that was especially good. But when I hear from witnesses a great truth—today, several of them, actually. But one of the great truths we had from a witness about a year or two ago, Dr. Alan Blinder, former Vice Chairman of the Federal Reserve, now back to teaching economics at Princeton, when I asked him about deficit reduction, he had been saying that the 800-pound gorilla in the room on deficit reduction is health care. If we do not get our arms around health care costs, we are doomed. And I just asked him as a followup question what we ought to do about that. And he said, "I am not a health economist. I am not a health expert. Here is my advice to you. Find out what works, do more of that." That is all he said. "Find out what works, do more of that." I said, "You mean find out what does not work and do less of that?" He said, "Yes."

But the problem with a CR, if we continue these CRs for long enough, we are continuing to do stuff that does not work, even though we know it does not work. And maybe when we have a better idea we cannot fund that better idea. That is not very smart.

A question, if I could, for Ms. Kelley and Dr. Joyce. I think there was a story in the Washington Post a month or two ago, in late January, but it talked about the time that agencies spent planning for various budget scenarios. And the story I think quotes one manager, I think at the Department of Homeland Security, who said these words:

"First we are told not to develop plans for sequestration. Then we spent 7 days a week coming up with them, and the cuts got postponed. Now we are doing it all over again with new targets. It is taking away from what we need to be getting done."

That is a pretty good quote, is it not?

That I think kind of says it all. It sums it up pretty well. And I would just ask you to talk a little bit, both of you, about how much time gets eaten up by preparation for CRs, fiscal cliffs, sequestrations, and so on, and the toll it takes on the real missions, the real work that we are supposed to be doing. Please, Ms. Kelley, Dr. Joyce.

Ms. KELLEY. I think we will probably never know the real number of hours or months that go into all this, but without exception, I believe every agency has been doing these what-if scenarios since last summer when they saw January 1, coming as the first sequestration deadline, and then when it got moved forward, and then for each CR. It would be pretty irresponsible of them not to do that. I mean, they really have to. But to do all that work and then have to do it all over again is a huge waste of time. And it is a distraction, of course, for the agencies from what their real mission is and what they are supposed to be doing.

For the front-line employees, it is a huge distraction. They keep hearing the noise about a Government shutdown, now about furloughs. And that is a huge distraction and, again, that time will just never, ever be measured. But it takes away from the energy and the focus and the creativity, of what it is they come to work every day to do on behalf of our country.

Chairman CARPER. Dr. Joyce.

Mr. JOYCE. I was told recently that I had been overusing the word "stupid," so——

Chairman CARPER. I am sorry. Say that again. Did you call me "stupid"?

Mr. JOYCE. No, I did not. [Laughter.]

I was told recently I had been overusing the word "stupid" in describing what we are doing in the budget process, so I will just use words like "counterproductive" and "dysfunctional." But I think, the issue that you are putting your finger on is one of the best examples of where the budget process is counterproductive, because we are either spending a lot of time planning for something that does not happen, in which case it is a complete waste of time, or we are spending a lot of time planning for something that does happen, in which case it happened and it was a bad thing, given a Government shutdown.

In either case, it is not a good thing, and we just put agencies through this in the spring of 2011 when they had to develop furlough plans and plans for dealing with a Government shutdown. And now, 2 years later, they are doing it again.

I suppose the good news is that, given that we had late budgets in many prior years as well, OMB did not make them do that every year. But as Ms. Kelley suggests, any rational agency, even if they were not told by OMB to do this, should have been thinking, once they saw all the uncertainty out there, "What are we going to do?" And there was a point at which OMB was saying—and it was in a sense quite reasonable—"Do not plan for this because we do not know what is going to happen," because they knew as soon as they pulled the switch, it was going to lead to all this wasted time. But I do not think that means that agencies were not doing it, because I think there are a lot of agencies out there that were quite concerned about what would happen when the time came when they did not have any funding.

Then OMB pulled the switch, and at that point everybody kind of went into high gear, as you suggested from your quote, trying to develop these plans. And there is nothing about developing these plans that contributes to the mission success of any of these agencies. And it is all, as I suggested, a completely self-inflicted wound.

Chairman CARPER. A followup, if I could, for Ms. Kelley and Dr. Joyce, and then I will probably ask others to just chime in if you want to. But kind of focusing on morale, in your testimony, Ms. Kelley, you note the noticeable decrease in Federal employee morale and job satisfaction over the past several years. I would like to quote the results of an international study reported on National Public Radio (NPR) a year or so ago. When they asked people what they liked about their job, thousands of people around the world, some people liked getting paid; some people liked the benefits, vacation, health care, whatever, pensions; some people liked the folks they work with; some people liked the environment in which they work. But do you know what most people said? What they liked most about the job was they liked the idea that they were working on something important and they were making progress.

Think about that. They liked the notion that they were working on something important and they were making progress, and I think part of the impact on morale for Federal employees, I think everybody—I do not care whether you are in agriculture, transportation, health care, housing, defense, or whatever. The work that those folks are doing, they are servants. I am a servant, they are servants. The work they are doing is important, and I think we are impeding their progress and impeding their ability to make progress for our country in their particular line of work.

But go ahead. I am going to ask Ms. Kelley, if you would, from your perspective, how has the morale decreases affected employee productivity? And I do not know if there is any way to put a cost on it, but I would like to ask if you think there might be. And we will ask our other witnesses for any comments they have. Thank you.

Ms. KELLEY. I think there is definitely a decrease in morale, and it has been documented over the last couple of years. I think that is for a number of reasons, including Federal employees being under a pay freeze for the last 2 years and seeing nonstop efforts to continue that pay freeze well into the future by some.

They also see that they do not have the resources in their agencies to do the important work that they are trying to do every day. Most agencies have seen the numbers of employees that they have decrease, and so the workloads increase, and their ability to do the quality work they are trying to do, they are not able to do that.

As to the costs of the productivity, I believe that Federal employees, most of them rise above that. I think kind of in spite of the bad morale, they continue to do the work they do, and they do it as best they can with the resources that they have. Most Federal employees come to work for the Federal Government because they want to serve the public, and they believe in the mission of their agency. They believe in it. No matter how bad morale is, they believe in the mission of the agency. And what they are looking for is the support daily from the leadership in the agency as well as from Congress and everyone who needs to support——

Chairman CARPER. And even the President.

Ms. KELLEY. And even the President, yes. That is what they are looking for.

So I actually believe that productivity in the Federal Government has not gone down in spite of the morale, and I think that is to the credit of the employees.

Chairman CARPER. All right. Does anybody else want to respond to that? Again, because we are trying to figure out how—about has there been a morale decrease among Federal employees and is there any way to put a cost on that. Anybody?

Mr. JOYCE. Well, I would just say I do not think you can place any kind of precise cost on it, but I think that the people that I talk to certainly suggest that, there are a lot of people spending a lot of time talking about this uncertainty. And I am not suggesting that as a criticism of Federal employees. I would think that in any workplace where you were facing the kind of uncertainty, the prospects of furloughs, and everything else that Federal employees are facing, it would be reasonable for a certain percentage of each day to be spent sort of talking about what is going to happen. And I think that is a decrease in productivity, and certainly it is the case that it does not have a positive effect on morale. And as I suggested in my testimony, the people that tend to leave Federal service for these reasons are the people who have options to do other things, and some of those people are the very people that you would least want to see leave.

Chairman CARPER. Good point.

Anything else before I go to my next question, Mr. Pattison?

Mr. PATTISON. I just want to add really quickly from a State and local perspective that it is more along the lines of where resources are being devoted, and what we see at the State and local level, particularly when there is the uncertainty from the Federal level—and obviously the programs that are all or in part funded from Federal funds—is really time being spent more on short-term activities or dealing with how they are going to deal with the sequester and so forth that really prevents you from devoting the time where you want, which is effective programs, getting the results, and he goals you want.

Chairman CARPER. OK. Good point. All right.

This will be a question for our entire panel. Looking at examples of waste that result related to uncertainty, one of the goals for this Committee—and I think it is certainly one shared by Dr. Coburn—is, as I said earlier, getting better results for less money or at least better results for the same amount of money for everything we are doing, from A to Z, in this Government.

From what I have heard today, it seems like we are often doing the opposite, and we are setting up agencies to deliver worse services, and sometimes at a higher cost for taxpayers because we are making it almost impossible in some instances for them to plan. And this is coming at the same time that we are talking about cutting services in programs that a lot of Americans actually do rely on.

So let me just ask each of you from your own perspective, from you own experience, what has been the clearest, maybe the most startling example that you can think of, of this kind of waste and inefficiency that we are talking about today? Think about that. If you want to give that one some thought and come back to me on the record, that would certainly be fine. But if you have anything that you want to offer right now, you can.

But I find when we are struggling to get to a compromise on a continuing resolution/mini omnibus appropriations bill for the rest of the year, when we are struggling to get to yes on a continuing resolution with the House, when we are struggling to figure out how to avoid another debt ceiling crisis, I just want to have a whole, if you will, quiver full of arrows, each of which provides a startling example that will just make my colleagues think, "No, that is crazy. We cannot continue to do that. We have to find a way to get to yes." So that is what I am looking for here. And I will be happy to take those for the record, but put some thought into it, and give me a bunch of good examples, really good examples, please.

I have sort of a followup question. I think this would be for all of our witnesses, maybe especially for Mr. Pattison and Dr. Joyce. Not many people like uncertainty. Some do, though, but not many people like uncertainty, and that certainly includes planners.

But listening to the testimony, I get a sense that not all uncertainty is created equal, and that the budget uncertainty of the past few years is actually worse than usual. Somebody mentioned how many years we have gone with only four or five times when we have passed all the appropriations bills. I remember when Jim Wright became Speaker of the House, succeeding Tip O'Neill a number of years ago, I was a House Member, and one of the things he said when we elected him Speaker of the House was that we are going to pass every single appropriations bill this Congress and put it on the President's desk. And you know what? We did.

So I have felt from that time ever since, if a leader says that this is what we are going to get done and there is no stopping us, we are not going to give up, says that early, not at the last minute, every day drives that home, you can get that done. And it does not have to be the Speaker. It can actually be the President or a Majority Leader or not.

But, anyway, going back to the question, it sounds as though in past agendas and past agencies and their State and local partners did not know exactly when they were going to get their funds, but they usually knew about how much they would eventually get. Now it is almost anybody's guess what eventual funding will be as well as when is it going to show up. And I just want to know, am I hearing that right? If you want to discuss this shift, please do, and how it makes the uncertainty harder to work with. So it is not just a question of when we are going to get it but how much will we get and when are we going to get it. Please.

Mr. PATTISON. Well, what I see from a State and local perspective that I think illustrates the problem is the reason it is getting worse is because our money is tighter. Obviously, the recession was a big cause. But we certainly forecast and foresee that our growth rates of revenue and budgets at the State level are probably going to average about half what they did for the period after World War II to the beginning of the Great Recession.

As a result, when money is that tight, the uncertainty makes it much worse. When you have a little more money, you have a cushion, as you know having been Governor, Mr. Chairman, and they really have no cushion, and they do not expect to for years. And there is really no ability to move money, so those cash-flow issues, the lost money from not being able to save money on certain contracts, the roller coaster, up-and-down staffing, and all these other issues, causes an enormous amount of problems and, frankly, costly problems that could be covered over a bit when you had a bit of a cushion. And since the cushion no longer exists, the uncertainty is really going to make problems even worse for State and local government.

Chairman CARPER. OK.

Mr. JOYCE. I would say, three things to sort of document the fact that it has gotten worse. The first is to just reinforce the last point that you made—which is that the issue now is one of both timing and amount—it used to be that agencies were pretty sure how much money they were going to end up with. They just were not exactly sure when they were going to get it. So they could limp along under a continuing resolution, but they knew what the full-year appropriation looked like.

Now, especially with sequestration, they do not know what the full-year appropriation looks like, and I would think that trickles down to State and local governments and contractors as well.

The second is that it used to be that some appropriation bills became law prior to the beginning of the fiscal year, and others might be bundled up in a continuing resolution. Recently we have a situation where no appropriation bills become law before the beginning of the fiscal year, and, therefore, it is the entire appropriations process that is late.

And the third is that we tend to be operating under CRs for a longer period of time, that is, further into the fiscal year. I had lots of people in agencies tell me that they have sort of adjusted to CRs as long as they did not last past the beginning of the calendar year. But once it started getting into February or March, it started to create much bigger problems. And now we have a lot more CRs that go into February, March, or April.

Chairman CARPER. OK. Mr. Soloway.

Mr. SOLOWAY. Mr. Chairman, if I could just add to that—and I agree with both comments—I think there is another piece to this puzzle which is more than just the question of timing or amount of money. And I think it has to do with the times we are in. Unlike 15, 20, 25 years ago, technology is moving at what they call "clock speed" now. Needs are changing dramatically very quickly, but we do not have a system that can respond very quickly to those changing needs. In fact, we have a system that tends to get bottlenecked and not move forward. We have a confluence of a whole bunch of pressures from the demography of the Federal workforce, mission requirements of Federal agencies, all of these things coming together at a time when the system supporting it seems to not be—well, I will not say "seems"—in fact, is not moving efficiently forward. So that you have a bunch of factors coming together.

I think from a private sector perspective, there are two things that when I think about this or we talk about it, it should not surprise anybody—I know it does not surprise you or the other Members of the Committee—there is a lack of confidence, whether it is on the Federal workforce part or on the part of industry relative to the Government. It is analogous to the economy, writ large. People ask, "Why is it a jobless recovery?" or "why has the jobless rate not come down faster?" And the answer, the economists say, is because industry is not yet confident that this is a recovery that is going to hold.

Well, play that back down at the Government level. We are doing it to ourselves in the sense of not being able to provide any level of certainty or predictability to drive confidence, whether it is of the workforce or of the outside players who support the Government.

The final thing I will say is we recognize in our industry and I think everybody recognizes that the debate that is taking place is a fairly seminal one. There are some very fundamental differences of opinion in Congress and the Administration over how and where the money ought to be spent. And I think as outsiders we sit back and say, "We understand that, but at some point you have to make a decision." And it is that lack of decision, that inability to come to that closure, that is causing everybody to step back and say this is a broken system.

Chairman CARPER. OK. A couple more and we are done.

I am going to come back to you, if I could, Mr. Soloway, and this deals really with the impact on contractors. In your testimony, you highlight the effects that this crisis budgeting has on the economy at large. You, in fact, touched on this again. For my entire career, I think I have been focused like a laser on how do we create a nurturing environment for job creation and job preservation. As a recovering Governor, I care a whole lot about job creation and job preservation. I think the best thing you can do for anybody is to make sure they have a job.

Guys and gals like me, Governors, Mayor, Presidents, Senators, we do not create jobs. What we do is help create a nurturing environment for jobs: a well-equipped workforce, the kind of broad infrastructure that we need, access to capital, common sense regulations, reasonable tax levels—all those things that are part of that nurturing environment.

A few would argue that the Federal Government plays an integral role in our national economy in decisions that we make or do not make and are felt far outside of Washington.

I would just like to hear a little bit about what your member companies are telling you regarding holding back on hiring or investment because of the budget uncertainty, and specifically the role that these continuing resolutions and potential fiscal cliffs and shutdowns play in their decisionmaking, if you would just a little bit.

Mr. SOLOWAY. Sure, and I think there is some of that in my written testimony. There has been a palpable effect on hiring. There have been both layoffs, some of them very public in the larger public companies, many of them not public as there are smaller companies involved, and tens of thousands of positions cut over the last couple of years.

I have talked to 15 or 20 of our companies just in the week or so since we got the call about this hearing to find out what they were doing, and I think I may have mentioned in the written statement that small businesses are telling us they have 6, 8, or 10 positions that they are simply not filling. These are positions that would be considered "overhead," and that are not revenue generating. They consider them critical to being able to build their infrastructure, to build the company and so forth, but they are simply not able to justify the investment. They are not confident enough in what is going on that they can cover those costs. So it is a combination of jobs being lost and hiring not taking place.

And then the third piece, it is always a challenge—I think Senator Begich mentioned this when he was here. It is always a challenge in the services industry, which is what we represent, to keep a bench of people who are not revenue generating. There is only a certain amount of time that you can keep somebody on board who is not actually generating revenue. What our companies are telling us is that period of time, which has always been limited, is more limited than ever, because the pressures to drive costs down to the bone, some of which are perfectly appropriate, they are competitive, others of which might be unhealthy, are affecting their ability to keep people on board. And as we have these long procurement lead times—we had one case I mentioned, the U.S. Agency for International Development (USAID), notified some contractors just a few months ago that bids that they submitted in June 2010 would not be decided on until at least June 2013. That is 3 years from the time they submitted the bid. They are supposed to have key personnel by name and resume, not just by capability. They are supposed to be able to turn on a dime as soon as the award is made and say, "I am ready to go to work." It becomes an impossibility because you cannot hold onto those people. They go to other positions. You need to redeploy them.

So there is a whole range of employment impacts that are driven by these delays that are negatively impacting the space.

Chairman CARPER. Good. Thank you for that.

A question for Mr. Pattison, and then I have one for the whole panel, and I think we are just about done. Again, as a recovering Governor, I know there is little wiggle room when it comes to putting together and implementing a State budget. States cannot engage, for the most part, in deficit spending, although some figure out how to do it. It is a zero sum game.

With that in mind, what are you hearing from States regarding specific programs that are at greatest risk of their missions being compromised under budget uncertainty? And how are the States addressing those risks? You spoke to this already to some extent, but just come back to it, if you would.

Mr. PATTISON. Well, there are quite a few examples, although one thing I want to preface this with is one thing that we are finding is that it is kind of how the shell game is working. And what I mean by that is some of those things that could involve the worst harm, they are able to move monies and try to prevent that. But what you are not seeing necessarily is maybe the State park has closed hours or money that goes to libraries, to the localities, that is not going there because they are moving money to cover, say, the Ryan White Program funds that the Federal Government uncertainty is causing problems with, or the Individuals with Disabilities Education Act (IDEA) or whatever the case may be.

What the uncertainty is really causing is the disruption and the problems, especially since they do feel the obligation in certain programs that really affect individuals, as the ones I have mentioned, like the Ryan White Program. And so they feel that they would have to funnel those funds to those things. But, again, you are short-changing something. And those other things are really what is the painful result of uncertainty. And, of course, I mentioned K–12 and some of the other things.

Chairman CARPER. Yes, you did. I keep talking about core values. You have core values, too, but you do not get to talk about it as much as I do. But I know you have core values, and for me they are just sort of like a compass. If I get off course, they help me get back on course. But I am sure that your core values do the same thing for you. But one of them is: If it is not perfect, make it better. Everything I do I know I can do better. I think that is true for all of us. It is true for all Federal, State, and local programs as well. Everything we do we can do better.

No one is going to argue that this lurching from one crisis to the next is anything close to perfect. We know it is not. But I imagine that there are some agencies, some employees, and some companies that are finding ways to make it better even in the midst of this difficult environment.

Some of you discussed it, at least in your written testimony, but I would like to hear more, if I could, from each of you about some of the best practices and strategies you have seen to mitigate the effects of budget uncertainty. If some of you have some ideas on that—I know you do—if you could just maybe cite an example or two of some of the best practices and strategies that you have seen to mitigate these uncertainties, please. Anybody. Mr. Soloway.

Mr. SOLOWAY. Sure. I will go back to what I said earlier, and it is in my written testimony, because I think it is one thing that is simple in concept but needs some real leadership, direction, and guidance, and that is collaboration. Any program the Government executes has numerous stakeholders involved in the execution of that program. What we need to be doing is building bridges of collaboration to enable these folks to work together to identify what I referred to earlier as "sustainable savings and performance improvements."

Too often what happens is that salami slice cuts to the budget come down and they are directed cuts, so we try to do the same amount with less money; but we do not change requirements, and do not really look at the efficacy of the program as a whole, how it is structured. So I think if we proactively had agencies, contractors, universities, and whoever else is involved in the given operation, working much more closely together and collaboratively than they are encouraged to do by and large today, you could drive some real sustainable savings and help mitigate some of the effects on the near term. This would require agencies to really be proactively and be pushed and encouraged to communicate and collaborate with other stakeholders and for them to be supported and praised for it as opposed to occasionally being criticized for appearing to be too cozy or what have you.

