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Centurion's Analysis of the Fiscal Year 2014 President's Budget Request

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Federal Budget Overview

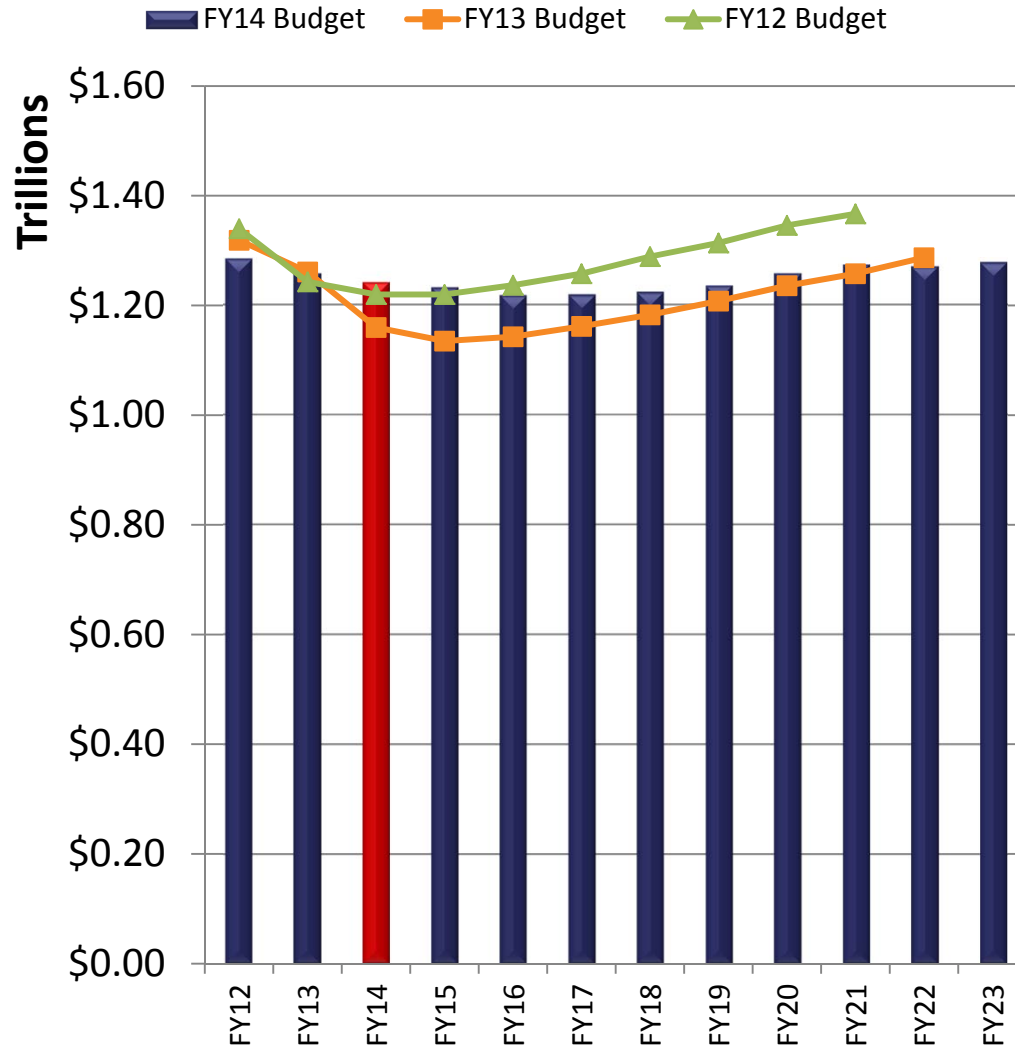
- FY2014 Total Federal Budget Request
 - \$1.24 Trillion Discretionary Funding
 - 1.27% decrease from FY2013 continuing resolution (CR) budget
- FY2014 Total Federal Information Technology (IT) Budget Request
 - Total Federal IT Budget Request is \$82.0 Billion, which includes DOD classified investments
 - Total Federal IT Budget (non-classified investments) is \$76.5 Billion
 - 0.80% increase over FY2013 continuing resolution budget
 - \$58.6 Billion in Steady-State (“SS” may also be referred to as Operations & Maintenance) Funding
 - \$17.9 Billion in Development / Modernization / Enhancement (DME) Funding – i.e., new investment

