CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

March 11, 2015

Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: Federal Contracts and the Contracted Workforce

Dear Congressman:

As you requested, the Congressional Budget Office has performed a brief analysis of federal contracts in an attempt to ascertain the size and cost of the federal government's contracted workforce. Regrettably, CBO is unaware of any comprehensive information about the size of the federal government's contracted workforce. However, using a database of federal contracts, CBO determined that federal agencies spent over $500 billion for contracted products and services in 2012. Between 2000 and 2012, such spending grew more quickly than inflation and also grew as a percentage of total federal spending. The category of spending that grew the most in dollar terms was contracts for professional, administrative, and management services, and the category that grew the most in percentage terms was contracts for medical services. Because the database that CBO used is not complete and because questions have been raised about its accuracy, those findings should be considered approximate.

Using Contracts to Perform Government Operations

Federal agencies perform their missions in various ways. They use government employees and purchase other inputs, such as office supplies and computers, from the private sector. In some cases, they purchase not only inputs but also finished goods and services, such as fighter aircraft and facility maintenance, from the private sector. In general, they mix those two approaches on the basis of what is convenient, less costly, and allowed by law.[1]

Such purchases from the private sector are necessary because it would not make sense for a government agency to provide all of the goods and services necessary to carry out its work. An agency (or a company) would never make its own pencils, of course; it is much more economical to buy them from a retail store or to write a contract to procure a large quantity from a supplier. In many cases, however, the government would not make purchases from the private sector; for example, the Department of Defense (DoD) would not hire contractors to command troops in battle or contract with a private think tank to make high-level decisions about military policy.

[1] Federal agencies may also make agreements or provide grants to obtain goods and services from other agencies, state or local governments, foreign governments, or universities.

Such contracts would be difficult to enforce, have inherent conflicts, and probably violate laws and regulations.

Between those two extremes are many products and services that could be provided or performed by either a federal agency or contractors—or by both. For example, to manufacture, equip, maintain, and operate its ships, the Navy uses a mix of its own personnel (both uniformed and civilian) and private contractors. All of the Navy's ships are manufactured in private shipyards, though that has not always been the case. Most weapons, software, spare parts, fuel, food, and other supplies for the ships come from private suppliers, sometimes passing through government agencies outside the Navy. Maintenance is provided by a combination of uniformed personnel, government-employed civilians, and contractors. Uniformed Navy officers and sailors operate warships, and government-employed civilians operate some supply and support ships, but contractors maintain certain systems on board—sometimes even while ships are under way. Research and development related to ships is performed by government-employed civilians and contractors at government research facilities, by researchers at universities, and by private companies. Many other government functions are likewise performed by a complex and changing mix of government employees and private-sector contractors.

When deciding whether the best way to perform a function is with its own employees or with contractors, a government agency must take a number of factors into account: whether the function is inherently governmental (as high-level policy decisions, contract administration, criminal prosecutions, and command of military forces are); the feasibility and legality of writing and managing a contract for the function; and the relative cost of different methods of performing the function.[2] In general, a government agency may be able to reduce costs somewhat by changing the mix of work done by government employees and by contractors, provided that one approach is less costly than the other or that opening the function to competition leads to savings. For example, cutting contract spending without reducing the scope of an agency's programs or functions would probably result in shifting work to federal employees; similarly, making significant cuts to the federal workforce without reducing an agency's scope would probably shift work to contractors. Either approach could lead to some net savings in certain circumstances, depending on relative costs and other factors. However, achieving significant savings generally requires eliminating or significantly reducing programs or functions that an agency provides.[3] If an agency's total workforce—that is, including both federal and contract employees—was reduced significantly without a corresponding reduction in the scope of its work, the agency's programs and functions would probably be performed less effectively, resulting in longer wait times, for example, or in declining quantity or quality of work products.

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[2] For more information about inherently governmental functions, see Federal Acquisition Regulation (FAR), 48 C.F.R. §§7.500–7.503 (2014).