It sounds simplistic. It may sound a little Pollyanna. It happens to be a basic tenet and a core value of some of the most successful businesses, particularly in the professional services world. They see the degree to which you collaborate with your customer as a mark of success and excellence. It is not a mark of misbehavior.

Chairman CARPER. Good. Thank you. Ms. Kelley.

Ms. KELLEY. One of the things that NTEU is doing every day and has since this latest crisis came at Federal employees has been one of your C's, Chairman Carper, which is communicate.

One of the things that I have found is that agencies have not done a good job of communicating with employees as to what is going on, what is happening, what the risks are, or what the real risks are versus the rumors. The rumor mill runs wild everywhere in any organization. And NTEU has worked very hard to provide information to employees as best that we could and to make sure that we put some of the rumors to rest, because the rumors were only increasing the anxiety that employees were feeling.

So that communication is important, even with this uncertainty, as we try to figure out what the appropriations and the budgets will be, which will take compromise and will take a balanced approach, of course, which NTEU supports. But the communication, like I said, has really just been terrible coming from the Government, from the agencies to the employees, and has left them really out there making uncertainty a lot more frightening than it has to be.

And so we have worked hard and I think have set up a pretty good best practice of that communication, but I would urge agencies from the top all the way down through all the departments to do a better job of that and to be allowed to do a better job of that, because in many cases I think their hands were tied.

Chairman CARPER. Thank you. Well said. Mr. Pattison.

Mr. PATTISON. One thing that would really make a positive difference toward dealing with certainty and allow State officials and State finance officials to create more certainty would actually be to the extent we can get Federal agencies and departments to get away from checklists of requirements and really allow more flexibility for the implementation of programs that focuses on results, whether it is decreasing infant mortality or whatever it might be, that would really make a big difference. If we are going to continue to have uncertainty, it would help us deal with it very well.

Chairman CARPER. That reminds me of something I heard. It was another one of those conversations I will always remember. It was, I do not know, 7, 8, 9 years ago. We had a bunch of utility CEOs in to meet with me to talk about clean air policy, and one of the utility CEOs from a Southern utility was kind of a curmudgeonly old guy. He said to me, "Senator, here is what you need to do"—this is us, the Senate, with respect to clean air. "Tell us what the rules are going to be. Give us some flexibility, a reasonable amount of time, and get out of the way." I will always remember that. I thought it was pretty good advice. Dr. Joyce.

Mr. JOYCE. The only thing I would add—and in this longer report I did for IBM, there is more detail on this. But in every agency where I talked to employees that were involved in sort of managing the budget—and this is going to sound like it is a negative, but it is sort of a positive in the way they responded to the uncertainty—is that they pretty much just assumed that they were not going to get an appropriation until after the beginning of the calendar year, and they adjusted their budget execution process accordingly.

So, for example, they did not plan to send people to training in the first quarter of the year because they were afraid they would have to schedule it and then cancel it. They moved the renewal date for contracts when they could so that they did not renew during the first quarter of the year so they did not run into this situation where they were trying to renew a contract but they did not have the funding in order to do it.

Now, that is something they have done to respond positively to a negative. But I do think it represents, a perfectly rational response and probably a good stewardship of resources on their part of their dealing with that uncertainty. And as I suggested earlier, the problem really comes because even having adjusted to that uncertainty, the appropriations are being received later and later, and there is a certain point at which you just cannot solve that problem by delaying anymore, because it is too late into the fiscal year.

Chairman CARPER. OK. Good.

I have one last question. I am going to tell you what it is and let you think about it for a minute. And while you are thinking, I will make just a short closing statement.

But I am going to ask you just to take a minute to think about that you are not sitting in front of that table there, but you are up here, and sitting in front of you were 100 Senators, and, if this room were big enough, maybe 435 Representatives. And given this upheaval and this turmoil, this churn that we have been living through mostly for the last couple years—even before that, but it just continues to worsen. But if you had opportunities to say to all of my colleagues in the House and the Senate maybe one or two things that we ought to do, what would be your advice your individual or collective advice? Think about that, if you would.

And while you are thinking about that, I want to say this: One of the things that annoys me in my job—and it used to annoy me when I was in State government to some extent, but not as much—in fact, I will go even further back. I spent some time as a naval flight officer in the Vietnam War, and one of the things that annoyed me then, too, was every now and then I would hear somebody do a job, not do it very well, and say, “That is good enough for Government work.” I do not know if you have ever heard that before. Few things make me less happy than to hear that I think that the work that we do is not sacred work, but it is the people’s work. And we are at the service of the taxpayers, and we need to do our best. That is one of the things that I find that annoys me and always has. I never countenanced that kind of stuff.

The other thing that annoys me very much is when I hear my colleagues in hearings or in speeches or in press interviews talk about nameless, faceless bureaucrats making decisions because we are not making them. And there are some times they say, well, why should we let a nameless, faceless bureaucrat make this particular decision, how dare them? And I think that demeans the work and the stature of the people who serve us in all kinds of ways—defense of our country, defense of our homeland, trying to make sure that our economy works, our transportation systems work, our food systems work. That just demeans the work that they do.

So I would just say here today to those nameless, faceless bureaucrats across the country that are struggling and trying to deal with this turmoil that we have visited on them, particularly for the people that are rolling with the punches, still getting up every morning, going to work, doing the best work that they can do, try not to let it get you down. I just want to say thank you.

And with that, having said that and gotten that off my chest, let me just come to each of you for the advice. Again, you are sitting up here. The Senate and House are arrayed before you. One or two takeaways that you would have for all of us, please. We will start with Mr. Soloway.

Mr. SOLOWAY. I was actually hoping you would start at the other end of the table.

Chairman CARPER. I could do that. [Laughter.]

Mr. SOLOWAY. I do not know that I could come up with any cogent, great advice. I think there is one message that I would take away from this, that everybody at this table representing different communities shares the passion you have for good management and good stewardship of the public dollar, high-quality service across the board. And what you heard today was essentially unanimity in perspective on what is happening to our ability to achieve those goals, and that should really matter to the people charged with legislating, overseeing, authorizing the work, and appropriating the work of Government.

I do not mean this in a flippant way, but Colleen Kelley and I have known each other for well over a decade. We have testified together before, but rarely have we testified in an environment where we are sitting here joined at the hip. Often we are at odds over certain issues. But I think that it means something when we have the private sector, we have the public sector, we have the States, we have academia all coming together and saying this is a serious problem, and if you care about the management of Government, the stewardship of the public dollar, it is time to fix it.

Chairman CARPER. Thank you. I thought you two were sitting kind of close together here. [Laughter.]

All right. Ms. Kelley, you can go next.

Ms. KELLEY. I would say that one of the responsibilities of your job is to pass appropriations bills so that the Government can function effectively. I would ask you to do that in a timely way, in a responsible way, so that the agencies and the dedicated Federal employees who are trying to provide these services to our country, that our country needs and wants, can do their jobs effectively. So I would ask you to do that, to do it the right way, to do it in a balanced way, and then to get out of the way so Federal employees can deliver the high quality of service that our country needs from them.

Chairman CARPER. Thank you.

Mr. PATTISON. I have more or less a corollary to that, and that is, figure out incentives that are strong enough, and obviously constitutional, that will cause the appropriations bills, the budget, and so forth to be passed on time and for the entire year process. Obviously, the sequester was not sufficient to create that incentive, but I think incentives can be developed.

It certainly occurs at the State level. States almost never pass a budget late, and they pass 1- or 2-year budgets at a time. And if they can do it—and, of course, many local governments do too. I really believe the right incentives can be put in place for the Feds to do it also.

Chairman CARPER. OK. Thank you. Dr. Joyce.

Mr. JOYCE. I would say that there is no question that there is a big fiscal problem facing the country, and that solving that problem is going to invariably involve inflicting pain on a whole bunch of people.

What matters is not just the decisions you make about who is going to contribute in what way, but the certainty that any organization responding to that has after the fact. And so I think the most important thing to do is to make a decision, make it as quickly as possible, set out a path for multiple years so that people can plan for what is coming, and then allow them to implement those changes and not limp along from one crisis to another.

Chairman CARPER. All right. Well, I again want to finish up where we started off, by thanking you for joining us today with your diverse, valuable perspectives. And one of the things I look for in a hearing like this is for actually repetition. I look not for different game plans or road maps, but I try to look for people coming together, and I look for consensus. And I think we heard a fair amount of that here today.

The information that you have given me is good. In a day and age when we are thinking a lot about gun control, this is good ammo. And we are thinking a lot about the number of rounds in a magazine, but I do not know if you gave me 30 rounds or 20, but you have given us quite a few.

A lot of the folks that serve on this Committee appropriately also serve on the Budget Committee, and the Budget Committee is in high gear today, and probably tomorrow as well, in order to get us ready for the budget resolution. So a lot of those folks who otherwise would be here are otherwise occupied in the Budget Committee. But on behalf of all of them and all of us, Dr. Coburn and myself and Senator Begich, thanks so much for joining us today.

I told you that I was going to ask you for the record to give me one, two, or three just really strong, dramatic, undeniable examples of why this churning, stop-and-go, CR, debt ceiling, sequestration—why this is just senseless and we have to get away from it so that when we are in darkest hour in the next couple of days or weeks or months trying to get to a point where we are actually going to not just communicate but compromise and get to where we need to be, I will be able to pull out one of those clips and use it.

The hearing record will remain open for 15 days for the submission of additional statements and questions for the record. And with that, again our thanks, and this hearing is adjourned.

[Whereupon, at 4:27 p.m., the Committee was adjourned.]

APPENDIX

UNITES STATES SENATE COMMITTEE ON
HOMELAND SECURITY
& GOVERNMENTAL AFFAIRS

Senator Tom Carper, *Chairman*

FOR RELEASE: March 13, 2013
CONTACT:
Emily Spain (202) 224-2441 or emily_spain@carper.senate.gov
Jennie Westbrook (202) 224-2627 or jennie_westbrook@carper.senate.gov

HEARING: The Costs and Impacts of Crisis Budgeting

WASHINGTON – *Today, Homeland Security and Governmental Affairs Committee Chairman Tom Carper (D-Del.) convened the hearing, "The Costs and Impacts of Crisis Budgeting." Chairman Carper's opening statement, as prepared for delivery, follows:*

"I'd like to welcome our witnesses and guests to what I believe is a very timely hearing about some of the unintended but real consequences of the kind of budget debate we've been having here in Washington recently.

"Over the past few years, the federal government has had to operate through several debt ceiling crises, numerous and sometimes lengthy continuing resolutions, the threat of government shutdowns, the prospect of going over the fiscal cliff, and now, across-the-board budget cuts to most federal programs through sequestration. President Obama addressed this flawed approach to governing in a prominent passage in his most recent State of the Union address when he said 'the greatest nation on Earth cannot keep conducting its business by drifting from one manufactured crisis to the next.' The American people know this. It's not the way that they run their family budgets, or their businesses. This kind of crisis budgeting, as we all know, represents a bicameral and bipartisan failure of leadership.

"As we'll hear from our witnesses today, our failure in this area has likely made our government less effective and more costly for taxpayers. It has also degraded federal employee morale, created harmful ripple effects for state and local governments, and hindered efforts to help our nation's economy as it recovers from one of the worst economic recessions in our history. Some of our budget battles stem from fundamental disagreements over the role of government and how much money we should spend on it. However, today's hearing is not about how much we spend, but how we spend it. It's about the pricetag attached to our inability to come to timely agreements on spending, no matter what the eventual amounts are – an 'uncertainty tax,' if you will.

"I've stated repeatedly at hearings and elsewhere in recent months that, given the serious deficit and debt problems our country faces, we need to shine a light into every nook and cranny of the federal government and ask ourselves one question: How can we achieve better results for less money? Dr. Coburn and I and our colleagues tried to do that at the Financial Management Subcommittee and I've made it one of my top goals as chairman of this committee.

"Today's hearing takes things a step farther, focusing not just on a particular program and its inefficiencies, but rather on a way of doing business in Washington that makes it impossible for the federal government as a whole to give taxpayers the results they demand in an effective and affordable manner. By failing to provide timely, predictable budgets we are generating waste throughout our government and exporting some of that waste to our state and local partners and everyone who relies on us.

"Dr. Phil Joyce from the University of Maryland, who is with us today, has written a report detailing the costs of this budget uncertainty. Based on his past research of government practices, as well as extensive interviews with current and former government officials, Dr. Joyce found that – in fact – this uncertainty doesn't just deny us opportunities to get better results and save money, but actually gives those we serve and partner with worse results for more money. The findings are disturbing:

"For example, the Government Accountability Office found that because of a series of funding delays, the Bureau of Prisons was unable to lock in contracting prices for a new facility in West Virginia. This resulted in about $5.4 million dollars in additional costs. In another instance, because of a 2011 funding delay, the Navy cancelled seven ship-repair contracts. Deferring this maintenance is expected to increase costs and decrease operational effectiveness down the road. And in 2006, the Veterans Health Administration awarded 60 percent of its maintenance budget in the last month of the fiscal year. Compressing that much spending in that small amount of time creates an environment in which error, fraud, and just plain bad spending decisions are inevitable.

"And those examples do not include the countless hours of time wasted as managers and employees attempt to prepare for multiple possible outcomes, perhaps several times within a single fiscal year depending on what Congress might have in mind. Colleen Kelley, President of the National Treasury Employees Union, will discuss today some of these kinds of unseen costs.

"Our other witnesses, Scott Pattison of the National Association of State Budget Officers and Stan Soloway of the Professional Services Council, will detail some of the ripple effects that states and private businesses face as a result of the budget uncertainty we create. As a recovering Governor, I know that state budgeting is a zero sum game. It's incredibly difficult to plan and budget effectively if you don't know what is, or is not, coming your way from Washington. And as someone who's focused recently, as most of my colleagues have, on how we can get our economy moving at a faster clip it's clear from this work that the uncertainty our federal budget situation is creating is not helping businesses create jobs. In fact, it may be hurting them.

"As I've said before and I suspect you will hear me say again – I believe the best route we can take is to pass a comprehensive, bipartisan budget plan that gives government and business certainty and shows the American people that we can lead. Then we need to translate those plans into timely appropriations bills that will let agencies and their partners spend their time trying to get better results for the taxpayer dollar, not hastily putting together contingency plans. I hope today's hearing strongly reinforces the President's statement, puts a couple of exclamation marks after it and – just maybe – helps bring this irresponsible behavior to an end."

###

Opening Statement of Senator Tom A. Coburn, M.D.

Hearing on
"The Costs and Impacts of Crisis Budgeting"

Wednesday, March 13, 2013

Over the last four years, the nation has watched our government fumble its way from budget crisis to budget crisis. In the last six months alone, we've faced down the Fiscal Cliff and Sequestration. In two weeks, if we fail to pass a new budget we face a government shutdown. Americans no doubt look at the government and wonder what is going on.

Will Rogers, a great Oklahoman once said, "I don't make jokes. I just watch the government and report the facts." Only, government dysfunction is no laughing matter.

In recent decades, Congress and the Administration have failed spectacularly to hit expected budgeting deadlines with any kind of regularity. Most deadlines are in law and designed to ensure sound and predictable handling of taxpayers' money. Yet, Washington politicians have routinely ignored them.

If anybody wonders how our national debt has come to top $16.8 trillion, consider the following. Despite the nation's budgetary problems, the president's budget submission is 37 days late today. The president is not expected to formally issue his budget until April 8th – more than two months after the legal deadline.

Congress is not faring any better than the White House. While the Budget Act specifies that the Senate Budget Committee is to report a budget resolution by April 1st, the Senate has not passed the budget resolution on time in 16 of the last 20 years.

What's more, in 18 of the last 20 years, Congress has failed to pass and send to the president *all* of its appropriations bills on time.

In the absence of timely and long-term budgets and appropriations, Congress has become reliant on Continuing Resolutions, such as the one on the Senate floor this week. Continuing Resolutions simply keep the government running, and have been used in some form in all but four years out of a 61-year period from fiscal years1952 to 2012.

Conventional wisdom says results like these must mean the system is broken. I think we need to challenge conventional wisdom by instead looking to our Constitution.

In the Constitution, we find a process designed to make it hard for the government to pass anything into law. This includes our annual budgets. But, just because something is hard does not make it impossible – nor does it mean the results should be so poor.

I would instead suggest that our problems with budget uncertainty stem from other places.

First, the government is too big, and spends too much money. Partisans may dismiss this as an ideological point, but it is not. Our government will soon spend $4 trillion a year just to keep the doors open – this is simply too much for Congress to understand. As a result, we are now locked in a battle over taxing and spending that has so many moving parts the ability to find agreement is proving difficult.

Second, Congress doesn't do oversight – or at least not much. Career politicians interested only in re-election overlook all of the areas in which the government wastes our money. Calls for reform, even when they come from independent and non-partisan sources like the GAO or inspectors general, are met with cries that "the sky is falling."

In general, Congress has the least amount of trouble agreeing to spend more taxpayer money. We see this every year when each budget is larger than the last – even under sequestration.

Congress must begin to immediately change its culture. It must begin putting the greater good over the parochial and political. Congress and the White House must quit delaying enactment of the hard and specific budgetary and appropriation decisions that will put the country on the path to long-term fiscal health. Crisis budgeting will never provide the predictability necessary for a thriving economic environment.

We can and should do better.

Testimony of Philip G. Joyce

Professor of Management, Finance and Leadership

University of Maryland, School of Public Policy

Before the Committee on Homeland Security and Governmental Affairs

United States Senate

On

"The Costs and Impacts of Crisis Budgeting"

March 13, 2013

Chairman Carper, Senator Coburn and Members of the Committee:

Thank you for asking me to testify today on this important topic. I congratulate this committee for deciding to highlight the subject of the apparently invisible, yet insidious, effects that budget uncertainty creates for both federal agencies and the recipients of government funds. My comments today are informed by my own 25 years of observing the federal budget process, and some recent research that I have done culminating in a report written for the IBM Center on the Business of Government.[1]

No one paying even casual attention to the twin "fiscal cliff" and "sequestration" debacles could avoid coming away with the impression that the federal budget process is not working well. It would be somewhat reassuring to think that this recent experience was exceptional, and that we could now return to normal. Unfortunately, however, it is just the latest example of a system where "normal" means limping along from one crisis and missed deadline to another.

While there are positive signs that the next crisis—the threat of a government shutdown—may be averted before the last minute, the fact that "government by continuing resolution" is now the normal way of doing business creates its own costs and problems. The insidious effects of the chronic uncertainty that routine CRs create for federal agencies and recipients of government funds are at least as worthy of attention, and may indeed be more damaging, than sequestration or brief government shutdowns. Some of these costs are financial, and some represent inefficiencies and compromised effectiveness for federal programs. All of these negative impacts are self-inflicted, however, and are entirely preventable.

In my testimony today, I will do four things:

- Review the practice of late appropriations and other actions that create uncertainty in the federal budget process;
- Discuss the specific costs and effects of this dysfunction on federal agencies;
- Describe some of the effects of uncertainty that trickle down to recipients of government funds; and
- Offer suggestions as to how these costs and effects might be reduced in order to promote more efficiency and effectiveness in government programs and agencies.

---

[1] Philip Joyce, *The Costs of Budget Uncertainty: Analyzing the Impact of Late Appropriations* (Washington: IBM Center for the Business of Government, 2012).

Shutdowns and Continuing Resolutions—Past Experience

The 1974 Congressional Budget and Impoundment Control Act, which created the modern congressional budget process, moved the start of the federal fiscal year from July 1 to October 1. This occurred in part to accommodate the additional steps created by the 1974 Budget Act, and in part because the Congress had a difficult time enacting appropriations prior to the start of the fiscal year. Ironically, however, the appropriations process has not gotten more timely since the 1974 Act. In fact, in only 4 of the 37 fiscal years since 1977 (the first year under the new process) have all appropriations bills been passed and signed into law prior to the start of the fiscal year.