FY 2014 Priorities

- Create jobs in America
 - Investing in high-technology manufacturing (establish 15 new hubs across the nation due to the success of the manufacturing innovation institute established last year in Youngstown, OH)
- Clean energy
 - World wide commitment to science and research
 - Investing in clean energy research and development; promoting energy efficiency in US cars, homes, and businesses; encouraging responsible domestic energy production; and launching new efforts to combat the threat of climate change
- Cybersecurity
 - U.S. Infrastructure Protection (Power grids, nuclear plants, air traffic control from hacking)
 - Defend banks, utilities and telecommunications networks from cyber attacks

Federal Discretionary Budget

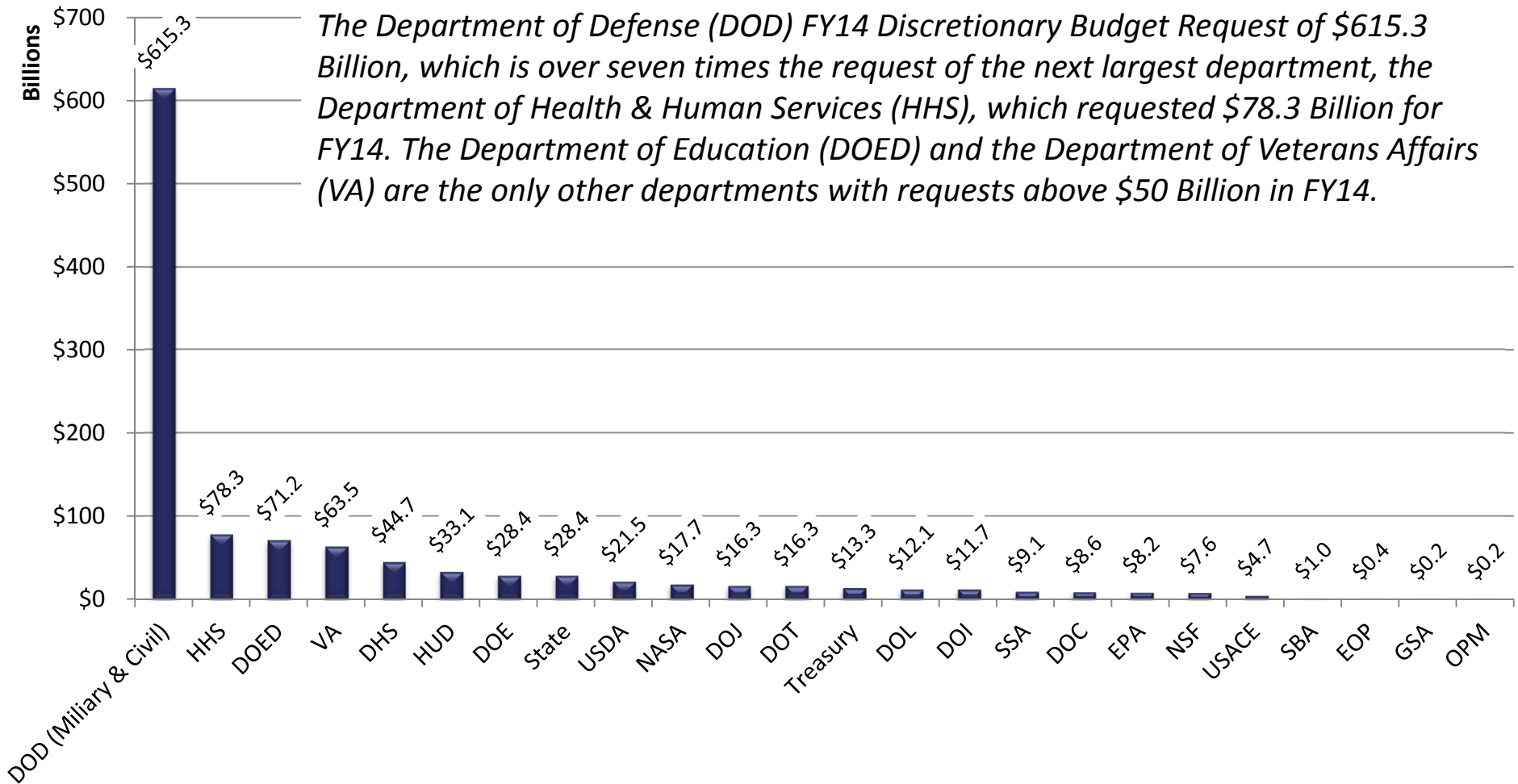
Appropriations Request for Discretionary Programs FY 2012 through FY2023 (\$Trillions)



