

Spending Deal Is Little Help To Contractors

Billions in Federal Purchases In the Area Remain on Hold

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By Peter Behr

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The temporary spending compromise that will keep the federal government open another six weeks has brought little relief to a large contingent of Washington area contractors who said the failure to resolve the budget debate is delaying billions of dollars in new contracts.

"It appears the [contract] awards process has been indefinitely deferred" at some federal agencies that do not have approved budgets, said Donald E. Ziegler, treasurer of Computer Data Systems Inc., a Rockville-based provider of high-tech data and record management services. "Agencies are saying that they are on a month-to-month appropriation and they are not going to do anything until that's resolved."

"We have heard from the contractors. The ripple effects are enormous," Environmental Protection Agency Administrator Carol M. Browner said at a Senate hearing last week.

The EPA, which awarded \$294 million to Washington area contractors in fiscal 1994, according to the Federal Procurement Data Center, said it has sharply scaled back its contract awards because it does not know how much it can spend this year.

Federal contracts are a vital source of income and jobs in the Washington region. Although economists cannot yet pinpoint the financial effect on contractors of two partial government shutdowns and the slower flow of new contracts, they count the disruption among the main reasons for the local economy's poor performance.

See CONTRACTORS, A7, Col. 1

CONTRACTORS, From A1

Stephen S. Fuller of the George Mason University Institute for Public Policy projects that the metropolitan Washington economy will grow by a little more than 1 percent this year—roughly half last year's growth rate. An economy that grows by less than 2 percent a year usually will not create enough jobs to keep unemployment from rising.

The slowdown in contract payments primarily involves nine Cabinet departments and several dozen agencies that still do not have approved budgets for the 1996 fiscal year, which began in October. These offices purchased \$4.3 billion in goods and services locally in fiscal 1994—about one-quarter of total federal procurement in the Washington area.

Under the agreement worked out by the White House and Congress last week, many of these offices must limit spending to 1995 totals or less, or to 1996 funding levels set earlier by House and Senate budget conferees.

Budget managers hope to approve appropriations for some departments and agencies before the current agreement expires March 15 but expect that others will remain deadlocked.

"Nine major agencies are in a hellish state of ambiguity and irresolution in terms of what they're going to be permitted to do. And we're three to four months into the fiscal year," said Bert M. Concklin, president of the Professional Services Council, an association of federal contractors.

Randy Dove, a spokesman for Electronic Data Systems Corp.'s government services group in Herndon, said

it might be another week before the company sorts out the implications of the spending deal on its federal business. "Our concern is the long-term impact—the delay in contracts being awarded and procurements moving forward," he said.

The shutdowns and the unresolved budget debates "have created a lot of uncertainty, and that slows down the whole contracting process," said Hank Steininger, a senior partner with the Grant Thornton accounting firm who headed a study of the issue for the Information Technology Association of America.

Federal contracts will continue to undergird the local economy, but the rapid increase in government spending that fueled so much of the past decade's growth is a thing of the past, Fuller predicted.

"We're not going to have the good old days," he said.

Between 1984 and 1994, federal purchases in the Washington region shot up by nearly 130 percent, 10 times the growth rate for such purchases in the nation as a whole.

Put another way, half of the entire increase in federal spending nationwide since 1984 went to Washington area contractors, who capitalized on the government's demands for outside technology services and managerial expertise—and their own proximity to federal decision-makers.

In 1994, government purchases of products and services pumped nearly \$18 billion into a \$150 billion Washington regional economy. The growth of federal spending in just one fiscal year, 1993-'94, exceeded \$1.8 billion—or close to the revenue of Potomac Electric Power Co. in that period.

"The link between the economy's growth and federal spending is clear," Fuller said.

The growth rate of federal spending already had begun to taper off under the Clinton administration's downsizing initiatives.

But this year's start-and-stop budget debate has caused innumerable leaks in the spending pipeline, company officials said.

Gary Petrazuolo's troubles are an illustration of that.

His small company, Avanti Corp. in Annandale, won contracts worth \$1.5 million last year from EPA to help develop pollution restrictions for the pa-

TODAY IN CONGRESS

SENATE

Meets at 11 a.m.
Committees:
Special Committee—10:30 a.m.
Investigation of Whitewater
Development Corp. & related matters.
216 Hart Office Bldg.

HOUSE

Meets at 12:30 p.m.
Committee:
Agriculture—2 p.m. Mark up
Agriculture Market Transition Act, H.R.
2854. 1300 Longworth House Office
Bldg.

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per industry and study ways to protect marine life from toxic chemical spills.

For short-term projects such as these, it makes far more sense for EPA to temporarily "hire" the chemists on Petrazuolo's payroll than to add permanent federal employees with those skills, Petrazuolo said.

His troubles began last summer, when EPA froze spending on one of the contracts that was on the target list of congressional Republicans seeking to scale back EPA regulations. Petrazuolo had begun hiring chemists and technicians required for the project and had rented new office space when the spending freeze was imposed.

"We didn't see any work assignments [on that contract] until late September," he said.

Work resumed then. But the contract—along with the others—was put on hold for three weeks during the December government shutdown.

Petrazuolo continued to pay his employees for two of those weeks. "I don't want to lose them," he said. Finally, he sent them home. "I had to furlough myself," he said.

The delays have cost his company about \$40,000, he calculates—equal to half his entire profit for 1995. "We've been hit pretty hard," he acknowledged.

Petrazuolo wants EPA to at least pay him back for overhead expenses such as rent, but congressional aides said that looks like a long shot.

He said he is glad a third shutdown was averted last week. But his confidence in doing business with the government has been shattered.

"I don't know where this is headed," Petrazuolo said. "I'm not buying things like supplies. There are computers that need to be purchased, fax machines that need to be replaced. I'm not doing that. It's very difficult to plan."