In the first years following the advent of the new process, there were limited consequences of late appropriations, because agencies continued to operate normally even in their absence. Agencies assumed that the Congress intended for them to continue operating, and that the required funding would be forthcoming. This changed in 1980 when Attorney General Benjamin Civiletti issued an opinion that agencies did not have legal authority to spend money in absence of appropriations. After the Civiletti opinion, continuing resolutions became the norm, since they were necessary (in the absence of appropriations) in order for agencies to continue to operate. Short government shutdowns were relatively routine, but many of these occurred over holiday weekends and the impacts were not widely felt. Between fiscal year 1982 and fiscal year 1988, there were nine government shutdowns (sometimes two in a single year) but their average duration was two days.

The fiscal year 1996 budget process, however, yielded the longest government shutdowns in history, totaling 26 days. The first lasted from November 14th to November 19th, 1995, and resulted in the furlough of 800,000 federal employees in agencies covered by appropriation bills that had not been enacted. A second, much longer, shutdown commenced on December 16th, 1995, and lasted for three weeks—until January 6, 1996. This second shutdown only furloughed 284,000 federal employees; the number was reduced mainly because several more appropriation bills had been enacted in the interim.

While a thorough discussion of this shutdown is beyond the scope of this hearing, later studies estimated a financial cost of $1.4 billion (mostly resulting from paying employees retroactively for work that was not done), in addition to substantial effects on service delivery. For example, almost 400 National Park Service facilities were closed, affecting 7 million visitors. Further, the Social Security Administration did not process about 200,000 applications for benefits, and 800,000 toll-free calls went unanswered.

This 1995/1996 shutdown was the last one experienced by the federal government. This does not mean, however, that the appropriations process has operated smoothly since then. In fact, we have experienced government by continuing resolution every year since 1997; increasingly there have been more of these per year, and they have extended further in to the fiscal year. For the 15 fiscal years between 1998 and 2012, there were an average of six CRs per year (the high point was fiscal year 2001, when there were 21) and CRs, on average, covered an average of 3 months (excluding the two years—2007 and 2011--in which there were full-year CRs). For fiscal year 2013, of course, the government is operating under a six month CR that expires on March 27th.

Effects of Budget Uncertainty and Crisis Budgeting on Federal Agencies

The failure to enact timely appropriations creates an environment of substantial uncertainty for federal agencies, and for recipients of federal funds. The focus—by the public and the news media—tends not to be on this routine dysfunction and the problems that it creates, but on the immediate crisis—how do we avoid going over the fiscal "cliff", or how do we avoid a government shutdown, or how do we prevent a debt default? The effects of funding delays caused by routine CRs, however, are significant.

Budgeting is about planning for the future. Any organization—whether it is the federal government, a state or local government, or a business—needs to have some notion of the funds that it will have available in order to effectively budget, and manage. The more certainty that exists, the better informed the decisions are, and the more effective the result. For the federal government, late appropriations and "government by CR" have created a number of specific problems:

- CRs have various effects on government personnel, including hiring freezes that create skill gaps in crucial areas, and morale and turnover problems, often as a direct result of employees feeling as if they are pawns in a larger political game over which they have no control.
- Because CRs require the continuation of current activities, agencies have trouble responding to many new problems and are required to keep funding outdated or ineffective programs.
- CRs may require governments to engage in short-term contracting, which significantly increases contracting workload and overhead costs. In addition, delays in contracting can lead to higher costs for individual contracts and also higher costs resulting from less competition.
- Investments that are not made—in people (as training is cancelled or deferred) or infrastructure (in the form of deferred maintenance) lead to higher future costs.
- Agencies waste a great deal of time preparing for potential government shutdowns and CRs, and then complying with them after the fact.

Delayed Hiring and Personnel Actions, and Morale Issues. Because personnel costs are such a substantial portion of many agency budgets, managing delays in funding necessitates reducing personnel spending. This often leads to hiring freezes or across-the-board cuts. Hiring freezes can create skill gaps in parts of the agency where turnover is greatest. This means that a hiring freeze can end up robbing the agency of personnel working in higher priority programs, or can have an unintentional differential effect if vacancies are concentrated in particular programs, projects, or activities.

In cases where funding delays lead to concerns that a shutdown or sudden budget reduction may follow (as occurred in 2011, and is happening now) agencies may be required to prepare furlough plans and to send out furlough notices to employees. This can have unintended consequences, even in cases where the furloughs are unlikely to actually take effect. Some employees may respond to furlough notices by spending otherwise productive time seeking other employment. Those who end up leaving (because of fear of furlough, or because they are just fed up) are likely to be those who were just hired or who have other options. In either case, they are not necessarily the ones that an agency would choose to terminate if the agency was focused on performance considerations.

Freezing Priorities in Place. Continuing resolutions also create problems in cases where agencies are attempting to shift priorities to respond to some immediate challenge facing them. If an agency has identified a need to shift personnel from one area to another, to address some area of immediate concern, this can delay its ability to respond. This is complicated further by the sheer amount of time that it can take to fill a position. A position that is approved in February or March might not be filled until August or September.

A 2009 GAO report on the effect of CRs cited numerous examples of this behavior.[2] For example, the Federal Bureau of Investigation (FBI) delayed filling existing positions in order to fund annual pay raises, annualize pay for previous year's hiring, or to cover increased costs of retirement, health insurance, or other employee benefits. GAO found other examples where hiring delays affected the number of FDA food inspections, the ability to maintain or improve the ratio of corrections officers to inmates, and the ability to process claims for veterans' benefits.

[2]Government Accountability Office (2009). *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, September.

The fiscal year 2011 budget delays, leading up to a final agreement that was not reached until April 2011, is illustrative of the compromised government effectiveness that can occur. Media reports indicated that DOD needed to raid procurement budgets in the first half of the year in order to fund pay and benefits, resulting in deployed troops not getting needed equipment, the cancellation of 20 ship overhauls by the Navy, and deferred aircraft maintenance. There were nondefense effects as well. In State College, Pennsylvania, a newly built $7.5 million air traffic control tower, sat empty in the spring of 2011 because the Federal Aviation Administration lacked the funding to hire the air traffic controllers to staff it.

In addition to preventing new starts, CRs typically require activities that are ongoing to be continued. In other words, in addition to prohibiting agencies from doing NEW things, CRs also prohibit them from ceasing funding for OLD things. Recently, the Department of Justice, for example, had decided to stop funding the National Drug Intelligence Center in Johnstown, Pennsylvania. Since they could not plan for a specific date to cease operations, the passage of a CR required them to continue operating until the regular appropriation became law.

Changes in Contracting Practices. Because late appropriations have become the "new normal" for agencies, they have adjusted their spending patterns to accommodate. The agencies interviewed by GAO in 2009 each reported that they delayed contracts. The Veterans Health Administration (VHA) said that they did not start nonrecurring maintenance projects, but instead waited until the regular appropriation was received. Delays can also lead to a rush to obligate at the end of the year. VHA reported to GAO, for example, that in 2006 they obligated 60 percent (about $248 million) of a $424 million nonrecurring maintenance budget in September, the last month of the fiscal year. This rush creates a greater potential to make mistakes, which may lead to wasted funds and adverse audit findings.

In addition to delaying contracts, many agencies also are forced to enter into multiple contracts for a much shorter time period (instead of one yearly contract), so that the duration of the contract can more-or-less match the duration of the CR. For example, BOP awarded a contract in 1997 to an optometrist to provide care for a prison. Under a regular appropriation, this would have been a one-year contract. Instead, there were three contracts covering only the first quarter of the year: 1) October 1 to November 16; 2) November 19 to December 14; and 3) December 17 to December 21. This kind of short-term contracting creates substantial additional workload—more contracts means more work, higher administrative costs, and greater opportunity for errors and waste.

These changes in contracting practices often lead to increases in costs. The Bureau of Prisons (BOP) reported to GAO that a CR lasting longer than 3 to 4 months typically negatively affects the quality of competition. In addition, delayed contracts may have higher prices. BOP said that awarding contracts later prevented the agency from locking in prices and therefore increased costs. In one case (the McDowell Prison facility in West Virginia), this resulted in about $5.4 million in additional costs. The precision of this estimate is exceptional; most agencies know that costs are higher, but are unable to confirm specific dollar amounts of increased costs.

Along these same lines, it seems quite likely that many contractors dealing with the federal government include a "risk premium" in the rate that they charge for contractual services, because they cannot negotiate reliable multi-year commitments without fear of funding interruption. Federal agencies pay more for services than an equivalent private firm would pay for the same service. While the existence of such a premium is widely assumed, it is difficult, if not impossible, to estimate it with any precision.

Failing to Invest in Training, Travel and Maintenance. In addition to controlling personnel costs, agencies operating under conditions of funding uncertainty turn to other alternatives for saving funds. These options would share one characteristic in common—they would represent areas in which the agency has discretion to delay or forego funding.

Travel and training are frequent candidates for cutbacks or delays. One agency representative reported that the agency simply avoided sending staff to training in the first quarter of the calendar year. The later that the final appropriation is received, the more that training budgets (and therefore training) is likely to be reduced. In DOD, for example, training and the agency's key challenge of maintaining force readiness are inexorably related. The various forms of budget uncertainty (the threatened government shutdown, and the debt ceiling impasse) led, in some years, to measurable reductions in DOD training. The Air Force, for example, predicted that CRs and planning for a shutdown in 2011 reduced flying hours by ten percent, and other active duty personnel interviewed in 2011 reported that the near shutdown led to the cancellation of training exercises.

Foregone maintenance also increases costs. There is little question that failing to properly maintain any asset reduces its useful life. This can have two possible impacts. It could simply take the asset in question out of service, thus depriving citizens of the benefits that would otherwise be received. Perhaps more likely, it will lead to future costs as the asset wears out more quickly. A very clear example of this potential comes from the 2011 funding delay, when the Navy cancelled seven ship-repair contracts, at a savings of $62 million (McCabe, 2011). Even if these repairs occurred in a later fiscal year, their deferral could clearly have operational and cost implications.

Wasted Time and Effort, Leading to Reduced Effectiveness and Efficiency. Aside from increasing costs, continuing resolutions and funding delays invariably created additional work and cause agencies to take actions that compromise their efficiency and effectiveness.

A good place to start here is with the process of preparing for shutdowns, and for living with CRs. Staff in federal agencies, OMB, and the Congress spend a non-trivial amount of time preparing for things that usually do not happen (in the case of shutdowns) or which do happen, but which waste a lot of time in trying to lessen counterproductive or even illegal effects (in the case of a CR). In 2011 and in the current year, OMB asked agencies to prepare shutdown plans. When this happens, both the OMB and federal agencies spent a great deal of time developing these plans and reviewing them, which is a complete waste of time unless the shutdown actually takes effect.

Preparing for CRs can also frequently be time consuming. One of the most time-intensive processes involves dealing with anomalies, which are specific exceptions to the general limitation on funding in CRs. Since, by definition, these anomalies are exceptions to the general rules governing a CR, many agencies invariably think that their peculiar circumstances deserve exceptional treatment. It is often quite difficult, however, to get the Congress to go along with anomalies. This leads to lots of negotiations between OMB and agencies over which things can and cannot be appropriately be included as anomalies.

These inefficiencies do not stop the moment that the CR is enacted. Agency budget offices, and OMB, are involved in lots of conversations around budget execution once the CR is law. Many of these discussions are designed to determine what can and cannot be done, and when something is a continuation of a current activity and when it represents something new. Agency budget officials often have to spend inordinate time responding to inquiries about what is and is not permitted under a CR. The GAO case study agencies indicated that there were four types of administrative tasks most often affected by CRs:

- Issuing guidance to programs and offices;
- Providing information to Congress and OMB;
- Creating, disseminating and revising spending plans; and
- Responding to questions and requests for additional funding above the amount allotted.

There are no precise estimates of the costs of these tasks. GAO reported that VHA estimated that a one-month CR results in over $1 million in lost productivity at VA medical facilities and over $140,000 in additional costs for the VA contracting office.

Effects of CRs on State and Local Governments and the Private Sector.

The federal government provides substantial funds to state and local governments, in the form of grants, and to the private sector, in the form of contracts. The increased uncertainty, and the increasing length of time covered, by CRs has created increased costs and uncertainty for these sectors as well.

Federal grantmaking agencies reported to GAO, for example, that CRs that extended beyond about mid-February tended to delay discretionary grant announcements, thus pushing back both application review and award. In some cases, grants were cancelled, even though the funds were eventually provided. A compressed application period can also decrease the quality of application and review, and discourage some potential recipients from applying for grants out of fear that they will have insufficient time to prepare grant applications, which can be complicated and time-consuming.

Agencies that award grants must decide, if operating on a long-term (more than three months but less than a full year) CR, whether to suspend grant application processes until an appropriation is received or to go ahead with them, pending a final appropriation. In the former case, there may not be enough time available for potential recipients to prepare applications and for agencies to process them in the second half of the year. Therefore, what appears to be a delay may result in a cancellation of the grant program, at least for the current year. In the latter case, there is a risk that, if the funds are not ultimately provided, the agency could have applications in hand but no funding for the program. This occurred in fiscal year 2011 with the Department of Education's Teaching American History program.

A similar story exists for contractors. When stories began to emerge in 2012 that speculated about the effects of sequestration, the first effects that were discussed were the impacts on federal contractors who had already started to react to the threat of across-the-board cuts. If contractors believe that an actual shutdown, or contract cancellation, is imminent, they face difficult questions concerning whether or not to continue work, and how long they can afford to keep employees on board. Whether late appropriations will ultimately lead to layoffs depends on the contractor, and particularly on the rate of turnover. There certainly are cases, especially for small contractors, where layoffs are necessary. In 2011, for example, Penn State University's Applied Research Laboratory, heavily funded by a contract with the Navy, reported having to lay off 13 engineers due to funding reductions from the Navy associated with federal budget delays.

It is likely that the effects of uncertainty are felt more acutely by firms with the following characteristics:

- small businesses that may have less of a cushion against the delay in funding for an apparently small contract. Smaller businesses are less likely to have the capacity to "ride out the uncertainty" associated with funding delays;
- firms that work only for the government;
- firms that are funded from agencies that have primarily one-year money;
- firms funded by agencies that are more likely to receive late appropriations (some appropriation bills are more chronically late than others);
- contractors that are (especially within DOD) in the delivery stage of a given project (as opposed to development) because delivery involves more manpower.

According to contractors who deal with both sectors, the biggest difference between commercial and federal work is that for commercial work the contractual firm can make long-term commitments, whereas with a federal agency the commitment is year to year. To the extent that there are capital costs, those capital costs can be captured with certainty over a three-to-five year period. A federal contract, conversely, may be a base contract with 10 one-year options.

In the end, it is true that, in general, government work tends to be more risky than commercial work. It is made even more risky in cases where there may be some interruption in funding as a result of a shutdown or default. A 2007 study, for example, of DOD contracting delays found that nine out of twelve companies included in the study experienced a decline in company stock values as a result of these delays. It is likely that there are a significant number of contractors who are unwilling to work with the government, thus reducing competition and increasing costs.

What to Do About the Problem of Late Appropriations

Ultimately, the greatest impediment to fixing the problem of late appropriations is that their negative consequences seem to be largely invisible. Many of the same people who decry waste in government, however, may themselves be contributing to that waste by failing to provide a predictable funding stream to federal agencies and recipients of federal funds. No state of local government would be able to get away with this. Chronic funding delays would result in lowered bond ratings, increased borrowing costs, and likely political fallout. These market signals do not seem to exist in the federal budget process.

Despite the apparent invisibility of these effects, however, it should be clear that routine timely appropriations would have many positive effects on budget formulation and execution, including the following.

1. If appropriations were timely, it would improve budget planning for future years. The clearest example of this has to do with the President's budget, where if the current year appropriations are not enacted by around mid-December, it makes it virtually impossible to have reliable information on which to base proposed funding for the budget year.
2. If decisions in budget execution did not have to be made in such compressed time frames, it would lead to better decisions since agencies would not be (at least to the same extent) rushing to make choices on contractors, grants, etc.
3. Agencies could begin to plan for hiring earlier in the year which (given how long it can take to fill a position) increases the chance that they will have a full complement available to deliver priority services.
4. Investments in employees and in physical assets would be able to be protected by permitting adequate funds to be provided for employee training and maintenance of this physical capital.
5. Both the cost of contractual services and their quality would be improved if appropriations were received in a timely manner. Predictability would enable agencies to negotiate contracts at a lower price and contractors would likely deliver higher-quality service.

How can we encourage these positive effects? It is hard to avoid starting with the obvious conclusion: **Given all of the negative consequences of late appropriations, the Congress should discharge its most basic responsibility and routinely enact appropriations before the beginning of the fiscal year.** It is hard to imagine that, if the Congress viewed it as a significant priority, the roughly eight months available between the delivery of the President's budget and the beginning of the fiscal year would not provide sufficient time to enact appropriations bills. Even though the federal government is a large, complicated enterprise, and the federal budget process is a complex process, this does not provide a sufficient excuse for this failure.

To begin and end with this conclusion seems particularly unhelpful. For this reason, it is useful to consider some recommendations that start from the assumption that the Congressional appropriations process will not suddenly operate on schedule. If we are stuck with late appropriations, what can be done to minimize their effects? The following recommendations seem appropriate.

1. The Congress should make more funding available on a multi-year or no-year basis. At present, many agency salary and expense budgets are provided using one-year money. If agencies had the flexibility to obligate funds over multiple fiscal years, many of the specific problems caused by late appropriations would be reduced. This is not to suggest that all appropriations should permit multi-year or no-year obligations, but it would be useful to specifically review current practice with an eye toward increasing the percentage where such multi-year obligations are necessary. This might assist, in particular, those agencies with lots of grant and contract funding.

2. Continuing resolutions should be prohibited. This may seem like an odd recommendation, as it increases the probability of a government shutdown. In fact, it flies in the face of a more common recommendation, which is that failure to enact appropriations should result in an automatic continuing resolution (ACR). The problem is that ACRs may just become the norm; that is, this might reduce the urgency of enacting appropriations even further. Given the problems created by CRs, this would not be a good outcome. Conversely, prohibiting CRs means that the options are either a full-year appropriation or a government shutdown. Perhaps if there were MORE urgency in enacting appropriations, it would increase the odds of them being enacted.

3. If CRs are to continue, it would be useful if, instead of CRs that freeze spending at the prior year level, the Congress should enact CRs that permit inflationary increases to the prior year level. For those members of Congress and Presidents who believe that spending should be frozen or reduced, this would provide an incentive to reach agreement on appropriations in a timely manner, since the default would be a higher level of spending. For federal agencies, however, this would reduce the necessity of counterproductive actions having to be taken in order to live within a CR that requires spending at the prior year level. This recommendation would also reduce, but not eliminate, the need for anomalies, which should be held to a minimum in the interest of lessening the substantial effort that goes into identifying and negotiating them.

4. The Congress should avoid the temptation to micromanage the budget execution process, particularly if late appropriations are to continue to be the norm. Requirements imposed on some agencies to have spending plans approved by Congressional committees are, in the context of late appropriations, a costly "luxury" in terms of Congressional oversight. If appropriations were timely, such a review could potentially be justified. In cases where a final appropriation is not received until 3 to 6 months into the fiscal year, there is no justification for the additional delay that such a requirement imposes on federal agencies and their ability to manage funds.

5. Moreover, the Congress and President should limit CRs to only one or two per year that do not extend past the end of the calendar year. It is important to recognize that all CRs are not created equal. It matters how many there are, and it matters how long agencies have to operate under them. Short CRs (especially where there are multiple CRs lasting weeks, as opposed to months) create all sorts of problems for federal agencies that increase the odds of agency officials unwittingly violating some law or engaging in counterproductive management practices. Problems created by attempting to manage through CRs lasting 4 months, or 6 months (or more) are also well documented. If CRs are to be enacted, it is important for them to be enacted in a way that minimizes their negative effects.

It seems particularly important to focus on these improvements now for two reasons. First, the problem is becoming worse, not better. While historically the problem with late appropriations has been more one of timing than of uncertainty of the eventual funding level, recently federal agencies have found themselves in a position where both the timing and the amount are in serious question. The threat of the Budget Control Act's sequestration reductions ratchets up this level of uncertainty to a higher level. Independent of sequestration, the need to reduce federal debt will result in a less than "zero-sum" game for federal agencies; having sufficient time to plan for these budget reductions will be even more important than ever.