- The 2014 Budget Appropriations Request for Discretionary Programs is \$1.24 Trillion
- This request is 1.27% down from the FY2013 level and continues the downward trend into the next couple of years.
- 2016 starts the rise, which is echoed by the 2012 estimates, though with more conservative numbers.

Source: President's Budget Request, FY12-FY14

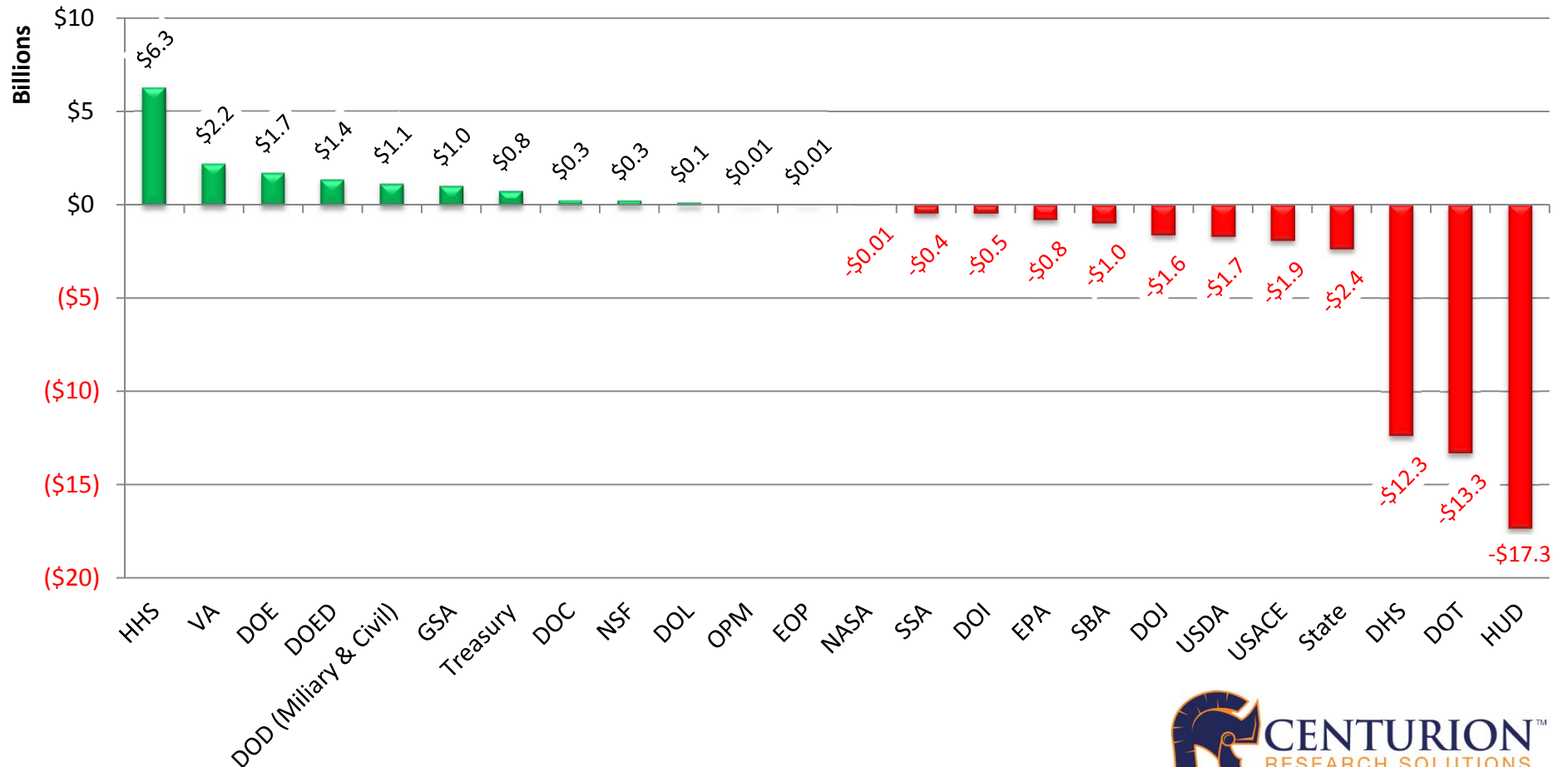
Discretionary Budget Authority: FY14 Agency Request



