

Embargoed until Thursday, June 30, 2005, 7:00 AM

**Federal Procurement Spending In The Washington Area
Increases by \$7.8 Billion in 2004, Up 18.4 Percent,
To A Total of \$50.0 Billion**

By

Stephen S. Fuller, PhD
Dwight Schar Faculty Chair and University Professor
Director, Center for Regional Analysis
School of Public Policy
George Mason University
June 30, 2005

The Importance of Federal Procurement Spending

Federal spending constitutes at least one-third of the Washington metropolitan area economy and procurement outlays account for the largest and fastest growing source of this federal spending. Until 1996, federal payroll spending in the Washington area was the largest source of federal monies in the regional economy but as a result of federal workforce downsizing and increased outsourcing, federal procurement spending has exceeded payroll outlays by a greater amount in each subsequent year. In 2003, the latest year for which both procurement and payroll spending totals are available, procurement outlays exceeded payroll outlays by \$15 billion or 54 percent.

Over the past twenty-five years, dating from 1980, annual federal procurement outlays in the Washington area have increased from \$4.2 billion to \$50.0 billion, a gain of almost 1100 percent while federal procurement spending nationwide has increased only slightly more than 100 percent. As a consequence of the Washington Area's rapid growth in federal procurement outlays, its share of the nationwide total has increased from 4 percent in 1983 to 15.7 percent; that is, in 2004, almost 16 cents of every dollar of federal procurement nationwide was spent in the Washington metropolitan area.

Federal procurement spending in the Washington metropolitan area over the 1980-2004 period totals \$462.0 billion with \$227.2 billion or 49.2 percent of these contract outlays received by contractors doing their business in Northern Virginia. Over this period the economic activities generated and supported by this federal procurement spending have changed the structure and distribution of the regional economy.

Procurement Activity in 2004

Federal procurement spending in the Washington metropolitan area totaled \$50.0 billion during FY 2004, for a gain of \$7.765 billion or 18.4 percent. This compares to a 10 percent increase in federal procurement outlays nationwide for the same period.

Federal procurement spending is reported by “place of performance” in an effort to identify the jurisdictions where the federal contractors are actually doing their work under the terms of the award. Even though federal procurement outlays increased by the greatest amount and percentage since these data became available in 1979, the 2004 contractor file is still incomplete as NASA’s final contract spending has not yet been reported. If NASA’s final reporting brings its Washington area contracting activity in 2004 up to its 2003 level, the Washington area’s overall procurement total would total \$50.65 billion, for a gain of \$8.6 billion or 20.4 percent over the \$42.2 billion in total awards during FY 2003. Additionally, contracting by the FAA and USPS are not included in either year’s data nor are employee purchases using federal government credit cards.

The distribution of contract awards in 2004 across the region’s three sub-state areas are presented in Table 1. These continued to concentrate outlays in Northern Virginia. Federal procurement contracting by firms located in Northern Virginia total \$26.4 billion, up \$4.2 billion from 2003 for a 19.1 percent gain while firms located in Suburban Maryland accounted for \$10.7 billion, up \$1.7 billion, also a 19.1 percent gain from 2003. Procurement contracting in the District of Columbia totaled \$12.8 billion for an increase of \$1.8 billion or 16.3 percent.

Table 1

Federal Procurement Outlays in the Washington Metropolitan Area
By Sub-State Area, 2003 and 2004
(dollars in billions)

Area	FY 2003	FY 2004	\$ Change	% Change
The District	\$11.051	\$12.855	\$1.804	16.3
Suburban Maryland	9.004	10.727	1.723	19.1
Northern Virginia	22.193	26.431	4.238	19.1
Totals	\$42.248	\$50.013	\$7.765	18.4

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

At the local level, federal contracting in Fairfax County with 32.2 percent of all award value dominated the region’s federal procurement activities. Federal contractors in Fairfax County, inclusive of Falls Church and Fairfax City, received awards totaling \$16.1 billion in 2004, up from \$13.6 billion in 2003 for a gain of 18.1 percent. Montgomery County’s federal contractors received awards totaling \$6.6 billion, up \$1.7 billion from 2003 for a gain of 34.4 percent.

What the Federal Government Buys

Services continue to dominate local federal contracting accounting for \$35.8 billion up 13.3 percent and accounted for 71.6 percent of the total awards. R&D increased 15.0 percent to \$4.96 billion and purchases of supplies and equipment experienced the greatest gain (45.6%) in award value bringing its total to \$9.2 billion.

The largest categories of federal contract awards in 2004 were data processing and telecom services, administration and management services, general purpose ADP equipment and communications and detection equipment as shown in Table 2.

Table 2

Major Types of Procurement in 2004
(in billions of dollars)

Procurement Type	Award Value	\$ Change	% Change
Data Processing & Telecom Svcs	\$14.184	\$2.479	21.2
Prof. Admin & Mgmt Support Svcs	11.884	0.950	8.7
General Purpose Data Processing Eq	3.554	0.395	12.5
Communications & Detection Eq	1.309	0.302	30.0
Totals, Major Procurement Types	\$30.931	\$4.126	15.4
All Procurement	\$50.013	\$7.765	18.4
% Of All Procurements	61.8	53.1	

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

Which Agencies Are The Big Spenders?