My main message, then, is that funding delays have costs. Some of these costs are financial, and others are felt through compromised government effectiveness. Either way, these are completely self-inflicted wounds. The negative impacts are unacceptable given the importance of the federal budget to the overall performance of the U.S. economy and the delivery of services to citizens. The Congress should do what it can to minimize these costs, even if they cannot be eliminated.

Testimony of

Scott D. Pattison

Executive Director, National Association of State Budget Officers (NASBO)

Before the

Senate Committee on Homeland Security and Governmental Affairs

U.S. Senate

"The Costs and Impacts of Crisis Budgeting"

March 13, 2013

2:30 p.m.

Dear Chairman Carper, Ranking Member Coburn and members of the Committee:

Thank you for inviting me to appear before you today on behalf of the budget and finance officers of the nation's 50 states and territories. For over 60 years, the National Association of State Budget Officers (NASBO) has been the professional membership organization for state budget and finance officers. As chief financial advisors to our nation's governors, NASBO members are influential decision makers in state government. They guide their states in analysis of budget options and formation of sound financial management.

Federal Budget Uncertainty: Negative Implications for States
The uncertainty caused by federal actions in the appropriation process as well as other federal actions prevents state and local governments from efficiently delivering required government services.

Fiscal uncertainty at the federal level presents numerous challenges to sound financial management and long-term strategic planning at the state and local levels. The federal government provides states with financial resources to pursue key policy objectives and produce results. However, persistent uncertainty and short-term funding for various initiatives makes it extremely difficult for states to achieve these goals as efficiently and effectively as would otherwise be possible.

Measuring the precise impacts of federal budgetary uncertainty on state and local governments is for technical reasons difficult. However, identifying examples of these impacts and their potential ripple effects can improve our understanding of the costs associated with delayed and fractured appropriations, as well as other sources of federal uncertainty.

The following testimony:

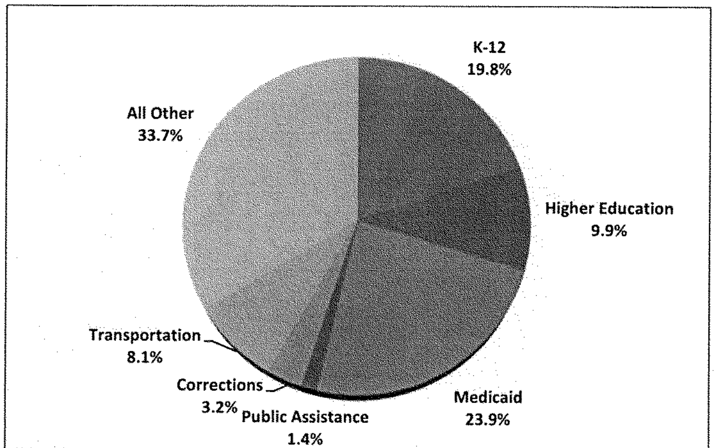
- Provides a description of the current fiscal landscape of the states to provide some context of the challenges state governments and their citizens face;
- Explains the important role that federal funds play in state budgets;
- Discusses the sources of budgetary uncertainty caused by the federal government and examines the costs and impacts of this uncertainty; and
- Recommends a path forward that includes greater certainty and flexibility from the federal government for states, localities and other grant recipients.

State Budget Outlook: Tight Fiscal Conditions
State government resources will be constrained for the foreseeable future and state officials have limited budget flexibility. Fiscal uncertainty at the federal level creates additional costs and unnecessary inefficiencies for states.

The state fiscal landscape has changed dramatically in recent years. Even with a recovering economy, the fiscal environment for states is expected to be very different and much more constrained compared to past decades. Future state spending is likely to grow more slowly than it has historically, meaning that resources will continue to be limited for years to come. (See Figure 1.) At the same time, the demand for funding continues to rise in a number of high-priority program areas, particularly Medicaid. As a result, competition for state funds is and will continue to be strong.

The fiscal challenges facing state governments are largely tied to the fact that a few program areas consume very large shares of state budgets. As shown in the figure below, elementary and secondary education and Medicaid – the two largest state expenditure areas – together consumed nearly 44% of total estimated state expenditures for fiscal 2012 (including spending from general funds, other state funds, bonds and federal funds).

Figure 1: Total State Expenditures by Function, Estimated Fiscal 2012



Source: NASBO 2010-2012 State Expenditure Report

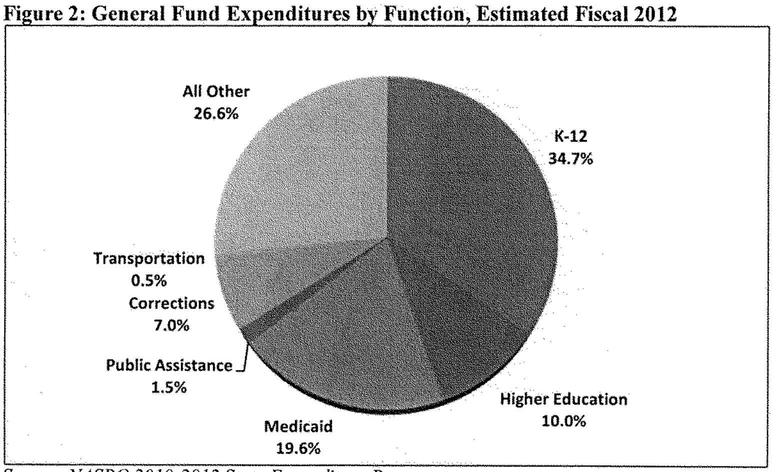
The relative size of these two spending areas is even more prominent when just looking at expenditures out of states' general funds – states' own source funds over which they have more control and discretion. As shown below, in fiscal 2012, K-12 and Medicaid expenditures were estimated to account for over half of all state general fund spending. (See Figure 2.) Both areas are generally top funding priorities for states, leaving state officials with limited room in their budgets to make program adjustments to close gaps caused by federal funding reductions.

Although state budgets have improved somewhat since the end of the national recession, general fund expenditures and revenues remain below pre-recession levels in many states.[1] General fund spending has increased for three consecutive years but growth levels have remained below historical averages. (See Figure 3.)

[1] National Association of State Budget Officers, *Fall 2012 Fiscal Survey of States*, December 2012.

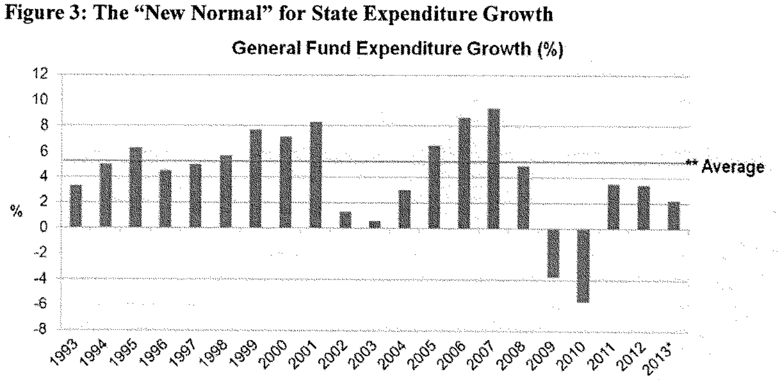
The bottom line is, even with the economy improving, states do not have enough money to go around. Tough decisions will continue to have to be made by states to maintain balanced budgets and fulfill their funding obligations.

Figure 2: General Fund Expenditures by Function, Estimated Fiscal 2012



Source: NASBO 2010-2012 State Expenditure Report

Figure 3: The "New Normal" for State Expenditure Growth



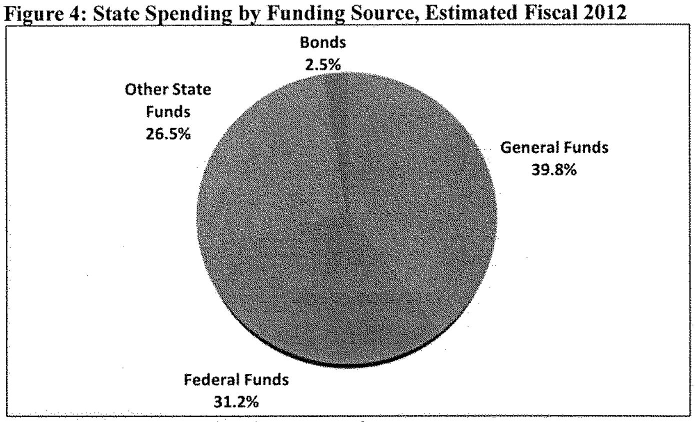
** Fiscal 2013 Numbers are appropriated.*
*** 35-year historical average annual rate of growth is 5.6 percent.*
Source: NASBO Fall 2012 Fiscal Survey of States

Role of Federal Funds in State Budgets

Federal funds play an important role in state government; almost one third of state budgets are funded by monies from the federal government.

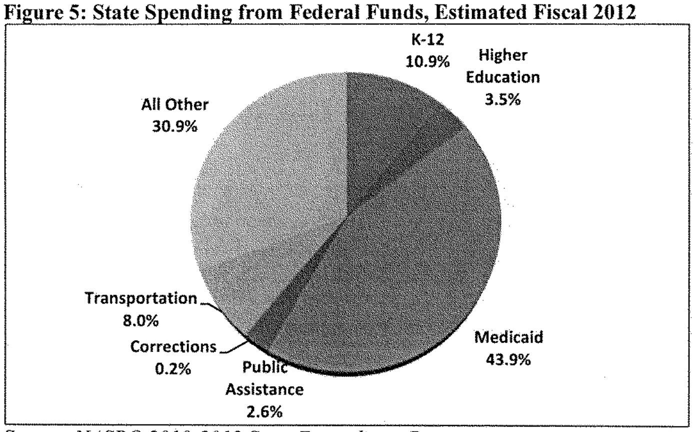
States rely on federal grants for many programs with policy objectives of critical importance to the federal government, as well as states and localities. More than 31 percent of all estimated state expenditures came from federal funds in fiscal 2012. As a result, delayed or short-term federal spending decisions can lead to significant uncertainty in state budgets. (See Figures 4 and 5 below.)

Figure 4: State Spending by Funding Source, Estimated Fiscal 2012



Source: NASBO 2010-2012 State Expenditure Report

Figure 5: State Spending from Federal Funds, Estimated Fiscal 2012



Source: NASBO 2010-2012 State Expenditure Report

Federal Sources of Budget Uncertainty

States and localities, as well as other funding recipients, have long wrestled with challenges and costs associated with "crisis budgeting" due to uncertain federal appropriations, delayed program reauthorizations, and other federal sources of uncertainty.

In recent decades, the use of continuing resolutions (CRs) in lieu of full-year appropriations bills by Congress has become commonplace.[2] Delayed and disjointed federal appropriation bills, along with short-term CRs and the recent sequestration, lead to a severe lack of adequate, timely information for states and localities about federal discretionary spending that is necessary to make tough spending decisions. This is especially true when both the timing and level of funds that will be available are uncertain.[3]

In addition to fractured and delayed appropriations, the common use of short-term extensions for mandatory programs in place of long-term reauthorizations is another source of great uncertainty for states. Congress's treatment of highway bill reauthorization over the past decade provides a telling example of this. From October 2003 to August 2005, and again from October 2009 to June 2012, federal surface transportation programs were authorized through a series of short-term extensions rather than a long-term reauthorization bill. This uncertainty has important impacts on the ability to plan and budget for long-term infrastructure projects, to be discussed more below. This problem is not unique to transportation. For example, another program of great importance to state budgets, Temporary Assistance for Needy Families (TANF), has been authorized under a series of short-term extensions since 2010.

Uncertainty regarding federal tax policy is another important issue for states. Tax law changes can have a significant automatic impact on state tax revenue collections. Most state tax systems are closely linked to the federal tax code; some states calculate their personal income taxes based on federal adjusted gross income or compute their tax as a percentage of federal tax liability. Uncertainty regarding possible federal tax and spending policy changes – as well as decisions such as whether to raise the debt ceiling – can have ripple effects throughout the economy related to consumer spending, business investment, and employment. These effects can also have important indirect impacts on state budgets. The longer the prospects for such changes remain uncertain, the longer states and localities are left in the dark about how such actions will affect their bottom lines. States have difficulty forecasting revenue, and unexpected shortfalls can occur causing spending cuts and in some cases tax increases.

The Costs and Impacts of Budget Uncertainty

Federal budgetary uncertainty has important impacts on states and localities and their ability to plan their own budgets, effectively deliver government services, and manage cash flows and contracts. While these impacts may be hard to measure, their costs are real, as well as significant.

---

[2] Congressional Research Service, "Continuing Resolutions: Latest Action and Brief Overview of Recent Practices," December 2011.

[3] Philip G. Joyce, "The Costs of Budget Uncertainty: Analyzing the Impact of Late Appropriations," 2012.

Impact on Ability to Plan
Budgetary uncertainty at the federal level presents significant hurdles for state and local officials trying to draft their own budgets, as well as develop long-term strategic plans around funding priorities. The uncertainty leads to short-term planning, which results in shorter-term and more costly actions and contracts. For example, the uncertainty surrounding the recent "fiscal cliff" debate left state officials around the country scrambling to put together budget proposals that relied on major assumptions about what actions federal lawmakers would take. States ran alternative fiscal scenarios and developed contingency plans if those assumptions turned out to be incorrect, leading to decreased staff productivity, inefficiency and lack of strategic, long-term planning.

A budget officer in a Western state cited multiple examples of how uncertainty about federal funding has disrupted program management, forcing states to focus on short-term programmatic issues rather than on long-term results and outcomes. One example is that the state must make plans ahead of time to determine what pests may be threatening to agriculture in the state and take precautions months ahead of planting season to prevent crop devastation. However, this planning is made difficult when the state does not know how much and when federal funding will be available for these preventative measures. Another example cited involves teacher layoff notices. Due in part to uncertainty around federal appropriations amounts, school districts in the state have some years issued layoff notices in the spring for the following school year, as required by state law, that are subsequently "pulled back" once appropriation levels are more certain. This causes substantial disruption for school districts' planning efforts for the next academic year.

Impact on State and Local Government Staff and Services
Uncertainty at the federal level can hinder states' ability to effectively develop and implement an initial budget plan, and can also generate the need to rework that plan to adapt, often in a crisis mode. Federal funding volatility, especially during tough fiscal times, leads to program instability and increased staff turnover. Ramping up and down staffing to carry out a federal program can be especially expensive to carry out. Inconsistent, short-term funding can lead to increases in on-boarding, training, and separation costs, and can be detrimental to staff morale, which in itself can lead to decreased productivity of programs. These staffing changes can also be costly to state government contractors affected, and these costs may be passed onto states through higher bids for services.

Another negative impact of chronic federal budget uncertainty is diminished confidence in the federal government's ability to make difficult choices and maintain a fair and consistent set of expectations and regulations, which in turn can have an effect on government programs. When state budget officials lack confidence in the federal government, they may be less likely to engage voluntarily in partnering with the federal level to finance and deliver services. Each state government must decide whether to proceed or put on hold specific actions that obligate or expend public resources that are dependent upon partial federal financing of the ultimate cost. According to one state budget official, "It appears, at least anecdotally, that most state governments have established a policy of putting on hold and ultimately terminating plans or actions for which the federal government has not assured continued financial participation." "State officials' decisions turn significantly on measures of confidence and risk, both of which move in negative directions when there is increased uncertainty regarding matters of policy and finance," explains a budget officer in the Midwest.

State budget officials will often discontinue obligations and services that are dependent upon federal financing when federal funds are reduced or uncertain. In that sense, state operations/budgets are simply impacted by a discontinuance of the actions otherwise of interest to the federal government for which financing is not forthcoming. State budget officials will deliver certainty when/where none exists.

Lack of funding certainty from Congress can lead to forgone investments, delayed hiring decisions, and other missed opportunities, the impact of which can be hard to measure. As discussed above, surface transportation programs were authorized by Congress through a series of short-term extensions between October 2009 and June 2012, and prior to that from October 2003 to August 2005. In a survey of state transportation agencies conducted in 2003 by the American Association of State Highway and Transportation Officials (AASHTO), 33 of the 45 states responding to the survey reported that a short-term extension of the surface transportation bill, instead of a six-year bill reauthorization, would result in $2.1 billion in project delays and more than 90,000 job losses.[4]

More recently in March 2012, after another temporary extension of surface transportation programs was passed in place of a long-term reauthorization, a number of state transportation officials reported the negative impacts of the short-term extension. North Carolina's transportation secretary cited they delay of project awards totaling $1.2 billion that would have employed 41,000 workers, while Michigan cited 3,500 jobs at risk as a result of project delays.[5] Delays in road construction and repair due to federal funding uncertainty can be especially costly in northern states with short construction seasons. The present uncertainty over the impact of the sequester has similarly resulted in decisions to delay projects and hiring. One state budget officer has noted that local school districts, which are developing their budgets this spring for the following school year, are choosing not to hire their full allotment of teachers in order to hold back some funds in case the state is unable to provide the funding level promised or has to reduce funding in the future.

Impact on Credit Ratings, Cash Flow and Contracting

Federal budgetary uncertainty can have an impact on state and local credit ratings, and therefore affect the ability of states and localities to borrow and their borrowing costs. In July 2011, Moody's Investors Service cautioned that if it were to downgrade the U.S. government's credit rating, it would likely lower the credit rating for five states – Maryland, Virginia, South Carolina, Tennessee and New Mexico – determined to be most dependent on federal government revenue.[6]

Federal budget uncertainty can also create cash flow problems for state and local governments. During the federal budget debate in 2011, many states were concerned about a possible federal

[4] American Association of State Highway and Transportation Officials, "TEA Impacts of Delay," September 2003.
[5] Council on State Governments, "Congress Passes 9th Transportation Extension; State Governments Remain Concerned About Continued Uncertainty," March 2012.
[6] James Nash and William Selway, "5 States May Lose Moody's Top Debt Rating on U.S. Reliance," *Bloomberg Businessweek*, July 19, 2011.

government shutdown and its potential to worsen an already tight state fiscal situation. In April 2011, New York's Office of the State Comptroller issued a report on the implications of a federal government shutdown for the state. The report highlighted the cash flow challenges a possible prolonged shutdown would have if the state were unable to draw down certain federal funds, including "delayed payments to contractors, aid for local governments, and tax refunds for individuals." In addition, the report noted potential impacts on state capital spending, local government services, and federally-funded state employees.[7]

Federal funding uncertainty has other impacts too, such as increased contracting costs over time if volumes and spending levels are volatile and prevent state and local governments from signing long-term agreements at reduced costs. In addition, for state government contracts already in place that need to be modified as a result of an unexpected decline in federal funds, there can be direct and indirect costs associated with revising the scope or cancelling. State government financial controls and contract monitoring may also be weakened indirectly if unexpected federal funding reductions force cuts in overhead and oversight functions to preserve program services.

A Path Forward

More certainty about federal funding levels and greater flexibility can enhance states' ability to make informed decisions, address tough fiscal challenges, improve program performance and plan for the long term.

Any actions that provide increased certainty of federal appropriation amounts and when they will be provided will be positive. Greater certainty regarding federal actions, coupled with increased flexibility for states to generate efficiencies and achieve results, would put states in a much better position to make smart, responsible choices and address fiscal challenges in a resource-constrained environment. More certainty about federal funding levels and greater flexibility can also improve states' ability to engage in budgeting practices focused on improving performance and strategic planning over the long term. Developments concerning actions to reduce the federal government's budget deficit are likely to affect states, but significant uncertainty remains, making budget preparation, financial management and strategic planning extremely difficult at the state and local levels.

[7] State of New York, Office of the State Comptroller, "Implications for New York State of a Federal Government Shutdown," April 2011.

NTEU
The National Treasury Employees Union

Statement Of

Colleen M. Kelley
National President

National Treasury Employees Union

Senate Committee on Homeland Security and Governmental Affairs

"The Costs and Impacts of Crisis Budgeting"

March 13, 2013

2:30 pm

1750 H Street, N.W. • Washington, D.C. 20006 • (202) 572-5500

Chairman Carper, Ranking Member Coburn, Members of the Committee, on behalf of the 150,000 federal employees represented by NTEU in 31 different agencies, thank you for the opportunity to participate in today's hearing on "The Costs and Impacts of Crisis Budgeting." I think it is particularly important for the Committee to hear about the implications of crisis budgeting on those most directly affected by it, the federal workforce.