Source: President's Budget Request, FY14

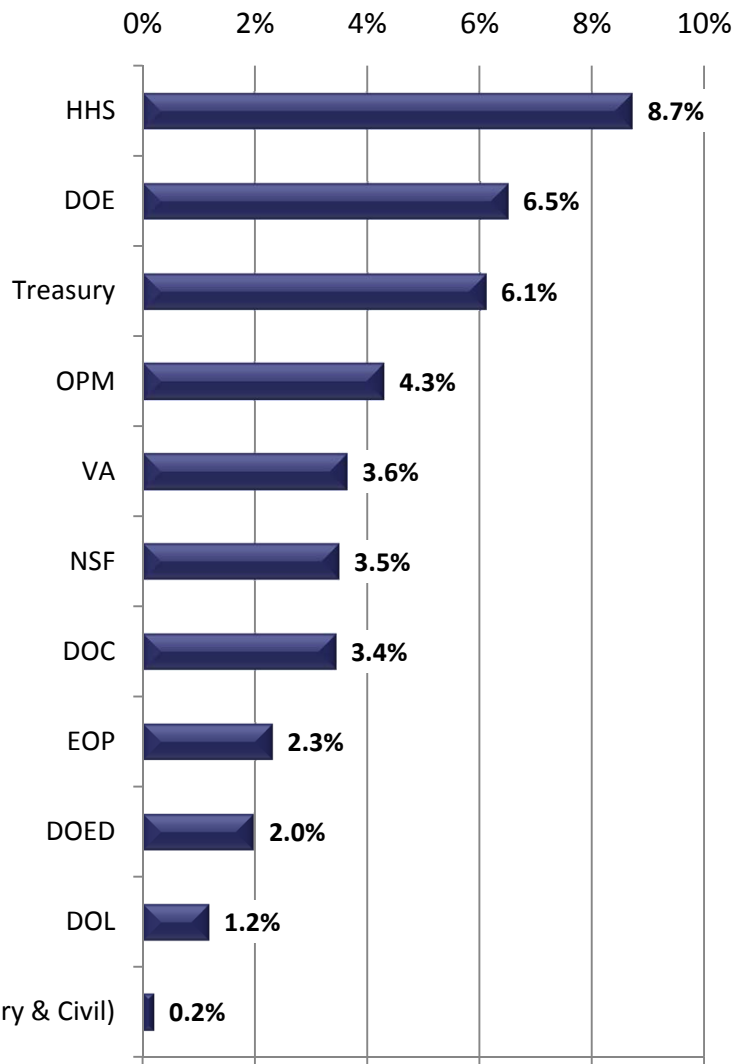
Discretionary Budget Authority: FY14 Agency Winners & Losers FY2013 versus FY2014 (\$ Change)

While the Department of Defense (DOD) had the largest FY14 Discretionary budget request, the Department of Health & Human Services (HHS) had the largest increase in their request from FY13 to FY14 – an increase of more than \$6.3 Billion.