The division between non-DOD and DOD contracting awards by sub-state area is presented in Table 3. The Department of Defense (DOD) dominated all of the other departments and agencies with \$25.5 billion in local procurement awards, accounting for 51.0 percent of the total, up from 44 percent in 2003. DOD's contract value increased by \$6.997 billion (37.8%), a gain representing 90 percent of the total increase for all procurements. The total award value for all non-DOD agencies in 2004 in the Washington metropolitan area was \$24.9 billion, up only \$768.0 million from 2003.

Northern Virginia contractors captured 71 percent of DOD procurement awards in 2004 although DOD spending increased at a faster rate in Suburban Maryland and the District of Columbia. Still, the actual dollar value increase in DOD spending in Northern Virginia of \$4.0 billion accounted for 57.2 percent of the total increase in DOD contracting in the Washington metropolitan area.

Contractors in the District of Columbia captured the greatest share (37.0%) of non-DOD contract awards in 2004 although the differences in award values among all three sub-state portions of the metropolitan area were small in comparison to the differences in the distribution of DOD contracting dollars. Non-DOD contracting declined in the District and increased only slightly in Northern Virginia (3.2%) while registering a relatively strong (12.0%) gain in Suburban Maryland.

Table 3

Department of Defense and Non-Defense Agency
Procurement Awards in the Washington Metropolitan Area, 2004
(in billions of dollars)

Agency	Awards in 2004	\$ Change from 2003	% Change
DOD	\$25.528	\$6.997	37.8
District	3.784	2.054	118.8
SubMaryland	3.602	0.961	36.4
NorthernVA	18.142	3.982	28.1
NON-DOD	24.485	0.768	3.2
District	9.072	- 0.250	- 2.7
SubMaryland	7.124	0.762	12.0
NorthernVA	8.289	0.256	3.2
Total	\$50.013	\$7.765	18.4

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

Nine federal departments and agencies made contract awards of at least \$1 billion to local contractors in 2004. The total value of the contract awards made by these nine departments and agencies in the Washington metropolitan area was \$43.6 billion accounting for 87.2 percent of the total awards in the Washington metropolitan area made by all 52 departments and agencies with independent contracting authority. The local contracting values for these nine federal agencies are presented in Table 4.

Table 4

Federal Agencies With At least \$1 Billion in Procurement Awards
In the Washington Metropolitan Area, FY 2004
(in billions of dollars)

Agency	Awards in 2004	\$ Change from 2003	% Change
DOD	\$25.528	\$6.997	37.8
GSA	4.070	- 1.773	- 30.3
HHS	3.909	0.743	23.5
Homeland Security	3.091	1.148	59.0
Treasury	1.670	0.367	28.2
Interior	1.648	0.371	29.1
Justice	1.613	0.233	16.9
State	1.080	0.271	33.5
Education	1.004	0.495	97.2
Sum of 9 Agencies	\$43.613	\$8.852	20.3
Percent of Totals	87.2	114.0	

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

Economic Impact of Federal Procurement Spending

The \$50.0 billion in federal procurement spending in the Washington metropolitan area in 2004 accounted for 16.9 percent of the \$295.0 billion Gross Regional Product (GRP). This is an increase in contribution from 2003 when the \$42.2 billion in federal procurement spending accounted for 14.9 percent of GRP. In 2000, at the peak of the technology boom, federal procurement accounted for only 11.6 percent of GRP. The 18.4 percent gain in federal procurement spending was the major reason that the Washington area economy was able to achieve a 4.4 percent growth rate.

Federal contracting is also the principal driver behind the area's strong job growth. In 2004, the metropolitan area added 64,200 new payroll jobs. With federal procurement spending generating just under 7,000 new jobs of all types for each \$1 billion increase in contract awards during the preceding year, the \$6.1 billion increase in procurement spending (2002-2003) accounted for 42,000 new jobs or 65 percent of the total gain registered in 2004. With procurement spending in 2004 up \$7.8 billion, this incremental gain could generate more than 50,000 new jobs in 2005. This record-breaking increase in federal procurement in 2004 helps to explain this year's strong job growth that has averaged 80,000 jobs over its first five months.

The growth of federal procurement spending over the three years since the end of the 2001 recession and the 9/11 terrorist attack has totaled \$18.5 billion and averaged 16.5 percent per year. This increased federal procurement spending has distinguished the Washington metropolitan area's performance from all of the other metropolitan areas in the nation. No other local sectors have expanded as much in any these three years while some have actually experienced one or more years of decreased spending (hospitality, construction, technology). As annual growth in federal procurement spending in the Washington area reverts to its historic growth rate of 7 percent over the remainder of this decade, the Washington area's economic growth will slow unless gains in the economy's non-federally funded sectors accelerate to compensate for the federal sector's slowing rate of growth.