Overview

While there have been instances throughout history of Congress and the President having trouble enacting timely appropriations legislation, the most high profile of which was the government shutdown of 1995 and 1996, the uncertainty of agency budgets in the last several years has reached crisis levels.

During FY 2011federal employees faced the possibility of government shutdowns and unpaid furloughs due to appropriations lapses no less than eight times, including three in December of 2010 and one in April 2011 where detailed plans were disseminated listing who was excepted and non-excepted from the furlough and how to shut down your work station. In many of these cases, employees had only hours of notice as to whether appropriations had been approved that would permit them to come to work the next day.

FY 2012 saw five Continuing Resolutions (CR's) before an Omnibus Appropriations bill was enacted on December 23rd, 2011. While there has been a six month long CR in place since September 2012, employees are yet again bracing for the possibility of a government shutdown when this CR expires on March 27th.

In addition to government shutdowns due to lapses in appropriations, federal employees have also recently faced the prospect of loss of pay or job loss due to hitting the debt ceiling that limits the government's ability to borrow to pay its liabilities, including workers' salaries. This threat was only resolved at the last minute in August of 2011 with the enactment of the Budget Control Act. And federal employees know they will face a similar debt ceiling threat again this summer.

The current and most debilitating budgeting crisis impacting the federal workforce is sequestration. Sequestration, or automatic across the board spending cuts, was a creation of the Budget Control Act. Sequestration, with few exceptions, requires spending cuts of the same percentage in every project, program and activity of federal agency budgets. This meat ax approach was never expected to be implemented, but rather to serve as an incentive to find sensible deficit reduction alternatives.

Federal employees went through the December 2012 holidays bracing for sequestration to hit on January 2nd, 2013 as the Budget Control Act required. The American Taxpayer Relief Act, or so called Fiscal Cliff Deal legislation, that was signed into law on January 2nd delayed the sequester implementation until March 1st. On March 1st, a sequestration order was issued requiring most federal agencies to implement across the board cuts of 5 percent of their annual budget or 9 percent of their remaining FY 2013 budget. Federal employees have since been notified of unpaid furloughs of up to 22 days beginning as soon as April that could reduce their pay by 20% for the rest of the year.

Impact on Employees

Every year since 2001 the Office of Personnel Management (OPM) has administered the Federal Employee Viewpoint Survey, which provides a snapshot of Federal employees' views on their work, their agencies and their leaders. Between 2001 and 2010 there was a steady and considerable improvement in government wide results in all areas. OPM made the following comment on the 2012 survey report:

> However, this year the steady trend of improvement has changed; governmentwide scores have dropped on every index, and 36 items decreased between two and five percentage points from 2011 to 2012. (p.25)

While there are likely factors other than the constant threats of government shutdowns and unpaid furloughs affecting these results, including federal employees' $103 billion contribution to deficit reduction through a two-plus year pay freeze and increased pension contributions, surely the stress of continual budgeting crises are contributing to employees' lack of confidence in their work places.

Professor Philip Joyce in his report, "The Costs of Budget Uncertainty," states:

> Employees may respond to furlough notices by spending otherwise productive time seeking other employment. One agency official says that during the shutdown of 1995 and 1996, furlough notices went out to more than one-third of his agency. Many who received those notices took other jobs. . . An actual shutdown, or even a credible threat of one, can push people out the door. It can also be one factor that discourages people from wanting to work for the federal government. (p.22)

We are beginning to see evidence of Professor Joyce's observation. There has recently been a large increase in the number of federal workers leaving the workforce, primarily to retire. In February 2013, 20,374 federal employees retired. That is more than three times the number who retired in February 2012. So far, in 2013, 42,561 employees have retired, about 40% of the entire total for 2012. A large increase in retirements is especially alarming since approximately 53% of the federal workforce will be eligible to retire by next year and a significant loss of these experienced employees could leave agencies, already stretched thin, in dire circumstances.

With the implementation of sequestration on March 1, pay cuts have become very real for NTEU represented employees. Customs and Border Protection (CBP) employees have received notice that they will need to serve up to 14 days of unpaid furlough beginning in April. That is a 10% pay cut in every two week pay check for the rest of the fiscal year. In addition, overtime pay, which many CBP employees earn on a regular basis, has already been reduced. Moreover, these cuts are on top of the pay freeze that has been in effect for 27 months.

Shortly before sequestration took effect, NTEU surveyed its members about the impact of the pay freeze. In just three days, 2,258 federal employees answered our electronic survey. The results show the financial challenges facing these employees even before they face pay cuts due to furloughs.

- 74 percent have had to cut back on necessities.
- 66 percent are having difficulty making ends meet.
- 60 percent are getting further into debt.
- 43 percent are delaying medical treatment.
- 29 percent have had to seek assistance or loans.
- 15 percent have taken a second job or have a spouse that has.

We also asked what the impact of one week to one month of unpaid furloughs would be on them and their families. The majority would have difficulty paying for basics.

- 82 percent will have difficulty paying rent/mortgage, utilities, and food expenses.
- 63 percent will have to take money out of savings or retirement.
- 57 percent will have to take on new debt to make ends meet.
- 29 percent will have difficulty paying for child care, school tuition and other educational expenses.
- 19 percent already have a spouse who had lost his/her job or suffered a pay cut.

Clearly, these results show that employees will face serious personal hardship under the sequester. As Professor Joyce points out, many of the most talented and experienced will likely head for the exits.

Impact on Government Services

Between reduced and delayed appropriations and the sequester, government services will be increasingly degraded.

The cuts to Customs and Border Protection will increase already long wait times at airports and land border crossings to as much as four to five hours. Wait times at the border cost the U.S. economy jobs, output, wages and tax revenue.

NTEU represented employees at the Environmental Protection Agency (EPA) have been told to expect to take 13 unpaid furlough days by the end of the fiscal year. A major function of EPA, in partnership with States, is to enforce the nation's environmental laws. Sequestration would mean fewer enforcement agents and result in an estimated 1,000 fewer inspections in fiscal year 2013.

The Internal Revenue Service (IRS) employees represented by NTEU have been told they will face 5 to 7 furlough days under sequestration. The IRS has announced it will delay implementing these unpaid furloughs until after the tax filing season ends on April 15th. Due to funding cuts and planning for sequestration, the IRS has 5,000 fewer employees today than it had two years ago. Despite delaying furloughs, wait times for taxpayers trying to get help on the telephone and at walk in centers has increased dramatically.

Impact on Efficiency

While there are serious disagreements between Members of Congress about the size and role of the federal government, I don't believe anyone believes in wasteful or inefficient government. The use of Continuing Resolutions, sequestration, debt ceiling showdowns and other delays in necessary legislative action until the last possible moment lead to waste in a system that cannot afford even the smallest amount of waste.

Due to the late enactment of the American Taxpayer Relief Act in January, for example, which included a retroactive AMT patch as well as other major tax extender provisions, the IRS was forced to delay the start of the current filing season until January 30 for most taxpayers. According to the National Taxpayer Advocate, the extensive work the IRS must perform to accommodate late-year changes has an opportunity cost. It requires the IRS to pull employees from other priority work, reducing service to taxpayers and potentially reducing revenue from voluntary compliance as well as collection efforts.

Professor Joyce's report cites a number of actions that agencies rely on in times of budget uncertainty that reduce efficiency. Some of those include hiring freezes, which determine what positions are filled based on who has left, rather than what are most critical. Others include furloughs, which cause staff turmoil and the loss of valued employees who choose to retire or take other jobs. Training and travel delays are also mentioned as increasing inefficiency. Both in formal communications from agencies to us and as part of our survey of employees, it is clear that all of these inefficient practices are being utilized by agencies right now due to the uncertainty of the Congressional budgeting process.

Our employee survey asked how their agencies were responding to the current budget situation.

- 79 percent say their agencies are not replacing workers who leave.
- 68 percent say their agencies lack the resources to do their jobs properly.
- 67 percent say there is a hiring freeze at their agency.
- 48 percent say critical work is not getting done.
- 7 percent say none of the above.

Conclusion

The federal employees I represent are frustrated, angry and scared. They have been under a pay freeze for more than two years. They are facing significant pay cuts due to sequestration. They are not sure if they will face yet another potential government shutdown on March 27th. And they know the debt ceiling and the possibility of a government default is coming back this summer. These employees work really hard and care about their jobs. They know that budgets need to be tight, but as they see the waste that comes from the lack of timely Congressional action; the contingency planning and short term patch up solutions that cost more in the long term, you shouldn't be surprised that they think the wrong people are getting their pay cut.

Thank you again for this opportunity to testify today on this important subject.

PSC PROFESSIONAL SERVICES COUNCIL
The Voice of the
Government Services Industry

STATEMENT OF

STAN SOLOWAY

PRESIDENT & CEO

PROFESSIONAL SERVICES COUNCIL

"THE COSTS AND IMPACTS OF CRISIS BUDGETING"

U.S. SENATE

HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

MARCH 13, 2013

Mr. Chairman, Senator Coburn, Members of the Committee. Thank you for the invitation to testify before you this afternoon. On behalf of the Professional Services Council's[1] 360 member companies and their hundreds of thousands of employees across the nation, thank you for taking the time to shine a light on an often ignored, but nonetheless critically important, issue. As Professor Joyce made clear in his testimony and in his excellent report[2] for the IBM Center, budget uncertainty and instability has very real, deleterious and costly impacts on government and the federal contracting community alike. Thus, the ability of the Congress and the Administration to return to a semblance of regular order would be a great benefit and service to the American taxpayer and to the federal agencies that do so much to support us.

At the outset, let me be clear: PSC takes no position on specific funding levels that should or should not be pursued as solutions to our nation's very real fiscal challenges. We recognize and respect that such decisions are within the purview of the Congress and the Administration. We have, however, expressed our opinion about the tactics used to impose such funding level reductions. Just two weeks ago, we published an "Open Letter" to the president and the Congress, signed by our Executive Committee and me, strongly urging the parties to come together to avoid sequestration and comprehensively address the nation's fiscal crisis. The headline of that letter sums up our view--"Time's Up. Leadership Needed Now" [3] --but nothing in my testimony this afternoon should be interpreted as advocating for any particular fiscal proposal.

That said, we do take a strong position on restoring regular order to the budgeting and appropriations processes. In fact, when our member company CEOs gathered just over a month ago to identify our top policy priorities for 2013, achieving budget stability emerged, by far, as their number one policy objective. As we later wrote in a white paper outlining our priorities:

An unclear budget picture complicates the ability of the government and industry to effectively plan for changing priorities. While budget austerity is unavoidable, the lack of predictability and consistency of federal budgets is much more detrimental than clearly articulated funding reductions.[4]

Indeed, the consensus view among our industry leaders, regardless of their party affiliation or political leanings, can be summed up in four simple words: "Rip off the bandaid." We fully recognize the realities of austerity and the need to get our nation's fiscal house in order. We realize as well that no community—contractors, civil servants, non-profits, or universities—that supports the work of the federal government will go unscathed. Within our industry, the impacts have already been felt. Tens of thousands of jobs have been lost, thousands more remain unfilled, and according to a recent, highly

---

[1] For 40 years, PSC has been the leading national trade association of the government professional and technical services industry. PSC's more than 350 member companies represent small, medium, and large businesses that provide federal agencies with services of all kinds, including information technology, engineering, logistics, facilities management, operations and maintenance, consulting, international development, scientific, social, environmental services, and more. Together, the association's members employ hundreds of thousands of Americans in all 50 states.

[2] The Cost of Budget Uncertainty: Analyzing the Impacts of Late Appropriations, available at: http://www.businessofgovernment.org/report/costs-budget-uncertainty-analyzing-impact-late-appropriations

[3] Time's Up. Leadership Needed Now. available at http://www.pscouncil.org/News2/NewsReleases/2013/Time_s_Up._Leadership_Needed_Now._An_Open_Letter_to_the_President_and_Congress.aspx

[4] PSC 2013 Top 5 Policy Priorities, available at: http://www.pscouncil.org/c/b/PSC_s_2013_Policy_Priorities.aspx

authoritative analysis, for the first time in years more companies are reporting reduced revenues than those that are reporting increases.

But budgetary and programmatic actions should be based on a careful strategic determination by federal agencies of how best to achieve their mission – and how to best harness all of the resources that are available to them. Unfortunately, the uncertainty and almost complete lack of predictability that has come to characterize the federal marketplace is increasingly problematic.

Of course, predictability and clarity are two of the most prized characteristics of any healthy market; the clearer and more predictable the market, the more likely it is that companies can justify investments in people, technology and other capabilities. The reverse is also true: the less clear and less predictable the less likely that companies will make those investments and bring innovation and competition to the market. Regrettably, today, it is that latter environment, the apparently new normal of uncertainty mixed with crisis budgeting, which dominates and poses a number of significant challenges, and in some cases threats, to the government.

I was asked to address the impact of those dynamics on the private sector, and principally on government contractors. But many of the most significant impacts begin with the impacts on our federal agency customers and the federal workforce that are trying so hard to meet their increasingly complex mission requirements in this unstable and uncertain environment. These impacts then flow down, in varying ways, to their implementing partners in the private for-profit and not-for-profit worlds.

The most significant impacts can be divided into four categories: (1) impacts on company investment decisions; (2) impacts on the federal procurement process; (3) impacts on the federal and private sector workforces; and, finally and perhaps most importantly, (4) impacts on agency missions and efficiencies.

Investment Impacts

By definition, investment decisions are made on the basis of a risk-reward analysis. Of course, risk is defined on many levels and includes the timing and likelihood of receiving a return on that investment as well as the level of that potential return. Higher risk investments are typically result in higher returns while lower risk investments generally result in smaller returns. Needless to say, one key measure of risk is clarity and the less clarity that exists the higher the risk quotient. In the government market today clarity is largely elusive, returns are in greater question than ever and program plans, and even routine decision processes are constantly shifting.

What does this mean in practical terms? It means that companies in the government market face increased levels of risk with almost any investment, and certainly any substantial investment. The government market is a very expensive market in which to compete—certainly far more so than the commercial marketplace. It is also a market in which returns, or profits, are most often well below returns that are realized in the commercial marketplace. As such, companies must be exceptionally disciplined in their investment decisions—be they focused on people, on technological or other advancements designed to support the government, or even on decisions on whether or not to bid on a given procurement. Obviously, those challenges are magnified many times over when there is little to no stability in the market to can help define and contain within reason the risks involved.

As a result, today's unstable environment has many companies thinking not twice, but four or five times, about virtually every aspect of their investment decisions, including when and where they even participate. As always, they want to know that when they bid on a specific procurement they can bring to the table the best and most innovative solutions and that when they expend increasingly precious bid and proposal resources, there is a reasonable chance of winning an award. Today, they also have to make exceptional difficult judgments as to when, if ever, an award will actually be made.

Clearly, if a federal agency customer is uncertain about the availability and/or timing of their funding, the company's level of confidence will also be affected. When companies do not have that kind of confidence it can cause them to simply not bid, with the almost inevitable result being reduced competition—and reduced options—for the government. The irony, of course, is that competition is the best guarantor of higher performance and greater efficiency; thus, when competition is reduced, so too is the level of certainty that the government is getting the best solutions. And that can often result in sub-optimized performance today followed by likely increased costs down the road.

Today, there is a broad agreement that procurement lead times—that is, the time between issuance of a request for proposals and the award of a contract—has stretched to almost unprecedented lengths. Agencies have delayed awards not just for a few months, but in some cases for several years, as they try to grapple with the realities of resource uncertainty. One agency recently told the bidders on one of its large procurements that award decisions would be further delayed until June of this year. That will mean that, for this procurement the earliest the award will come is THREE YEARS after companies were required to submit their initial bids.

Unfortunately, this is not the only case of its kind. Almost universally, our member companies report that when they compare the volume of bids they have submitted against the volume of awards that have actually been made, they have never seen it so heavily weighted to the former. The system, they tell us, is suffering from unprecedented bottlenecks. As is true throughout the commercial world, time is money; and when awards are so significantly delayed it naturally results in increased cost and risk to those bidding. Today, those costs and risks are higher than we have seen them in many years. And in the end, the government customer, like any consumer, will end up paying a good portion of those costs, either in the form of higher prices or reduced competition as some companies simply exit the market. After all, if one cannot gauge with any reasonable accuracy when a return on investment might occur, and cannot ensure that the return finally received will be fair and reasonable, those companies that have other options have little choice but to pursue them. In fact, a number of our member companies are aggressively and actively looking to new markets for their services, largely out of concern that the instability of the federal market is becoming untenable.

Procurement Process Impacts

The uncertain and unstable budget environment also has numerous effects on the quality and nature of federal procurement. As I stated earlier, we take no position on specific funding levels to address the nation's fiscal challenges. That point was also made very clearly in a report we submitted to then-Secretary of Defense Panetta, at his request, on the impacts of expected budget reductions.[5] In that report we reiterated our view that while we certainly have an interest in the levels of spending available for any agency, we recognize that those are decisions for others to make. Therefore, our concern was principally on how the available funds were to be spent, rather than on how much was to be spent.

[5] Defense Executives Assess Business Impacts of Major Budget Cuts available at http://www.pscouncil.org/PolicyIssues/IndustrialBase/ServicesIndustrialBaseCompetitivenessIssues/Industry_Task_Force_Paper.aspx

In that light, we surveyed our membership to get their assessments of the impacts they were seeing. Without question, the single greatest concern that emerged was the government's growing and unhealthy reliance on what are known as lowest price/technically acceptable awards. There is, of course, no question that the government should never overpay for anything it buys. Nor is there any question that, for many commodities acquired by the government, buying from the lowest price provider makes sense. But for its many more complex needs, buying on the cheap is self defeating and counter productive. In those cases, technical proficiency, proven performance, and other non-cost discriminators are essential components in a smart acquisition decision. Unfortunately, we are seeing today an almost total focus on price with far less attention than is appropriate and healthy on other important factors.

There are a number of reasons behind the government's default to low price awards, including workforce skills gaps, fear of protests, and more. But there is often a measurable difference between the lowest price and the best price; similarly, "efficiency," which in government is generally tied uniquely to price, does not equate to effectiveness. Yet, there can be no doubt that the constantly shifting sands of resources--the fundamental uncertainty that marks today's marketplace-- is among the key factors driving government activities to this imbalanced acquisition approach.

In the face of budget instability and anticipated or directed spending reductions, agencies are increasingly trying to do what they have always done, often in the same way, for less money, rather than taking the longer strategic view on how to do what they need to do differently, more effectively and more efficiently. This may not be logical and it is clearly contrary to the ways in which we, as consumers, make decisions every day. But it is, nonetheless, a dominant trend in federal procurement.

As a result, at the very time when one would want to see the government exercising extra diligence and discipline in how and where it commits funds, and when new and innovative thinking and mission execution is so essential, we are instead witnessing a procurement process that is incentivizing the kind of race to the bottom that often occurs when resources are increasingly scarce or uncertain. Companies must do whatever they can to win the available business and survive; after all, survival is generally preferable to a principled death. But in the end, the responsibility actually rests with the customer, in this case the government. Because it is the government that determines the quality of solutions it buys and it is the government that controls the degree to which innovation and excellence are incentivized and rewarded in the acquisition process.

Likewise, reasonable returns on investments, or reasonable margins, are much different than exorbitant profits. As I mentioned earlier, contrary to what many believe, profits in the federal marketplace are generally well below those in the commercial market. In another ironic twist, many government contractors accept those lower margins in return for the opportunity and privilege to work with a stable, predictable customer. Obviously, that latter quality is becoming increasingly rare.

At the same time, we are seeing margin pressures that go well beyond reasonable. Indeed, despite the admonitions of some top government leaders to the contrary, it has become commonplace for government customers to target reduced margins as tools to save money. In fact, a soon to be released annual analysis of the federal marketplace conducted by Grant Thornton will report that more than 60 percent of companies surveyed reported margins in the 0-5 percent range; just a year ago, only 35 percent of participating companies reported such low margins. As with acquisition strategies, it is true that margins should be directly tied to the nature, complexity and risk of the work being performed, and that for many commodity products and services, margins tend to be very low. But given the substantial percentage of the more than 100 companies participating in the survey that provide high end professional and technology services to the government, it is clear that we are seeing the kind of over-emphasis on margins that is not healthy for the companies or the government.