Source: President's Budget Request, FY13-FY14

Discretionary Budget Authority: Agency Winners FY2013 versus FY2014 (% Change)



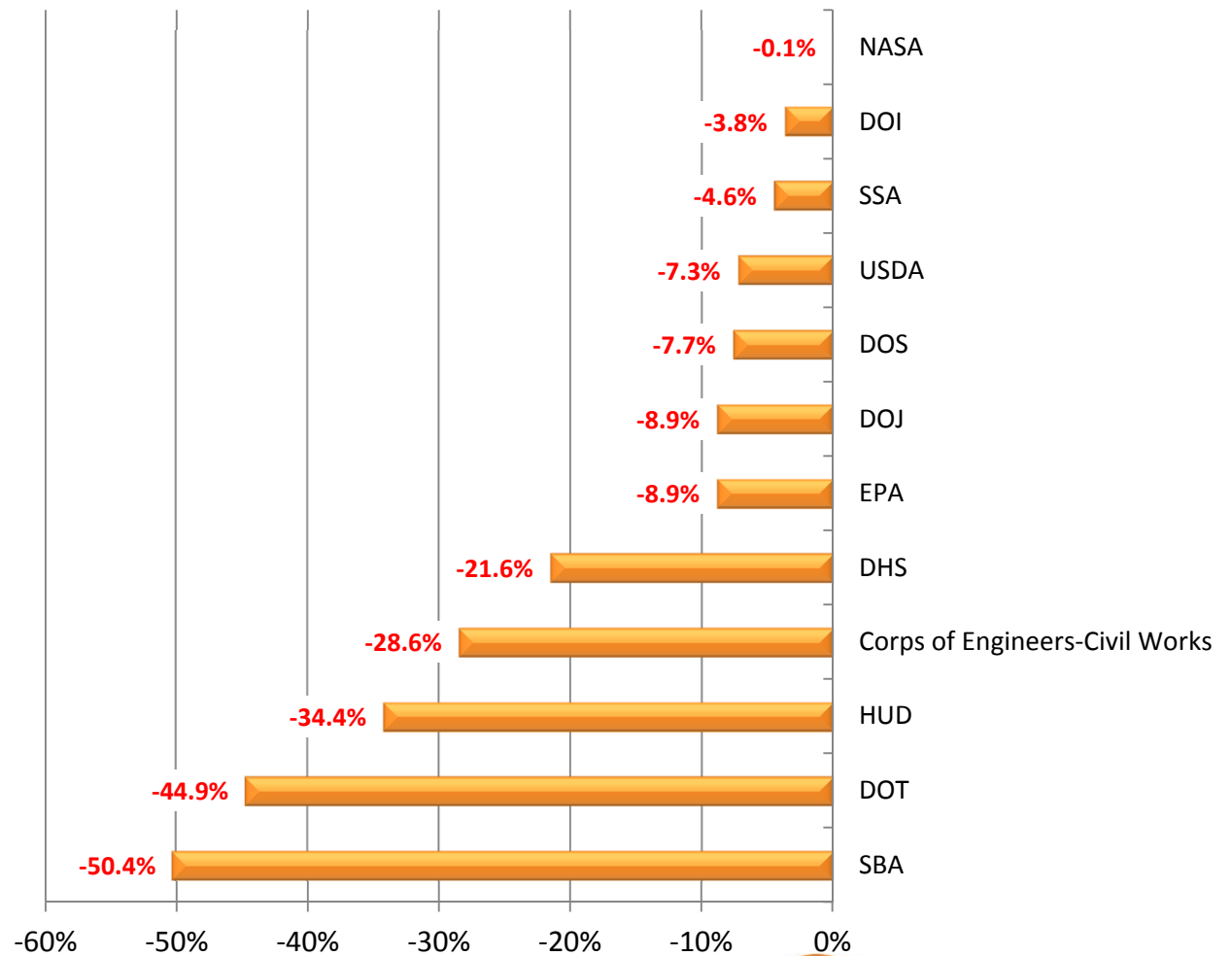
- The Department of Health & Human Services (HHS) has the largest increase in their FY14 Discretionary request, at 8.7%. This includes
 - \$205M – Under Affordable Care Act, investing in mental health services and support for safer schools; includes training 5,000 new mental health professionals, such as counselors, social workers and psychologists
 - \$30M for tools and research to understand the causes of gun violence and how to prevent it
- The General Services Administration (GSA) is not included in this chart – their increase from FY13 to FY14 is 1039%. This dramatic change is due to the unique nature of GSA and their Public Buildings Service (PBS) Federal Building Fund (FBF), which receives rents, offsetting their discretionary request.
- These “Winners” gained more than \$14 Billion in their FY14 Discretionary request, compared to FY13.

