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FedSources Presents:

**Analysis of President's Budget to Congress for FY07 as delivered February 6, 2006
IT Investments (Exhibit 53)**

McLean, VA – The Federal Government's 2007 IT budget request represents a modest increase over 2006, reflecting greater consolidation of programs, fewer large new programs passing the review process, and political pressures to keep government expansion in check.

The overall growth rate from the government fiscal year (GFY) 2006 enacted amount of \$62.5 billion to the **total GFY07 request of \$64.3 billion** represents an **increase of 2.8%**. "This is lower than expected," says FedSources Sr. VP and Chief Knowledge Officer Ray Bjorklund. The 07 request, released February 6, also represents a decrease from the original GFY06 request of \$65 billion. Presumably, the reduction in funds actually enacted for IT programs in FY06 curbed the level of requests for FY07 programs.

There are three new "Lines of Business" (LOBs) (IT Infrastructure, Geospatial and Budgeting). The six existing LOBs are Case Management, Federal Health Architecture, Financial Management, Human Resources Management, Grants Management and Information System Security.

Perhaps as a first step in making the **IT Infrastructure** LOB a reality, the Office of Management and Budget (OMB) instructed agencies to consolidate their investment line items for IT infrastructure. These new mega-line items produced some impressive GFY07 funding requests such as the following:

- Dept. of Treasury – nearly \$1.3 billion
- Dept. of Energy (Energy) - \$1.28 billion
- Dept. of Homeland Security (DHS) - \$954 million
- Dept. of Agriculture (USDA) - \$899 million
- Dept. of Justice (DoJ) - \$840 million

The documents OMB released February 6 do not contain line item detail for the Department of Defense. Within civilian agencies, however, the **top individual programs** by dollar amount – other than grant programs and the IT infrastructure consolidation lines mentioned above are as follows:

- Dept. of Veterans' Affairs (VA) VISTA legacy architecture - \$460.3 million. The HealtheVet program is designed to replace VISTA. The HealtheVet request in 06 was \$311 million, which was largely deferred when the investment could not be adequately justified. This year's HealtheVet request is a modest \$71.6 million, accompanied by the larger VISTA continuation line item mentioned above.
- DHS' US-VISIT program - \$407.4 million
- The Federal Aviation Administration's EnRoute Automation Modernization - \$376 million
- DHS' and DoJ's Integrated Wireless Network (IWN) - \$361 million – a nearly \$100 million increase over 06. The government's award on the IWN competition is expected within days.
- Customs & Border Protection's (CBP) ACE Program (Automated Commercial Environment) - \$305.5 million
- Transportation Security Administration's Transportation Worker Identification Credentialing (TWIC) program - \$272 million

Three of the four top **new programs proposed for GFY07** are related to financial management. The top four new programs for GFY07 are:

- USDA Financial Management Modernization Initiative - \$53 million
- Dept. of Interior's National Business Center / Center of Excellence for Financial Management - \$49 million
- Dept. of Energy National Nuclear Security Administration (NNSA) "ASC Future Platform" - \$25 million
- HUD's "Financial Management Line of Business" - \$24.7 million

OMB continues to rigorously review all major IT investments. The anticipated new funding for Immigration and Customs Enforcement's (ICE) automation modernization program called "ATLAS" did not materialize this year. ATLAS failed its Performance Assessment Rating process, with a rating of "results not demonstrated." Another example is CBP's America's Shield Initiative (ASI). ASI did not get the 06 funds hoped for during last fall's appropriation process. DHS was asked to review the planning process for ASI while officials threatened suspension of all major procurement action until scope and architecture questions could be answered. There is a significant increase in the 07 request, however – a total of \$139 million, up from \$39 million in 06.

The **Department of Homeland Security** continues to be a big winner in the budget request process. DHS' \$772 million increase from 06 enacted to 07 request represents an impressive 21% leap – and the largest dollar increase among civilian agencies. Within DHS, TSA had the largest increase – over \$606 million. The Emergency Response & Preparedness directorate (including FEMA) request is \$77 million - down from \$93.5 million in 06, with a significant drop in modernization funds (from \$20 million down to \$5 million).

All indications are that Congress is looking for results from mega-programs such as US-VISIT, ACE and TWIC. What is accomplished this year will affect the fate of the final GFY07 appropriations. That said, some key DHS programs not previously discussed have requested funding as follows:

- TSA Secure Flight/TVP/Crew Vetting - \$95.6 million. Privacy issues remain a key concern with this program.
- Registered Traveler program - \$35 million. This is up almost a third from the 06 budget request of \$23 million.

One overall sector of note in the budget is **health IT / bioterrorism**. While the administration states that \$5.5 billion is being requested overall for health information technology in GFY07, the request can be viewed as follows:

- \$2.25 billion, an increase of 4.2% over 06 enacted, distributed among these categories:
 - Bioterrorism-specific applications - \$132.2 million, a 40% increase. While there are many public health and disease tracking systems that the government could leverage for bioterror, avian flu or pandemic flu response, this figure represents those programs with bioterrorism-specific language in the descriptions.
 - Electronic health record applications - \$764.6 million. This includes the proposed investments for HealthVet and VISTA.
 - Health IT infrastructure - \$653 million, a 1.7% increase.
 - Other public health systems - \$696.5 million, a 1.6%.
- The dollars not accounted for above result from the healthcare IT investments inside the Department of Defense (which often are greater than or equal to total civilian agency investments in most categories), and the administration's broader definition of what constitutes healthcare-related IT.

Another sector of note is **information security**. Congress and OMB are placing increasing emphasis on the security of government data and systems. It is expected that a portion – in some agencies, a significant portion – of the consolidated investments for IT infrastructure will be used to

maintain or enhance information system security. The other line items specifically geared towards security total just under \$1 billion. They can be characterized as follows:

- Security specific systems or programs - \$224 million. Examples include the Social Security Administration's IT Operations Assurance program (\$28 million) and the DHS Information Security Program (\$57.8 million). DHS also proposes a combined investment of over \$51 million for some of its government-wide cyber security programs including US-CERT (Computer Emergency Readiness Team).
- Improving IT network infrastructure to bolster security - \$418 million
- Enhancing the security of the mission systems of various agencies - \$199 million
- Specific efforts to address directives such as FISMA, COOP, and HSPD-12 - \$151 million, spread over 27 different programs

Information sharing initiatives across government continue to be hot, up 4.1% over 06 enacted. The leading agencies are DoJ, USDA, DHS and HHS. Information sharing programs of note include the Terrorist Screening Center – holding steady from 06 at \$65 million, and the FBI Law Enforcement National Data Exchange (N-DEX) at \$25 million, up from \$16 million in 06. The FBI's ELSUR Data Management System (EDMS) increased to \$15.5 million, up \$10 million from 06.

The budget contains some interesting trends for the IT contracting community. Consolidation of IT infrastructure means that the agencies are not only pooling investments, but also physically consolidating data centers and merging IT networks. There will be a continued need for products to support IT backbone, as well as companies that can scale to assist with design, implementation, maintaining, monitoring and securing networks on this scale.

Another interesting trend is the surprising decrease in plans to contract out blue collar and "other white collar" (i.e., not professional services white collar) services. "This could signal fiercer than expected competition for outsourcing opportunities for mid to lower tier services," says Bjorklund.

For more insight from FedSources on the 2007 IT budget, be sure to register online at www.fedsources.com for our Federal Outlook Conference on April 27, 2006.

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