Finally, the we are also seeing a greater use of so-called "bridge contracts"—that is, the extension of existing contracts for short periods of time in lieu of new, competitive procurements, as a means of hedging against both budget uncertainty and budget pressures. Competitive procurements cost money for the government just as for contractors. And thus, anecdotally anyway, the use of bridge contracts is increasing significantly. That, too, is the kind of short sighted, crisis-based strategy that often costs the government much more in the long run.

A sound market enables reasonable returns, rewards those with the best solution at the best price and incentivizes effective outcomes. But the government market, besieged by instability and uncertainty, is trending in just the opposite direction.

Incremental or short term funding, continuing resolutions that prevent new programs from being launched when planned or when necessary, and constantly changing funding levels or expected levels, all contribute to this trend. This often results in suboptimal solutions being selected, which itself generally leads to higher long term costs, Furthermore, the extraordinary pressures created on both overhead and margins further diminishes the ability of companies to invest in people or technology, further diluting the capabilities available to the government the next time around. This vicious cycle, this unbroken circle of impacts, serves no one's interests, and least of all the American taxpayer.

Even as instability and uncertainty dominate, there are things that can be done to address this dynamic. This committee can play a powerful and important role in helping to reverse that trend by openly and actively empowering and supporting a beleaguered federal acquisition community and ensuring that the right kinds of tools and professional development opportunities are made available, even under the budget realities we face. Their role is simply too central to the proper functioning of government to be treated otherwise. This committee can also play a powerful role in explicitly encouraging, even directing, agency program offices to work in true partnership with their implementing partners to collaboratively identify sustainable program savings.

Unfortunately, despite the efforts of both OMB and DoD leadership to encourage such behaviors, there is little pressure on the system to do so and little incentive or reward for the civil servants charged with executing and managing federal acquisition. This lack of awareness of the dynamics of the market and the impacts of such behaviors, indeed, the threat of always being questioned for making a reasoned decision to spend a little more for a better product or service, let alone truly collaborate with your vendors as is routinely demanded in the commercial world, contributes mightily to the tendency of the federal procurement process to follow the path of least resistance and lowest risk. We all want to see risk limited to the extent possible; but it cannot be eliminated.

Workforce Impacts

As I noted earlier, many of the effects of budget uncertainty and instability start with the agencies themselves and then flow down to the ecosystem of companies, non-profits, universities and others who help execute the government's missions. This is also true when looking at the workforce impacts that result.

As recent studies[6] have illustrated, the morale of the federal workforce is at low ebb. They face continued salary freezes, increasing workloads, and must constantly grapple with the challenges of managing in the face of uncertainty and instability. They have also repeatedly faced the definition of crisis budgeting and management. Moreover, the challenges they face are significantly exacerbated by the government's extraordinary demographic challenges, including increasing retirement rates among a workforce that is already demographically imbalanced. With a four to one ratio of workers over 50 versus those under 30, a ratio that is actually seven to one among information technology workers, the government can ill afford continued instability and uncertainty in its human capital initiatives. Indeed, the government has a rare opportunity to reshape its workforce in a way that most effectively meets its needs and the realities of the future. But that can only happen if some semblance of stability returns so that agencies actually have the freedom created by stability to build and stick to longer term, forward looking workforce plans. Today, with the instability sharply limiting planning and execution horizons to the very short term, such plans, no matter how good, simply cannot be effectively executed.

For the private sector, the workforce impacts are also acute. Some are obvious: the longer procurements are delayed, the more difficult it is for companies to hold on to key talent, particularly in the technology and related fields. Companies can only subsidize non-revenue generating employees for so long; at some point they need them to be part of a productive team. Maintaining this "bench" is made even more difficult in an environment where the competitive pressures mandate that companies trim their overhead costs and become as lean as possible. As a result, they face losing talent to other contractors, or, as is increasingly the case, to the commercial sector, where there remains a shortage of qualified, technical talent and the ability to attract them. Dozens of companies have already announced layoffs of thousands of employees because of the market uncertainty and instability and the accompanying inability to risk over-investing in people. As a result, collectively we face the prospect of a brain drain away from the federal sector—whether from government or industry—to the commercial world.

Beyond the loss of key employees and a connected, potential brain drain, budget instability also has a major impact on company hiring. As but one example among many, one small business told me they have six positions that have been vacant for three months and they will likely not be filled until they have a clearer understanding of where their federal customers are heading. Another company told me that, in their efforts to trim overhead to remain competitive, they've had to reduce professional development and training – which, because it is an overhead cost, is often the first thing to go in a resource constrained environment, in both government and industry.

And as a result of the trend toward lowest price awards, companies are also finding it increasingly difficult to compete for the best talent. This challenge is exacerbated by government efforts to arbitrarily cap contractor employee compensation below that which the commercial marketplace has deemed certain skills to be worth, or to hold contractors' labor and overhead rates to levels of years past without benefit of serious analyses of the impacts such caps are likely to have.

The Mission Impact

All of these factors combined—reduced investments in people and technology, the trend toward award on the basis of the lowest rather than the best price, unprecedented pressures on margins that drive

[6] See for example Federal Employee Viewpoint Survey, available at: http://www.fedview.opm.gov/

them below what would be considered reasonable, and the reduced ability of both companies and government agencies to hire needed skills—pose a real threat to the effective and optimal execution of the government's missions. When programs and budgets are incrementally funded, agencies can only incrementally fund their programs and contractors. As a result, both efficiency and effectiveness are inevitably impacted, the long view gives way to the short view, investment decisions are delayed and, in the end, costs rise and/or program performance is sub-optimized.

In a recent article for the Harvard Business Review, Professor Michael Porter and two of his colleagues report on a study they have just completed of the major challenges facing American business. Among those challenges is that incentives are too often misaligned and that senior executives are incentivized to meet very short term financial goals while long term, sustainable growth and innovation require a commitment to longer-term objectives and change. I think this message should resonate as well in government. Where agency heads are required to meet instant funding reduction targets or unable to plan for program execution for more than a few months at a time, innovation and high performance become almost impossible. When agencies are unable to launch new programs they are forced to continue to rely on older, outdated systems, which are more expensive and less effective than that which is being planned as a replacement. And when the combination of uncertainty and potential funding reductions force agencies to forego planned technology refresh and/or defer scheduled maintenance and upkeep, long term costs inevitably rise and mission effectiveness suffers. No organization – whether a government agency or a company – can hope to achieve any degree of efficiency and effectiveness without funding stability.

Conclusion

To repeat, our highest priority is for clarity and predictability in both spending and program execution. Regardless of how good or how bad the news might be for any individual agency or company, that knowledge enables our member companies to plan and invest in ways that can genuinely serve the best interests of the government.

Beyond that clarity however, and in the interim, it is crucial to remember that salami slices to a budget rarely work, that so-called efficiency does not equate to cost or program effectiveness. But working together, in an environment and spirit of real partnership, there is little question that we can achieve meaningful cost savings and performance improvements. Instead of allowing an environment of uncertainty and instability to drive a deeper wedge between the many actors who make up the whole of government, it should instead be a reason for greater collaboration.

Thank you again for the invitation to appear today. I look forward to answering any questions you may have.

United States Government Accountability Office

GAO

Statement for the Record
To the Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 2:30 pm EDT
Wednesday, March 13, 2013

BUDGET ISSUES

Effects of Budget Uncertainty from Continuing Resolutions on Agency Operations

Statement for the Record by Michelle Sager, Director
Strategic Issues

GAO
Accountability * Integrity * Reliability

GAO-13-464T

March 2013

BUDGET ISSUES

Effects of Budget Uncertainty From Continuing Resolutions on Agency Operations

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-13-464T, a statement for the record to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Congress annually faces difficult decisions on what to fund among competing priorities and interests with available resources. Continuing resolutions (CRs) can create budget uncertainty, complicating agency operations and causing inefficiencies. In all but 3 of the last 30 years, Congress has passed CRs to provide funding for agencies to continue operating until agreement is reached on final appropriations.

GAO was asked to provide a statement based on findings from its 2009 report on managing under CRs (GAO-09-879). This statement focuses on (1) a history of CRs and the provisions that Congress includes within them and (2) the effects of CRs on agency operations and actions that federal agencies have taken to manage these effects. GAO's 2009 report reviewed six federal agencies within three cabinet-level departments selected based on factors such as the length of time spent managing under CRs and the types of services they provided. These six case study agencies were the Administration for Children and Families and the Food and Drug Administration within the Department of Health and Human Services; Veterans Health Administration and Veterans Benefits Administration within the Department of Veterans Affairs; and Bureau of Prisons and Federal Bureau of Investigation within the Department of Justice. Under CRs that provide funding for the remainder of a fiscal year, agencies obtain certainty about funding. Therefore, CRs that spanned the months remaining in a fiscal year were not the focus of GAO's report.

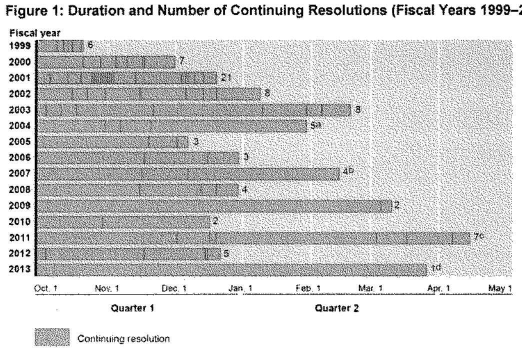
GAO did not make recommendations in the 2009 report.

View GAO-13-464T. For more information, contact Michelle Sager at (202) 512-6806 or sagerm@gao.gov

What GAO Found

Because CRs only provide funding until agreement is reached on final appropriations, they create uncertainty for agencies about both when they will receive their final appropriation and what level of funding ultimately will be available. Effects of CRs on federal agencies differ based in part on the duration and number of CRs and may vary by agency and program. CRs include provisions that prohibit agencies from beginning new activities and projects and direct agencies to take only the most limited funding actions. Congress can provide flexibility for certain programs and initiatives through the use of legislative anomalies, which provide funding and authorities different from the standard CR provisions.

Figure 1: Duration and Number of Continuing Resolutions (Fiscal Years 1999–2013)



Source: GAO.

[a]The fifth CR, P.L. 108-185, amended the original CR with substantive provisions but did not extend the CR period.
[b]In February 2007, Congress enacted a 227-day CR that provided funding for the remainder of the fiscal year. This CR is not included in the figure.
[c]In April 2011, Congress enacted a 168-day CR that provided funding for the remainder of the fiscal year. This CR is not included in the figure.
[d]The figure is as of March 11, 2013.

Officials from all six case study agencies reported that they delayed hiring or contracts during the CR period, potentially reducing the level of services agencies provided and increasing costs. After operating under CRs for a prolonged time, agencies faced additional challenges executing their final budget as they rushed to spend funds in a compressed timeframe. All case study agencies reported performing additional work to manage within CR constraints, such as issuing shorter term grants and contracts multiple times. Agency officials reported taking varied actions to manage inefficiencies resulting from CRs, including shifting contract and grant cycles to later in the fiscal year to avoid repetitive work, and providing guidance on spending rather than allotting specific dollar amounts during CRs to provide more flexibility and reduce the workload associated with changes in funding levels.

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

Chairman Carper, Ranking Member Coburn, and Members of the Committee:

I am pleased to submit this statement on our work on continuing resolutions and the costs of budget uncertainty. As you know, Congress annually faces difficult decisions on what to fund among competing priorities and interests with available resources. Frequently, final funding decisions are postponed to allow additional time for deliberations. In all but 3 of the last 30 years Congress has passed continuing resolutions (CRs) to provide funding for agencies to continue operating when their regular appropriation bills have not been enacted before the beginning of the new fiscal year. While CRs provide funding that allows agencies to continue operations until agreement is reached on their final appropriations, they also create uncertainty for agencies about both when they will receive their final appropriation and what level of funding will ultimately be available. This presents challenges for federal agencies continuing to execute their missions and plan for the future.

Uncertainty is further created in years when it is unclear whether disagreements can be resolved before a CR expires. For example, in 2011, agencies prepared for a potential funding gap and an orderly shutdown of government operations. The shutdown was averted in the final hours through the April 9 passage of a continuing resolution.[1] Such a funding gap last occurred in fiscal year 1996. Budget uncertainty is not new and not only the result of CRs. Most recently, agencies are managing and planning around the uncertainty associated with the automatic, across-the-board reductions (sequester) to their budget scheduled under the Budget Control Act (BCA) of 2011.[2] While there was extensive discussion earlier this year about if and to what extent such reductions would take place, a sequestration of discretionary and direct spending was ultimately ordered earlier this month—reducing federal agencies' 2013 budgets five months into the fiscal year.

This statement will focus on: (1) A history of CRs and provisions Congress includes within them and (2) the effects that CRs have had on agency operations and actions that federal agencies have taken to

[1] P.L. 112-8

[2] P.L. 112-25

manage effects of CRs. This statement is primarily based on a 2009 GAO report that reviewed six federal agencies within three cabinet-level departments selected based on factors such as the length of time spent managing under CRs and the types of services they provided.[3] The agencies were Administration for Children and Families (ACF) and the Food and Drug Administration (FDA) within the Department of Health and Human Services (HHS); Veterans Health Administration (VHA) and Veterans Benefits Administration (VBA) within the Department of Veterans Affairs (VA); and Bureau of Prisons (BOP) and Federal Bureau of Investigation (FBI) within the Department of Justice (DOJ). Although it is difficult to isolate the effects of CRs and none of the agencies we spoke to said they tracked the time or resources explicitly devoted to CRs, we asked agencies to discuss, quantify where possible and provide examples of the effects of regular appropriations being enacted after the start of the fiscal year—October 1. Under CRs that provide funding for the remainder of a fiscal year, agencies obtain certainty about funding. Therefore, CRs that spanned the months remaining in a fiscal year were not the focus of our report.

We conducted our work in accordance with generally accepted government auditing standards.[4] Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

CRs Provide Interim Funding for Agencies and Programs

Federal departments and agencies receive funding through regular annual appropriations acts. If one or more of the regular appropriations acts are not enacted, a funding gap may result and agencies may lack sufficient funding to continue operations. To prevent funding gaps, Congress enacts CRs to maintain a level of service in government operations and programs until Congress and the President reach agreement on regular appropriations. Because CRs only provide funding

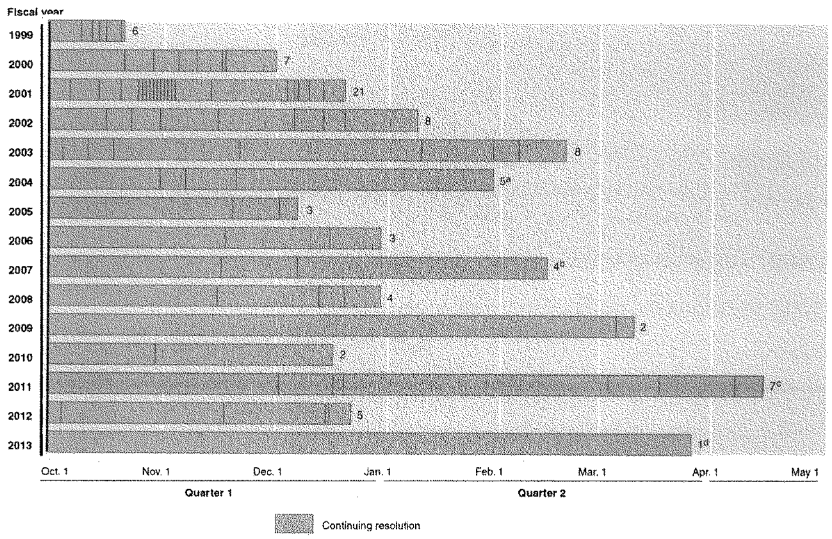
[3] See GAO, *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, GAO-09-879 (Washington, D.C.: Sept. 24, 2009).

[4] We conducted our work for GAO-09-879 from September 2008 to September 2009 and updated the analysis of the number and duration of continuing resolutions from February to March 2013.

until agreement is reached on final appropriations, they create uncertainty for agencies about both when they will receive their final appropriation and what level of funding ultimately will be available.

The effects of CRs on federal agencies differ in part on the duration and number of CRs. As the examples in my statement will illustrate, shorter and more numerous CRs can lead to repetitive work. Longer-term CRs allowed for better planning in the near term, however, operating under the level of funding and other restrictions in the CR for a prolonged period also limited agencies' decision-making options and made tradeoffs more difficult. As shown in figure 1, the duration and number of CRs has varied greatly between fiscal years 1999-2013, ranging from 1 to 197 days. The number of CRs enacted in each year also varied considerably ranging from 2 to 21, excluding the current fiscal year.

Figure 1: Duration and Number of Continuing Resolutions (Fiscal Years 1999-2013)



Source: GAO.

[a]The fifth CR, P.L. 108-185, amended the original CR with substantive provisions but did not extend the CR period.

[b]In February 2007, Congress enacted a 227-day CR that provided funding for the remainder of the fiscal year; this CR is not included in the figure.

[c]In April 2011, Congress enacted a 168-day CR that provided funding for the remainder of the fiscal year. This CR is not included in the figure.

[d]The figure is as of March 11, 2013.

The effects of CRs also vary by agency and program. Not all federal agencies, for example, are under CRs for the same amount of time. In our 2009 report we found that agencies covered by the Defense, Military Construction, and Homeland Security Appropriations Subcommittees operated under CRs for about 1 month on average during fiscal years 1999-2009, whereas other agencies operated under CRs for at least 2 months on average. More recently, for fiscal year 2013, all federal agencies are operating under a CR scheduled to expire on March 27, 2013.

Congress includes provisions applicable to the funding of most agencies and programs under a CR. These provisions provide direction regarding the availability of funding within a CR and demonstrate the temporary nature of the legislation. For example, one standard provision provides for an amount to be available to continue operations at a designated rate of operations. Since fiscal year 1999, different formulas have been enacted for determining the rate for operations during the CR period. The amount often is based on the prior fiscal year's funding level or the "current rate" but may also be based on a bill that has passed either the House or Senate. Depending on the language of the CR, different agencies may operate under different rates. The amount is available until a specified date or until the agency's regular appropriations act is enacted, whichever is sooner. In general, CRs prohibit new activities and projects for which appropriations, funds, or other authority were not available in the prior year. Also, so the agency action does not impinge upon final funding prerogatives, agencies are directed to take only the most limited funding actions and CRs limit the ability of an agency to obligate all, or a large share of its available appropriation during the CR. In 2007, Congress enacted the furlough provision in the CR for the first time. This provision permits OMB and other authorized government officials to apportion, or distribute amounts available for obligation, up to the full amount of the rate for operations to avoid a furlough of civilian employees. This authority may not be used until after an agency has taken all necessary action to defer or reduce nonpersonnel-related administrative expenses.

Recognizing the constraints inherent in a CR, Congress has at times provided flexibility for certain programs and initiatives through the use of legislative anomalies, which provide funding and authorities different from the standard CR provisions.[5] While uncommon, the majority of the anomalies provided either (1) a different amount than that provided by the

[5]In our previous work, we identified 11 standard provisions applicable to the funding of most agencies and programs under a CR. These include the provisions that provide the rate for operations during the CR period, the termination date of the CR, and the prohibition on new activities and projects for which appropriations, funds, or other authority were not available in the prior fiscal year. In contrast, anomalies are nonstandard provisions that provide specific directives to particular agencies. See GAO-09-879 for more information.

standard rate of operations or (2) an extension of expiring program authority. In some cases, CRs provide full-year appropriations for a program or activity, to help agencies manage funds. For example, in fiscal year 2009, the CR appropriated an amount to cover the entire year for Low Income Home Energy Assistance Program (LIHEAP) payments. LIHEAP provides assistance for low-income families in meeting their home energy needs and typically 90 percent of LIHEAP funding is obligated in the first quarter to cover winter heating costs.[6] In addition to the anomalies, multiyear appropriations and advance appropriations can help agencies manage the effects of CRs. For example, agency officials stated that multiyear appropriations, which provide the authority to carry over funds into the next fiscal year, can be helpful in years with lengthy CRs because there is less pressure to obligate all of their funds before the end of the fiscal year, thus reducing the incentive to spend funds on lower priority items that can be procured more quickly.