Source: President's Budget Request FY14

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Discretionary Budget Authority: Agency Losers FY2013 versus FY2014 (% Change)

- The Small Business Administration (SBA) has the sharpest decline, with their FY14 only \$952 Million, compared to FY13's \$1.92 Billion.
- The Department of Housing and Urban Development (HUD) saw a 34.4% decline from FY13 to FY14. HUD's discretionary budget is larger than SBA, so their decrease equates to \$17.3 Billion.
- These "Losers" lost more than \$53 Billion in their FY14 Discretionary request, compared to FY13.

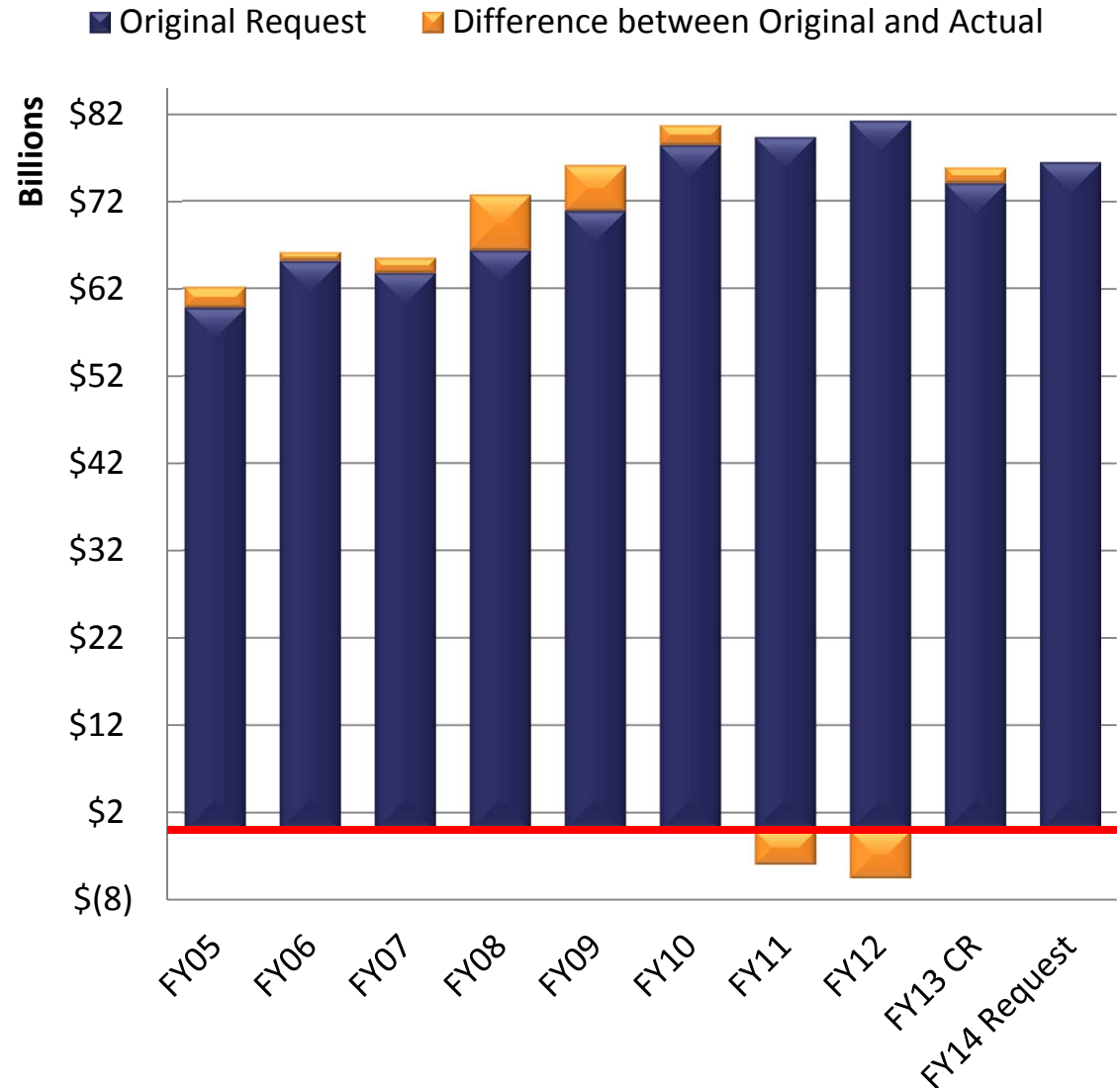


Source: President's Budget Request FY14

Federal Information Technology Budget Non-Classified Investment Details

Federal Information Technology (IT) Budget Request: Request versus Actual IT Spending, FY05-FY14