[3] See Congressional Budget Office, *Options for Reducing the Deficit: 2014 to 2023* (November 2013), p. 253, www.cbo.gov/budget-options/2013/44687.

Available Data on Federal Contracting

The Federal Procurement Data System–Next Generation (called FPDS-NG, or FPDS for short) is the only comprehensive source of information about federal spending on contracts.[4] However, FPDS's data are not complete, and several government reports have called the accuracy of some of those data into question.[5] FPDS also makes it difficult to summarize federal spending on contracts. For example, each purchase is assigned a single "product or service code"—but there are roughly 3,000 of those codes, and FPDS offers no useful way to group them. The Center for Strategic and International Studies (CSIS) has therefore grouped the codes into 16 categories, which CBO adopted for its analysis.[6]

Federal Spending on Contracts

Spending on federal contracts grew from 11 percent of federal spending in 2000 to 15 percent in 2012, according to the data in FPDS. DoD accounted for about 62 percent of the spending on contracts in 2000 and 70 percent in 2012, partly because of the rise of spending for the two wars fought during that period.[7] The share of DoD's own spending that was allocated to contracts also rose during that period—from 47 percent to 56 percent. The other contracts in FPDS are part of nondefense discretionary spending. Nondefense agencies with significant contract spending include the Department of Energy, the Department of Veterans Affairs, the National Aeronautics and Space Administration, the Department of State, the United States Agency for International Development, the Centers for Disease Control and Prevention, the Federal Bureau of Prisons, the Federal Aviation Administration, the Centers for Medicare & Medicaid Services, and the National Institutes of Health.

Contracts may be used to make purchases in three broad categories: services, products, and research and development (see Table 1). In 2012, DoD spent about 42 percent of its contract funds on services, 49 percent on products, and the remaining 10 percent on research and development. If spending on contracts is divided into CSIS's narrower categories, the largest share of DoD's contract spending went to contracts for professional, administrative, and management services; the next-largest share went to contracts for aircraft. Non-DoD agencies

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[4] FPDS covers appropriated funds only and does not include contracts or purchase card transactions amounting to less than $3,000. See Federal Procurement Data System–Next Generation, "FPDS-NG FAQ" (accessed February 26, 2015), http://go.usa.gov/3cAtG. FPDS data are available at www.USASpending.gov.

[5] See L. Elaine Halchin, *Transforming Government Acquisition Systems: Overview and Selected Issues*, Report for Congress R43111 (Congressional Research Service, June 2013); Government Accountability Office, *Federal Contracting: Observations on the Government's Contracting Data Systems*, GAO-09-1032T (September 2009), www.gao.gov/products/GAO-09-1032T; and Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress, *Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress* (January 2007), Chapter 7, http://go.usa.gov/3cQ39 (PDF, 6.3 MB).

[6] See Gregory Sanders and others, *U.S. Department of Defense Contract Spending and the Industrial Base, 2000–2013* (Center for Strategic and International Studies, October 2014), http://tinyurl.com/nfkq4s2. CSIS provided CBO with those categories in a table located at https://github.com/CSISdefense/Lookup-Tables.

[7] For a discussion of how DoD uses contractors during a conflict, see Congressional Budget Office, *Contractors' Support of U.S. Operations in Iraq* (August 2008), www.cbo.gov/publication/41728. Classified contracts are excluded from CBO's current analysis; including them would probably increase slightly DoD's share of total federal spending on contracts.