Delays and Increased Workload Affected Agencies' Ability to Carry Out their Missions Efficiently and Effectively

Continuing Resolutions Affected the Level, Cost, and Quality of Services

Case study agency officials contacted for our 2009 report said that, absent a CR, they would have hired additional staff sooner for government services such as grant processing and oversight, food and drug inspections, intelligence analysis, prison security, claims processing for veterans' benefits, or general administrative tasks, such as financial management and budget execution. While agency officials said that it was difficult to quantify the effect that hiring delays related to CRs had on specific agency activities given the number of variables involved,

[6] Since 2009, an anomaly in a CR has provided LIHEAP an amount to cover the entire year twice, in fiscal years 2011 and 2013. In both of these years, the CR period extended into the second quarter.

agencies provided examples that illustrated the potential adverse effects including:

- An FDA official said that deferring the hiring and training of staff during a CR affected the agency's ability to conduct the targeted number of inspections negotiated with FDA's product centers in areas such as food and medical devices and that routine surveillance activities (e.g., inspections, sample collections, field examinations, etc.) were some of the first to be affected.
- BOP officials said that deferring hiring during CRs had made it difficult for BOP to maintain the ratio of corrections officers to inmates as the prison population increased.
- VBA officials cited missed opportunities in processing additional benefits claims and completing other tasks. Because newly hired claims processors require as much as 24 months of training to reach full performance, a VBA official said that the effects of hiring delays related to CRs were not immediate, but reduced service delivery in subsequent years.

Several case study agencies also reported delaying contracts during the CR period, which could reduce the level of services agencies provided and increased costs. For example, BOP reported delaying the activation of its Butner and Tucson Prison facilities and two other federal prisons in 2007 during the CR period to make $65.6 million available for more immediate needs. According to BOP, these delays in the availability of additional prison capacity occurred at a time when prison facilities were already overcrowded. BOP officials also said that delaying contract awards for new BOP prisons and renovations to existing facilities prevented the agency from locking in prices and resulted in higher construction costs and increases in the cost of supplies. Based on numbers provided by BOP, a delay in awarding a contract for the McDowell Prison Facility resulted in about $5.4 million in additional costs. In some instances, delaying contracts resulted in additional costs in terms of time and resources. For example, officials from BOP, VHA, and VBA said that they sometimes had to solicit bids a second time or have environmental, architectural, or engineering analyses redone.

Some agency officials said that contracting delays resulting from longer CRs also affected their ability to fully compete and award contracts in the limited time remaining in the fiscal year after the agency had received its regular appropriation. VHA and ACF reported that the application time available for discretionary grants may also be compressed by a longer CR. Further, VA stated that this compressed application time adversely affected the quality of submitted applications. Similarly, BOP's Field

Acquisition Office, which is responsible for acquisitions over $100,000, said that trying to complete all of its contracts by the end of the fiscal year when a CR lasts longer than 3 to 4 months negatively affects the quality of competition.

According to some representatives of nonprofit organizations and state and local governments, federal grant recipients could temporarily support programs with funds from other sources until agencies' regular appropriations are passed; however, it was more difficult to do so during periods of economic downturn such as the one they recently experienced. An ACF official told us that nonprofit organizations providing shelter to unaccompanied alien children have used lines of credit to bridge gaps in federal funding during a CR. However, in March 2009, a shelter in Texas informed ACF's Office of Refugee Resettlement that its credit was at its limit and it was in immediate need of additional funds to sustain operations for the next 45 to 60 days. The Office of Refugee Resettlement made an emergency grant to this organization to maintain operations with the CR funding remaining.

Case study agencies reported that they continued to feel the effects of the delays caused by CRs even after the agencies had received their full year appropriations. In general, longer CRs can make it more difficult to implement unexpected changes in agencies' regular appropriations, because agencies have a limited time to do so. In addition, longer CRs can contribute to distortions in agencies' spending as agencies rush to obligate funds late in the fiscal year. For example, agency officials said that if hiring was delayed during the CR period, it was particularly difficult to fill positions by the end of the fiscal year after a longer CR period. Agency officials said that if the agency does not have enough time to spend its funding on high-priority needs (such as hiring new staff) because of a lengthy CR, the agency ultimately may spend funds on a lower priority item that can be procured quickly.

Increased Workload Stemming from Continuing Resolutions Diverted Resources from Competing Priorities

In addition to delays, all case study agencies reported having to perform additional work to manage within the constraints of the CR—potentially resulting in hundreds of hours of lost productivity. The most common type of additional work that agencies reported was having to enter into shorter term contracts or grants multiple times to reflect the duration of the CR. Agencies often made contract or grant awards monthly or in direct proportion to the amount and timing of funds provided by the CR. In other words, if a CR lasted 30 days, an agency would award a 30-day contract for goods or services. Then, each time legislation extended the CR, the agency would enter into another short-term contract to make use of the newly available funding. In 2009, agencies reported that the time needed for these tasks may be minimal and vary depending on the complexity of a contract or grant, but the time spent is meaningful when multiplied across VHA's 153 medical facilities and roughly 800 clinics, FBI's 56 field offices, BOP's 115 institutions, and the thousands of grants and contracts awarded by our case study agencies. For example, at the time of our study, VHA estimated that it awarded 20,000 to 30,000 contracts a year; ACF's Head Start program awarded grants to over 1,600 different recipients each year; and FBI placed over 7,500 different purchase orders a year. While none of the agencies reported tracking these costs, VHA estimated that a 1-month CR resulted in over $1 million in lost productivity at VA medical facilities and over $140,000 in additional work for the agency's central contracting office. These estimates were based on agency officials' rough approximations of the hours spent on specific activities related to CRs multiplied by average cost of the salary of the federal employee performing the task.[7]

In addition to adjusting contract and grant awards, all agencies also reported having to perform a variety of administrative tasks multiple times, including issuing guidance to various programs and offices; creating, disseminating, and revising spending plans; responding to questions and requests for additional funding above what the agency allotted to different programs or offices within the agency; and providing information to Congress and the Office of Management and Budget (OMB). These tasks, which agencies said that they would otherwise not have done or would have done only once had they received their regular appropriation on October 1, diverted resources from competing priorities. ACF estimated that for each CR its Division of Budget and program offices spent approximately 80 hours of additional staff time issuing guidance, allotting funds, creating and revising spending tables, and performing other administrative tasks.[8] FBI estimated that the Accounting, Budget, and Procurement Sections spent more than 600 hours in 2009 on

[7]Agencies, including VHA, ACF, and FBI, provided estimates of the additional or lost production costs at our request. We did not independently verify these estimates or assess their reliability beyond a reasonableness check, which involved reviewing the related documentation for each estimate and corroborating with related interviews and other documents where possible. Moreover, agencies were not able to identify specific activities that were foregone because of the CR.

[8]This time estimate does not include the additional work required to issue multiple grants.

activities related to managing during the CR such as weekly planning meetings and monitoring agency resources and requisitions.[9]

In general, numerous shorter CRs led to more repetitive work for agencies managing contracts than longer CRs. Numerous shorter CRs were particularly challenging for agencies, such as VHA and BOP, that have to maintain an inventory of food, medicine, and other essential supplies and could result in increased costs. For example, absent a CR, BOP officials said that prison facilities routinely contracted for a 60- to 90-day supply of food. In addition to reducing work, this allowed the prison facilities to negotiate better terms in delivery order contracts by taking advantage of economies of scale. However, under shorter CRs, these facilities generally limited their purchases to correspond with the length and funding provided by the CR. Thus, the prison made smaller, more frequent purchases, which BOP officials said could result in increased costs.

Agencies' Strategies to Manage Inefficiencies Resulting from CRs Varied

Agency officials told us they took various actions to manage inefficiencies resulting from CRs, including delays and increased workload. For example, to avoid the types of hiring delays often associated with a CR, during the CR period in 2009 FBI proceeded with its hiring activities based on a staffing plan supported by the President's Budget. This helped FBI avoid a backlog in hiring later in the year and cumulatively over time, but the agency assumed some risk because it could have received a regular appropriation that did not support the hiring plan it had implemented. Had this happened, FBI officials stated that FBI likely would have had to suspend hiring for the remainder of the fiscal year and make difficult cuts to other nonpersonnel expenses.

To reduce the amount of additional work required to modify contracts and award grants in multiple installments, ACF and FDA reported shifting contract and grant cycles to later in the fiscal year. An agency's ability to shift its contract cycle depends on a number of factors, including the type

[9]This time estimate does not include the additional work that personnel performed modifying contracts.

of services being acquired.[10] An agency can shift its contract cycle so that annual contracts for severable services, such as recurring janitorial services, are executed in the third and fourth quarters of the fiscal year when agencies are less likely to be operating under a CR. Further, FBI reported it generally entered into contracts based on the rate for operations for the period covered by the CR. Previously, each time Congress extended a CR, FBI renewed its contracts to make use of the additional funds that became available, and FBI's Finance Division provided a requisition for the renewal. Under FBI's new streamlined process, the Finance Division committed enough funds to cover a full-year contract at the beginning of the fiscal year.

To reduce the administrative work required to subdivide funds from each CR to different offices, programs, or both, VBA and VHA reported that they did not allot specific dollar amounts during a CR but rather provided guidance that all offices operate at a certain percentage of the previous year's appropriations. According to agency officials, this provides the agency with more flexibility during the CR period and reduces the workload associated with changes in funding levels. VHA officials said that this also allows each facility to manage its funds to meet priorities identified at the local level.

We have not reviewed agency operations under CRs since we issued our 2009 report. However, studies issued after our report was released have highlighted similar themes.

This concludes my statement for the record.

[10] The Federal Acquisition Streamlining Act of 1994 allows agencies to enter into 1-year contracts for severable services that cross fiscal years, so long as the contract period does not exceed 1 year and agencies have sufficient funds to enter into the annual contract. Severable service contracts are for services, such as janitorial services, that are recurring in nature.

Post-Hearing Questions for the Record
Submitted to Philip G. Joyce, Ph.D.
From Senator Thomas R. Carper

"The Costs and Impacts of Crisis Budgeting"
March 13, 2013

1. The concept of 'readiness' is not exclusive to the armed forces. A terrorist attack or natural disaster here at home requires not only that the military be ready to stand up, but that our civilian forces and agencies be able to do so as well. Ensuring our service men and women, our civilian employees, and our equipment are all ready to respond is vitally important. In your view, what has been the toll on the readiness of our government – military and civilian – because of budget uncertainty?

A. Readiness is, as you suggest, about advance preparation that enables any organization to be able to respond to future (often unforeseen) events. Budget uncertainty impedes readiness in at least three ways. First, because agencies cannot plan reliably for multiple years in advance, they may avoid investing in priorities that may promote readiness if those priorities are expensive or will take multiple years to implement. Second, the underinvestment in maintenance of capital assets which often is caused by the need to make sudden cutbacks can compromise the ability of those resources to be available to respond to any emergency. Third, because CRs freeze priorities in place, they often prevent governments from making needed changes, or delay their implementation.

2. In your testimony, you described the damage done to human capital - the men and women who come to work for the federal government every day as employees or contractors - because of this budget uncertainty. Beyond the larger issues of morale and productivity, it seems that we may be supporting a massive 'brain drain' of some really talented individuals from work supporting the government as they seek stability elsewhere. How significant is this potential 'brain drain' to our operations now and, perhaps more importantly, to our operations as we look down the road 10 and 20 years from now? In addition, how does this negatively affect recruitment? Are there any areas that are particularly seeing a downturn in the ability to attract and retain skills necessary to support the government contracts?

A. Looking down the road, I think that there are two effects on human capital that are most important. First, there is the simple fact that government employees—and ones that are most desirable to other employers and therefore most important to keep—will get fed up and leave federal service, taking their abilities and their institutional memory with them. Second, there is the difficulty that we will have in replacing those employees, as the federal government looks like a less and less attractive option for young people, such as those who attend and graduate from Masters in Public Policy programs such as the one that I teach in. The future of the federal service is heavily dependent on the ability to attract these people to public service.

3. Please provide two or three strong, dramatic, undeniable examples of why this churning, stop-and-go, budget uncertainty is just senseless and why we have got to get away from it. These can be examples of waste, inefficiency, or other deleterious effects on government operations that you've seen aAA.nd believe to be harmful to our nation and to taxpayers.

A. With apologies, there are so many options that it was hard for me to stop at three. The first ones I have listed are the most problematic to me, but I wanted to also give you other examples:

1. The 2009 GAO report highlighted the personnel actions of agencies that it had studied in response to CRs. GAO stated that "(a)ll of the (GAO) case study agencies reported not filling some new or existing positions during the CR period because they were uncertain how many positions their regular appropriation would support or to meet more immediate funding needs during the CR period." (Government Accountability Office, 2009, p. 12). Among some specific examples:

- The Federal Bureau of Investigation (FBI) delayed filling existing positions in order to fund annual pay raises, annualize pay for previous year's hiring, or to cover increased costs of retirement, health insurance, or other employee benefits..
- The two GAO case study agencies within the Department of Health and Human Services (the Administration for Children and Families and the Food and Drug Administration) said they did not begin the hiring process in some years because they feared that it would result in wasted time if they were not ultimately able to fill the positions.
- It is hard to quantify the effects of these hiring delays, but they certainly affected the number of food inspections (FDA), the ability to maintain or improve the ratio of corrections officers to inmates, given the increase in the inmate population (the Bureau of Prisons, with the Department of Justice) and the ability to process claims for veterans benefits in subsequent years (the Veterans Benefits Administration, with the Department of Veterans Affairs).

2. In State College, Pennsylvania, a new air traffic control tower, built at a cost of $7.5 million, sat empty in the Spring of 2011 because the Federal Aviation Administration lacked the funding to hire the air traffic controllers necessary to staff it (Sullivan, 2011).

3. In DOD, training and the agency's key challenge of maintaining force readiness are inexorably related. The various forms of budget uncertainty (the threatened government shutdown, the debt ceiling debacle) led to measurable reductions in DOD training. The Air Force predicted that CRs, and planning for a shutdown, reduced flying hours by ten percent (Philpott, 2011). Active duty personnel interviewed in 2011 reported that the near shutdown in 2011 led to the cancellation of training exercises (Company Command, 2011).

4. The Department of Justice had decided in 2011 to stop funding the National Drug Intelligence Center in Johnstown, Pennsylvania. Since they could not plan for a specific date to cease operations, the passage of a CR required them to continue operating until the regular appropriation became law.

5. Delays can also lead to a rush to obligate at the end of the year. They exacerbate a trend, therefore, that already exists. "In 2006, VHA obligated 60 percent (about $248 million) of its $424 million nonrecurring maintenance budget in September, the last month of the fiscal year." (GAO, 2009, pp. 14-15). This rush creates a greater potential to make mistakes which may lead to adverse audit findings.

6. The Bureau of Prisons (BOP) told GAO that awarding contracts later prevented the agency from locking in prices and therefore increased costs. In one case (the McDowell Prison facility in West Virginia) this resulted in about $5.4 million in additional costs (Government Accountability Office, 2009, p. 14).

7. During the 2011 funding delay the Navy cancelled seven ship-repair contracts, at a savings of $62 million (McCabe, 2011). Even if these repairs occurred in a later fiscal year, their deferral could clearly have operational and cost implications, as assets would wear out more quickly.

8. The fiscal year 2011 CR caused DOD to delay 75 projects that they argued would cost more when they resumed. Among these were some support and maintenance contracts that were not made in the usual yearly installments but instead were broken down into shorter, more labor consuming pieces. Deputy Defense Secretary William Lynn told the Senate Appropriations Committee in March 2011 that "(t)here's no questions that we will spending more money for the same goods if we don't receive the money in a timely way" (Sullivan, 2011, p. 3).

9. Sometimes officials may delay the implementation of program enhancements or need to take extraordinary actions to respond to changing emergency circumstances because of funding constraints of CRs. In the case of the FBI, this led to the delay of the Data Loading and Analysis System, meaning that the desired improvements in data sharing for counter-terrorism, counterintelligence, and cyber intrusion were not able to take place as scheduled. In addition, for agencies like the FBI which must respond to immediate law enforcement demands (such as was created by the Oklahoma City bombing in 1995 and the events of September 11, 2001), CRs make it even more difficult to free up those resources. Since these emergencies are an immediate priority this, at least in the short run, puts even more pressure on other agency activities.

10. One of the most striking characteristic of the 2011 budget impasse is that it actually resulted in delays in getting resources to the troops in the field. As a specific example, the Air Force had planned to purchase 48 MQ-9 Reaper unmanned aircraft in fiscal year 2011 in order to increase the number of combat air patrols in Afghanistan to 65 patrols. Under the CR, however, they could purchase no more than 24 such aircraft, which resulted in delays in getting this capability to active war fighters (Brannan, Cavas, and Majumdar, 2011).

References for Examples

Brannan, K., Cavas, C., and Majumdar, D. (2011). 2011 budget delay causes issues for Defense Department. *Federal Times*, February 6.

Company Command (2011). Impact of the Federal Government's Near-Shutdown.

Government Accountability Office (2009). *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, September.

McCabe, R. (2011). Budget delay sinks 4 Hampton Roads Shipyard Projects. *The Virginia-Pilot,* March 14.

Sullivan, A. (2011). Special report: On borrowed time: budget delays start to hurt. *Reuters.com*, March 16.

Post-Hearing Questions for the Record
Submitted to Philip G. Joyce, Ph.D.
From Senator Tom Coburn

"The Costs and Impacts of Crisis Budgeting"
March 13, 2013

1. In your testimony (pg. 5), you state that budget and appropriations delays lead to certain problems for agency management. For example, you mention that, in FY 2011 appropriations delays, "Media reports indicated that DOD needed to raid procurement budgets in the first half of the year in order to fund pay and benefits, resulting in deployed troops not getting needed equipment, the cancellation of 20 ship overhauls by the Navy, and deferred aircraft maintenance." Please provide copies of the media reports, or citations for media reports, referenced in your testimony.

A. This specific example is from the following article: Sullivan, A. (2011). Special report: On borrowed time: budget delays start to hurt. *Reuters.com*, March 16.

2. You make several recommendations. Among them, you recommend that CRs permit inflationary increases instead of remaining flat. How would this help our country rein in spending and dig out of our enormous national debt? Would this not be more of incentive to continue CRs?

A. You are correct that this might be an incentive to retain the practice of funding by CR, since one of the effects of CRs (freezing spending in place) would be lessened. On the other hand, if CRs are going to exist, they should really permit the continuation of current activities rather than pretending that all current activities are going to continue and instead making cuts that are not transparent. It is true that we have a huge and growing debt. We should deal with it honestly, by cutting programs that don't work or are of a low priority. Failing to permit inflationary increases is just another form of across-the-board cut.

3. In your testimony, you state that "Agencies waste 'a great deal' of time preparing for potential government shutdowns and CRs, and then complying with them after the fact." How much in hours and dollars is "a great deal" – either across all agencies in the aggregate or an example within one agency?

A. Unfortunately, there is no precise (or even approximate) estimate of how many hours are spent in these activities. ANY amount, however, is a waste of time, and often these types of discussions involve people at the very highest levels of the government or agencies, who without question have better things to do. The 2009 GAO report did indicate that the Veterans Health Administration (VHA) estimated that a one month CR led to more than $1 million in lost productivity at VHA medical facilities and more than $140,000 in additional costs for the contracting office.

Post-Hearing Questions for the Record
Submitted to Scott D. Pattison

"The Costs and Impacts of Crisis Budgeting"
March 13, 2013

From Senator Thomas R. Carper

Q1. Please provide two or three strong, dramatic, undeniable examples of why this churning, stop-and-go, budget uncertainty is just senseless and why we have got to get away from it. These can be examples of waste, inefficiency, or other deleterious effects on government operations, and state operations that are funded through federal funding, that you've seen and believe to be harmful to our nation and to taxpayers.

A. Highlighted below are several of the strongest examples cited in my testimony of the negative impacts of federal budget uncertainty on government operations.