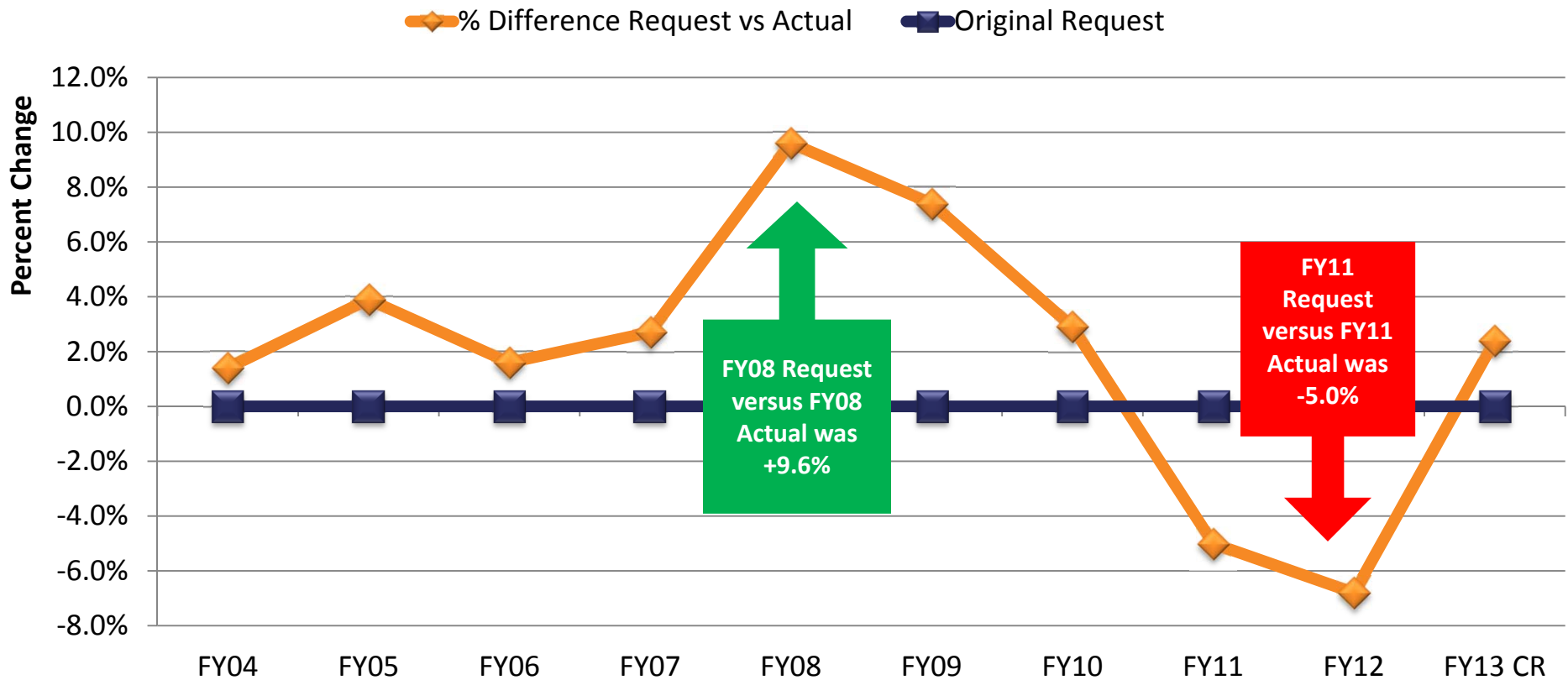
- FY2011 and FY2012 showed lower final budgets than the original request – for the first time in several years.
- The 2013 request reflected the decline of the previous years, however estimated spending was about the same as 2012, around \$74 Billion.
- The 2014 request is slightly higher than the 2013 continuing resolution spending, more than \$76.5 Billion (non-classified investments)