Table 1.
Federal Spending on Contracts, 2000 and 2012

Billions of 2012 Dollars

	DoD			Non-DoD			Total		
Spending Category	2000	2012	Percentage Change	2000	2012	Percentage Change	2000	2012	Percentage Change
Services									
Professional, Administrative, and Management Services	23.8	54.3	129	14.8	40.4	173	38.6	94.7	146
Facility-Related Services and Construction	23.0	38.8	69	38.7	40.2	4	61.7	79.1	28
Information Communications Technology	9.2	16.8	81	10.3	17.6	71	19.6	34.4	76
Equipment-Related Services	11.0	27.3	147	1.1	4.5	295	12.1	31.7	161
Medical	2.8	13.7	384	1.7	5.4	228	4.5	19.2	326
Subtotal	69.8	150.9	116	66.7	108.1	62	136.5	259.0	90
Products									
Aircraft	23.1	49.4	114	0.2	0.6	234	23.3	50.0	114
Clothing and Subsistence (Food)	5.0	15.9	218	4.5	15.0	231	9.5	30.9	224
Electronics and Communications	11.5	19.7	71	5.8	6.7	16	17.3	26.5	53
Fuels	4.5	21.7	377	1.9	0.2	(92)	6.5	21.9	237
Other	7.7	13.1	72	4.9	7.5	53	12.6	20.7	64
Ships	5.3	16.1	203	0.1	0.6	374	5.4	16.7	207
Missiles and Space	5.9	14.6	148	0.4	1.4	253	6.3	15.9	154
Ground Vehicles	4.5	9.1	102	1.3	1.6	29	5.8	10.7	85
Engines and Power Plants	6.6	8.6	31	2.0	0.8	(58)	8.6	9.4	10
Launchers and Munitions	3.9	7.9	105	0.0	0.2	426	3.9	8.1	108
Subtotal	78.0	176.1	126	21.2	34.7	64	99.2	210.8	113
Research and Development	23.5	34.8	48	17.7	13.8	(22)	41.2	48.6	18
Total	**171.4**	**361.8**	**111**	**105.6**	**156.6**	**48**	**276.9**	**518.4**	**87**

Source: Congressional Budget Office based on data from the Federal Procurement Data System (accessed through www.USASpending.gov).

Notes: Adjustments for inflation are based on the gross domestic product price index.

The spending categories are those used by the Center for Strategic and International Studies. Within the broader categories of products and services, the categories are ordered according to the total spending for all federal agencies in each category in 2012.

Numbers may not add up to totals because of rounding.

DoD = Department of Defense.

spent a much larger share of their contract funds on services than DoD did—69 percent; they spent 22 percent on products and the remaining 9 percent on research and development.

Federal spending on contracts grew by 87 percent in real terms (that is, adjusted for inflation with the gross domestic product price index) from 2000 to 2012, an average of about 5 percent annually. Contract spending by DoD grew more than twice as fast as non-DoD contract spending did in real terms—by 111 percent versus 48 percent. The category of spending that rose the most in real dollars, for DoD and non-DoD agencies alike, was contracts for professional, administrative, and management services, which rose $31 billion and $26 billion, respectively. The *fastest* real growth within DoD, however, was in contracts for medical services and contracts for fuels, both of which nearly quintupled from 2000 to 2012. Those growth rates reflect the general rise in DoD's costs for providing medical care to military retirees, current service members, and their families, as well as the significant growth in oil prices between 2000 and 2012.[8]

[8] For a discussion of the causes of DoD's rising health care costs, see Congressional Budget Office, *Approaches to Reducing Federal Spending on Military Health Care* (January 2014), www.cbo.gov/publication/44993.

Table 2.
Federal Spending on Contracts in 2012 for the 11 Product or Service Codes With the Most Spending

Product or Service Code	Spending Category	Broader Spending Category	Spending (Billions of Dollars)	Share of Total Contract Spending (Percent)
Aircraft, Fixed-Wing	Aircraft	Products	22.3	4.3
Liquid Propellants	Fuels	Products	18.1	3.5
Engineering and Technical Services	Professional, Administrative, and Management Services	Services	17.4	3.4
Other Professional Services	Professional, Administrative, and Management Services	Services	15.9	3.1
Other Information Technology and Telecom	Information Communications Technology	Services	13.1	2.5
Government-Owned Contractor-Operated Facilities	Facility-Related Services and Construction	Services	12.1	2.3
General Health Care Services	Medical	Services	11.8	2.3
Drugs and Biologicals	Clothing and Subsistence	Products	11.5	2.2
Aircraft, Rotary-Wing	Aircraft	Products	10.2	2.0
Logistics Support Services	Professional, Administrative, and Management Services	Services	9.8	1.9
Program Management/Support	Professional, Administrative, and Management Services	Services	7.8	1.5
Total			**150.0**	**28.9**

Source: Congressional Budget Office based on data from the Federal Procurement Data System (accessed through www.USASpending.gov).