   1. Frequent temporary extensions of surface transportation programs have been found to have serious negative effects on states' ability to plan and executive transportation projects. For example, in March 2012, after a temporary extension was passed in place of a long-term reauthorization, a number of state transportation officials reported the negative impacts of the short-term extension. According to a list compiled by the Senate Environment and Public Works Committee at that time, Nevada and Maryland each cited 4,000 jobs at risk and Michigan cited 3,500 jobs at risk related to projects being delayed due to funding uncertainty.[1]

   2. Budget officers have observed over the years how federal budgetary uncertainty shifts programs' focus away from delivering services and achieving long-term goals. The uncertainty surrounding the "fiscal cliff" debate last year and sequestration more recently left state agencies around the country scrambling to put together contingency plans focused on short-term actions that would be used to respond to possible federal funding changes. The planning abilities of federal agencies were likely compromised even more severely as a result of this uncertainty, leading to decreased staff productivity, inefficiency and lack of strategic, long-term planning.

   3. Due largely to uncertainty around federal appropriations amounts, school districts in one state have some years issued layoff notices in the spring for the following school year, as required by state law, that are subsequently "pulled back" once appropriation levels are more certain. This causes substantial disruption for school districts' planning efforts for the next academic year.

[1] Council on State Governments, "Congress Passes 9th Transportation Extension; State Governments Remain Concerned About Continued Uncertainty," March 2012.

From Senator Tom Coburn

Q1. In your testimony (pg. 3), you state that "Tough decisions will continue to have to be made by states to maintain balanced budgets and fulfill their funding obligations." If state can and must do this, why can't the federal government? How can the federal government learn from states when it comes to passing annual budget and appropriations bills?

A. States have made difficult financial management decisions that we belive can be illustrative for the federal government in their budgeting process. These tough decisions will continue in an environment with limited resources and heightened spending pressures in certain program areas, such as health care and retirement benefits. They have implemented processes to plan for future years and create incentive for stability and certainty in financial management. Of course the federal government is different than states, in that states (except Vermont) are required by constitutional or statutory law to maintain a balanced budget, though the structure and strictness of these rules vary by state. Typically, this requirement only applies to a state's operating budget (in most states, the general fund budget) and does not usually include its budget for capital projects, which are often financed by borrowing against future revenues. That being said, states generally have some type of restriction on indebtedness, and often debt-financed projects at the state and local levels are subject to voter approval. Because of the states' stricter requirements and differing circumstances, there are various incentives in states to financially manage with consideration of trade-offs. If a state fails to make the tough decisions necessary in order to pass a budget that is balanced and on time, that state government can face serious consequences. For example, the state's credit rating may be downgraded, thereby increasing its borrowing costs and limiting its access to capital.

Federal decision-makers lack some of the economic and political incentives that states have to pass an annual budget on time. Whether or not the federal government should have some type of balanced budget requirement has been a subject of debate for years. While the federal government operates under different laws and incentives, as well as plays a different fiscal and economic role than do states, federal policymakers can still learn a lot from states. State-level elected officials are making difficult spending choices in a timely manner, as well as developing innovative policy solutions to make government more effective at a lower cost, often through government redesign initiatives. Effective state and local governments provide their citizenry and businesses with budgetary certainty and stability, something federal policymakers should strive to do as well. States have processes in place to create incentives for increased certainty.

Q2. In your testimony, you state that more than 31 percent of all estimate state expenditures came from federal funds in FY 2012 – making uncertainty of these funds a potential burden on states. Given the chronic uncertainty in Washington, shouldn't states consider reducing the percentage of funding they are depending on the government to receive?

A. Based on what we have observed from state CFOs, I would not be surprised if states look more carefully at federal funding opportunities, especially new grant programs, before pursuing them. States have also taken part in contingency planning efforts to determine what actions will be taken if federal funds to programs are reduced. However, politically, it can be very difficult for elected state officials to refuse federal funds when they are offered, especially when such funds go to support programs that benefit individuals directly. Moreover, in many cases federal funding to states is mandatory spending allocated to states based on funding formulas set by law, rather than discretionary spending distributed to states upon request or through a competitive grant process.

From Senator Mark Begich

Q1. During our discussion, you mentioned that there are some examples of States and localities providing good oversight of the budget process, including the effectiveness of government spending and programs in the budget. Would you please provide me with any examples you have of States and localities providing good oversight in this area?

A. There are a number of examples of states and localities that are providing good oversight of the budget process, with a focus on the effectiveness of government spending and programs in the budget. According to the National Association of State Budget Officers' *Budget Processes in the States* report, as of 2008, 25 states used a performance budgeting approach, either exclusively or in combination with another form of budgeting, while 40 states collected program-level performance information.[2] Highlighted below are just a few examples of states practicing good oversight of program effectiveness as part of the budget process.

In **Connecticut**, the legislature uses the "Results Based Accountability™" (RBA) system for incorporating performance information in budgeting decisions. The Appropriations Committee of the state general assembly first adopted the RBA approach in 2005 to monitor the effectiveness of government-funded programs and determine whether changes should be made. This process results in program "report cards" identifying the core objective that the program is intended to support, the program's contribution to that objective and performance data describing program outputs and outcomes. Each program's funding amount is also provided on these report cards. This information is intended to be used by the state legislature and agencies in making funding and management decisions, as well as by the public to hold government programs accountable. For more information, see http://www.cga.ct.gov/app/rba/.

In **Idaho**, a zero-based budgeting approach is used, requiring all state agencies to develop a "gap analysis" every six years that determines the gap between activities required to be performed given state and federal laws and activities actually performed. A group comprised of budget office and senior agency staff determines activities that are required by state or federal law, examines how these activities could be performed differently to achieve better outcomes, and prioritizes activities by cost centers. This process has been used to both reduce and realign resources, as well as assist agencies as they implement necessary budget holdbacks. For more information, see http://dfm.idaho.gov/st_agency_guide/zbb.html.

In **Maryland**, a "Managing for Results" (MFR) framework is used for strategic planning, performance management, and the annual budgeting process. The Department of Budget and Management, working with the governor's office, prepares a comprehensive plan outlining the administration's priorities, goals, and how performance towards those goals will be measured. The department also requires each agency to outline the mission, objectives and performance measures for the agency and each program within the agency. This information is included in the governor's budget and used to make executive budgetary recommendations and decisions. The governor's office also uses a

[2] National Association of State Budget Officers, *Budget Processes in the States*, Summer 2008, p. 51, 55.

performance measurement and management tool called "State Stat" to monitor agencies' progress towards performance goals and examine ways to improve agencies' business processes and strategies. A number of localities have implemented similar tools, many modeled after Baltimore's "CitiStat" performance-based management system. For more information, see http://www.statestat.maryland.gov/ and http://www.baltimorecity.gov/Government/AgenciesDepartments/CitiStat.aspx.

In **Oregon**, the governor launched a "10-Year Plan" initative aimed at redesigning the way state government builds its budget and makes investment decisions. As part of this initative, a new outcome-based budget was developed in coordination with a 10-year sustainable budget framework. This information is then used by decision-makers to tie public investments to specific outcomes in key policy areas and to prioritize services that Oregon's citizens value. Putting this new budgeting system in place requires the state to set clear budget limits, expectations and criteria. To build transparency and accountability, independent teams made up of individuals who do not work for the agencies being evaluated are charged with reviewing budget items and analyzing program data. For more information, see http://www.oregon.gov/COO/TEN/Pages/outcome_budgeting.aspx.

In **Nevada**, a "Priorities and Performance Based Budgeting" initiative was launched to move away from line-item, incremental budget development and toward budgeting for outcomes, with an emphasis on providing increased accountability and transparency of state government. This process uses a combination "top-down" and "bottom-up" approach. The process starts with the cabinet and govenor defining the core functions and objectives of state government. Then, state agencies define their activities and how they connect to the core objectives. Finally, performance measures are identified, and measurement data are collected and used to monitor the effectiveness of these activities. For more information, see http://budget.nv.gov/PPBB/.

Post-Hearing Questions for the Record
Submitted to Colleen M. Kelley
From Senator Thomas R. Carper

"The Costs and Impacts of Crisis Budgeting"
March 13, 2013

1. The concept of 'readiness' is not exclusive to the armed forces. A terrorist attack or natural disaster here at home requires not only that the military be ready to stand up, but that our civilian forces and agencies be able to do so as well. Ensuring our service men and women, our civilian employees, and our equipment are all ready to jump into action is vitally important. In your view, what has been the toll on the readiness of our government – military and civilian – because of this budget uncertainty?

   I believe the biggest toll on civilian readiness of budget uncertainty occurs in the area of hiring freezes. Agencies do not know what their budgets will look like until well after the fiscal year has started. In most cases, agencies plan for the worst and delay hiring, even to fill critical positions. The growing number of retiring employees leave uneven workforces behind. Not filling critical positions and not having adequate numbers of employees to deliver on agency missions create serious readiness problems. In addition, training is often the first thing cut during times of budget uncertainty. Clearly, ensuring readiness requires a level of training that is not being met at this time.

2. In your testimony, you describe the damage done to our human capital – the men and women who come to work for the federal government every day - because of this budget uncertainty. Beyond the larger issues of morale and productivity, it seems that we may be supporting a massive 'brain drain' of some really talented individuals from our government as they seek stability elsewhere – either for their own careers, or with respect to the work they are trying to do. How significant is this potential 'brain drain' to our operations now and, perhaps more importantly, to our operations as we look down the road 10 and 20 years from now? In addition, as we try to recruit and mentor a new generation of younger workers, how does this negatively affect recruitment?

   The federal workforce has changed significantly over the past several decades. It used to be a workforce made up predominantly of clerks. It is now a workforce of highly educated and specialized professionals. These employees have opportunities to pursue rewarding careers in the private sector and as more of them leave the federal workforce to do that, or to retire, they will create a "brain drain" in the federal government. In addition, the lack of budget certainty, along with the political attacks federal workers have been subject to in recent years, are making the federal government unattractive to a younger generation of workers. That is a serious problem that will have long term ramifications.

3. At the hearing, you spoke about the toll budget uncertainty takes on our federal workforce. One kind of impact is obviously the financial impact some workers may take through shutdowns or furloughs. These can be hard on employees, especially someone like an entry level staff. The furloughs also don't hit all employees evenly. An agency that has a budget primarily made up of salaried employees will have to turn to furloughs and hiring freezes to manage uncertainty while one that administers grants or other multi-year funded programs may be able to trim costs without directly affecting employees. What are the financial impacts on our public employees, and where they are falling most heavily – whether from the sequester or from the impact of continuing resolutions and other uncertainty?

   Continuing Resolutions and other budget uncertainty primarily affect employees by creating staffing shortages and other resource limitations that lead to increasing workloads on those trying to meet agency missions. But, unpaid furloughs, required by sequestration, have a direct impact on the financial situation of workers by cutting their take home pay. These cuts of 10% to 20% of pay are difficult for all employees, but can be devastating for lower graded employees who, like many Americans, live paycheck to paycheck.

4. Please provide two or three strong, dramatic, undeniable examples of why this churning, stop-and-go, budget uncertainty is just senseless and why we have got to get away from it. These can be examples of waste, inefficiency, or other deleterious effects on government operations that you've seen and believe to be harmful to our nation and to taxpayers.

   As I noted in my written testimony, the fact that Congress was unable to act in a timely manner on expiring tax provisions at the end of last year required the IRS to delay the beginning of tax filing season for nearly a month. Why should taxpayers due a refund be forced to face delays in receiving those refunds because Congress was unable to act in a timely and responsible manner?

   The government shutdown threats due to Congress not passing appropriations measures in a timely manner, which we have seen over the past few years have not only caused anxiety and frustration in federal employees, they have wasted scarce agency funds. In order to prepare for the possibility of a shutdown, agencies must draw up plans and determine which employees will be exempt and which will be required to work during a shutdown. Employees must be briefed on those plans and given information on what they can and can't do during a shutdown. The public must be given information on what will be open or closed. Prudence requires this planning, but it should be unnecessary and is a total waste of taxpayer dollars.

Post-Hearing Questions for the Record
Submitted to Colleen M. Kelley
From Senator Tom Coburn

"The Costs and Impacts of Crisis Budgeting"
March 13, 2013

1. You testify that federal employees are increasingly frustrated with their jobs and that some degree of this is attributable to the financial challenges the nation faces. Do you think that federal employees and members of congress should be the first to lead by example, however, when it comes to sacrificing to fix our nation's problems?

   I believe that federal employees have led by example, contributing $114 billion to deficit reduction efforts from an unprecedented three year pay freeze and increased pension contributions. They are now facing unpaid furloughs due to Congress' inability to avoid sequestration by passing a balanced deficit reduction plan, furloughs that Members of Congress are exempt from. I believe it is time for others, especially large corporations and the wealthiest Americans, to join in the sacrifice that middle class federal employees have taken the lead on.

PROFESSIONAL SERVICES COUNCIL
The Voice of the
Government Services Industry

April 26, 2013

Professional Services Council Response to
Post-Hearing Questions for the Record
Submitted to Stan Z. Soloway
From Senator Thomas R. Carper

"The Costs and Impacts of Crisis Budgeting"
March 13, 2013

Q1. The concept of 'readiness' is not exclusive to the armed forces. A terrorist attack or natural disaster here at home requires not only that the military be ready to stand up, but that our civilian forces, agencies and the contractors that support these agencies be able to do so as well. Ensuring our service men and women, our civilian employees, government contractors are all ready to jump into action is vitally important. In your view, what has been the toll on the readiness of our government – military and civilian – because of this budget uncertainty?

A1. Readiness, in a broad sense, is the first and most serious casualty of budget uncertainty and austerity. And it takes many forms. With regard to sequestration and the overall budgetary chaos, readiness is most specifically impacted by short term funding decisions being made without consideration for mid-to-long term cost and performance impacts.

In both government and industry, curtailing or suspending training (along with travel) is often among the earliest actions that organizations take to reallocate resources in the face of constrained or unpredictable funding streams. This may solve immediate budget concerns but can have a very real and measurable impact on longer term readiness. Likewise, the suspension or reduction of scheduled maintenance—of everything from facilities to major systems—also has an inexorable impact downstream. Yet DoD and many civilian agencies, faced with the current fiscal uncertainty and likely significant reductions, have taken just those actions.

As explained in my written statement, uncertain budgets limit the ability of both government and private sector organizations to plan beyond even their most immediate needs—even more so than smaller budgets with well-defined spending priorities. Without some level of predictability, companies are far less likely to invest in new personnel or innovative solutions, and may not be able to maintain a reserve of "bench strength" to be available to support potential customer needs that may or may not arise. Within government, delayed budget decisions cause the acquisition workforce to refrain from making contractual commitments due to the uncertainty and personal liability around future financial resources to sustain the award. This point has been made repeatedly by the Special Inspector General for Iraq Reconstruction (SIGIR), who concluded that among the most significant challenges driving waste in Iraq was the lack of appropriate planning and coordination.

Even when clarity is provided far into an existing fiscal year, that same message permeates throughout Inspectors General and GAO reports that the acquisition workforce is challenged by having to award a significant number of contracts over a shorter time period. Furthermore, the delay in making awards hampers the government's ability to realize cost savings. Often recompeted contracts are able to provide cost savings over previous contracts for the same or similar work or to deliver more products or services than previously for the same price. The government could achieve savings simply by awarding contracts that are in the pipeline. Thus the budget uncertainty continues to stifle our nation's ability to reinvest potential savings in additional readiness capabilities.

Q2. In your testimony, you described the damage done to human capital - the men and women who come to work for the federal government every day as employees or contractors - because of this budget uncertainty. Beyond the larger issues of morale and productivity, it seems that we may be supporting a massive 'brain drain' of some really talented individuals from work supporting the government as they seek stability elsewhere. How significant is this potential 'brain drain' to our operations now and, perhaps more importantly, to our operations as we look down the road 10 and 20 years from now? In addition, how does this negatively affect recruitment? Are there any areas that are particularly seeing a downturn in the ability to attract and retain skills necessary to support the government contracts?

A2. As noted in the written statement, in the current budget environment, companies are faced with less clarity, more risk and less certain returns when deciding to engage in the federal marketplace when compared with the commercial sector. The same is true of individual employees when deciding where to offer their skills. Compensation levels for advanced science and technology skills in the federal sector, for example, have failed to keep pace with those in the commercial space. It is not necessary that a given skillset remain in government so long as 1) it is accessible to the public sector through contracts or other arrangements; and 2) the government retains the ability to effectively oversee and manage contracts that contain such complex elements. As evidenced by the government's current demographic and skills crisis, in which the government faces, as but one example, an 8-1 ratio of cybersecurity specialists that are over 50 vs those under 30—the precise reverse of commercial sector personnel trends —the reality is that government cannot expect to hire anywhere near the number of specialized skills it needs. Thus, the private sector becomes the critical conduit to and source for those skills.

Within the government, hiring and pay freezes, and a longstanding lag between government pay scales and the "market value" of higher end skills as established across the broader economy, have hampered federal agencies' ability to compete with the private sector for top talent and key skills—in both the federal contracting and commercial markets. Nonetheless, in the face of stark budget uncertainty, real concern exists across the government contracting community about the clear trend toward work requiring complex, high end skills being awarded on a low price basis, which by definition hampers the ability of government contractors to access the best and the brightest in the marketplace. Those personnel are far more likely to migrate to the more competitive commercial sector and are not likely to return.

Equally critically , proposals to arbitrarily restrict allowable compensation under federal contracts, as another misguided policy tool to hold costs down and maintain some balance with public sector employee compensation, threaten to add to the imbalance and drive talent from contractors to the commercial sector or within companies from the government sector to a commercial sector. Coupled with restrictions on contractor margins, their ability to compete for and retain talent can be significantly impacted. These are troubling trends, as the failure to maintain a healthy industrial ecosystem will only undermine the government's ability to meet its missions in an effective, cost-conscious manner both now and well into the future.

Regardless of the industrial base concerns driven by contracting and personnel policies, the most critical area for supporting government contracts is in the federal acquisition workforce itself. Nowhere are the personnel challenges faced by the government more evident or imperative than in this area, which is both an "inherently governmental" function and in many ways wholly unique to the federal market. As our testimony indicated, and was illustrated by our 2012 biennial Acquisition Policy Survey, more than a decade of effort has failed to bring about a sufficiently resourced, skilled, and effective acquisition workforce. This is an issue not just of a "brain drain" of people and experience but of how government attracts and trains this critical workforce. Once again, this is an area where the Committee can be an effective advocate for revisiting the career paths and training protocols for this vital workforce. It is essential that an attractive career path be created to encourage entrance and excellence in the acquisition workforce, and that metrics and processes be put in place to reward exemplary performance.

Q3. Please provide two or three strong, dramatic, undeniable examples of why this churning, stop-and-go, budget uncertainty is just senseless and why we have got to get away from it. These can be examples of waste, inefficiency, or other deleterious effects on government operations that you've seen and believe to be harmful to our nation and to taxpayers.

A3. Finding truly dramatic examples of the waste or inefficiency driven by the budget environment is difficult. Instead, the impacts tend to be subtle and/or slowly evolve over time. What appears to be a minor inconvenience to the government can actually be a hugely distruptive event for a company. For example, one of our member companies submitted an invoice to a government customer for work that had been completed and approved; the customer then informed the company that while the work was well done, they simply didn't have the money to pay for it and delayed payment for several weeks. In another case in March, a company was formally directed by their government customer to proceed to the next phase of a project, but was told that funding to support that extension does not currently exist; however, the customer "hoped" to have the funding by the end of June. Of course, "working at risk," which is what this would amount to, is illegal for the government to ask a contractor to do and for the contractor to undertake – except that it happens all the time. In both cases, companies face circumstances in which the government is unable to pay in a timely manner for work that has been duly performed.

More than one company has reported that some customers, worried about their fiscal situation, had directed them to reduce the labor rates they are currently paying their employees supporting that customer by as much as 20%. The work in at least one of these cases involves highly specialized, cleared technology personnel. The companies are thus left to decide whether to lose money on the contract (by continuing to pay their people the agreed upon rates) or face losing critical personnel who could, without much trouble, find other opportunities. In both of these circumstances, the impacts on government may not appear to be dramatic in the near term. But for the companies involved, they are very significant.

As noted earlier, the Special Inspector General for Iraq Reconstruction (SIGIR) found that delayed budget decisions cause the acquisition workforce to avoid making contractual commitments due to the uncertainty around future financial resources to sustain the award. His report asserted that the lack of appropriate planning and coordination was among the most significant challenges driving waste in Iraq.

○