Notes: The product or service codes are those given by the Federal Procurement Data System; the spending categories are those used by the Center for Strategic and International Studies.

Numbers may not add up to totals because of rounding.

Of the 3,000 product or service codes used by FPDS, the 11 largest accounted for 29 percent of federal contracts in 2012 (see Table 2). CSIS places four of those 11 codes in the category of professional, administrative, and management services.

The Federal Government's Contracted Labor Force

Neither FPDS nor any other source reports the size of the total labor force funded by federal contracts. In recent years, DoD has started to collect and report the number of full-time-equivalent (FTE) positions funded by some of its service contracts. However, that report, called the Inventory of Contracts for Services (ICS), excludes contracts for products, as well as service contracts that are related to facilities.[9] Furthermore, some of the data in ICS are reported by contractors, and other data are estimated by DoD officials. ICS is relatively new, and its accuracy and completeness are unknown. Moreover, ICS is limited to contracts issued by DoD. Therefore,

[9] For details about which service contracts are included and reports about ICS for several recent years, see Department of Defense, Office of Defense Procurement and Acquisition Policy, "Acquisition of Services Policy" (accessed February 6, 2015), http://go.usa.gov/htsj.

ICS does not provide enough information to allow CBO to estimate the overall size of the government's contracted workforce.

Neither does ICS allow CBO to compare the cost of performing a task with contracted employees with the cost of performing the same task with federal employees. For example, the ICS for 2012 reports that $129 billion was spent on the covered service contracts and that those contracts paid for 670,000 FTE positions among contractors. A simple calculation might suggest an average cost of about $193,000 per full-time contractor. However, that calculation fails to account for all of the other contract costs that are included in the $129 billion total, such as costs for materials that are purchased by the contractor to perform its work, the cost of the capital equipment and structures involved in that work, and training and noncash benefits for the workers. Thus, the $193,000 figure cannot be usefully compared to the salary of a federal employee.

Another reason that comparisons are difficult is that even if a contractor is performing a task similar to that performed by government employees, it may perform the task differently. For example, a contractor might hire a smaller but more experienced workforce to perform the task (or a larger but less experienced workforce); or the contractor might provide different facilities, equipment, working hours, or training to its employees. Furthermore, ICS does not include information about subcontracts, which means that a contractor may report fewer FTEs in ICS by subcontracting some work—thus increasing the apparent cost per FTE but possibly lowering the cost of completing the work. In short, making comparisons between the cost of federal employees and the cost of contracted workers requires a detailed analysis of the structure of each contract and the contractor's costs, information that is not available in ICS.[10]

If you require further details about this analysis, we would be pleased to provide them. The CBO staff contact is Derek Trunkey, who may be reached at (202) 226-2916.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable Tom Price
Chairman

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[10] When such comparisons are done, they are usually done according to the procedures specified in Office of Management and Budget Circular A-76, which also make adjustments for differences in private-sector and government accounting practices. Each comparison is complex and often idiosyncratic, and a comparison for just one function can take several years to complete. No such comparisons are currently under way. See Valerie Ann Bailey Grasso, *Circular A-76 and the Moratorium on DOD Competitions: Background and Issues for Congress*, Report for Congress R40854 (Congressional Research Service, January 2013); and Congressional Budget Office, *Contracting Out: Potential for Reducing Federal Costs* (June 1987), www.cbo.gov/publication/16360.