Source: President's Budget Request Exhibit 53, FY04-FY14 (non-classified investments)

Federal IT Budget Request: Percentage Request versus Actual IT Spending, FY04-FY13

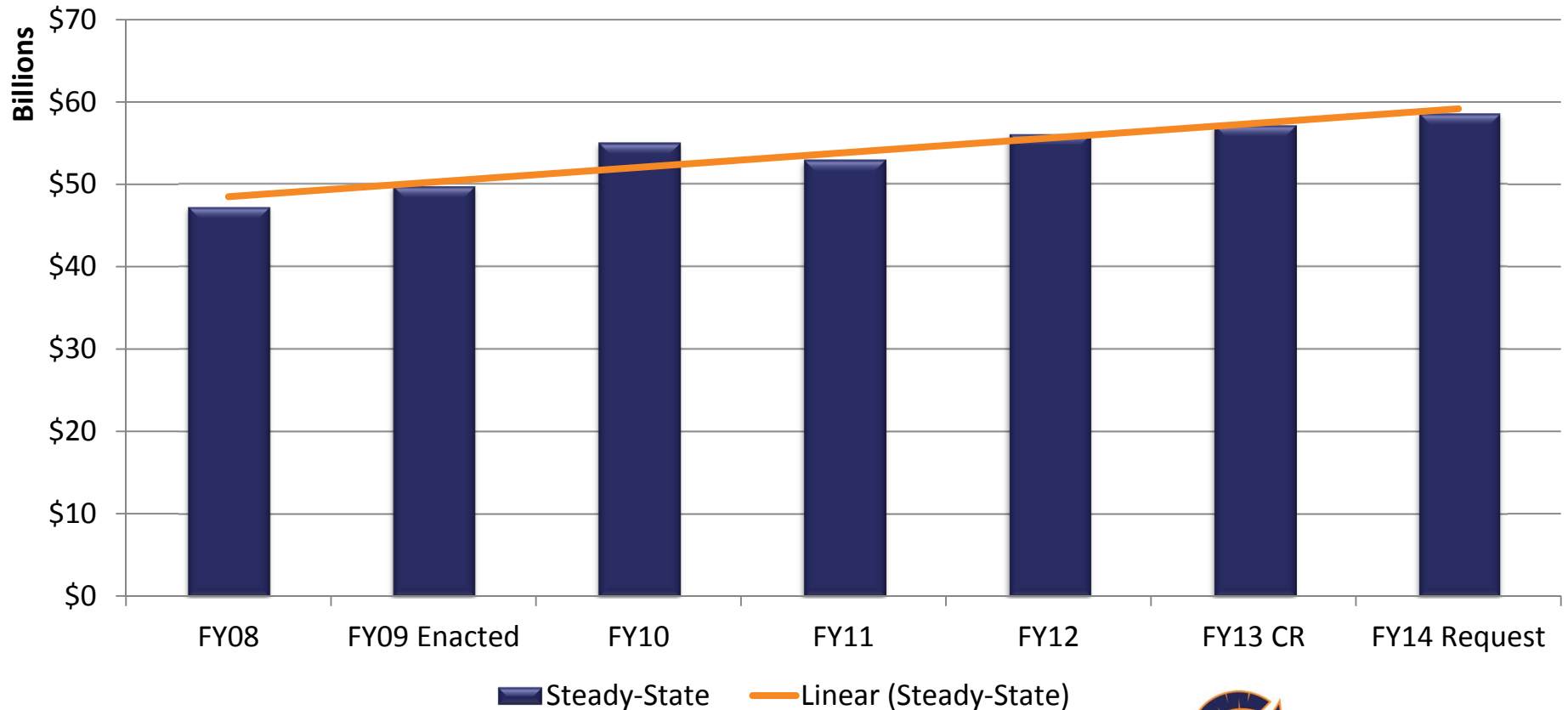
The Original FY13 IT Budget Request was based on FY11 Actual amounts (about \$75 Billion). However, both FY12 & FY13 estimated/final budgets were about \$75 Billion. FY14 Request reflects this trend, with the \$76.5 Billion IT Budget Request.



Source: President's Budget Request Exhibit 53, FY04-FY14 (non-classified investments)

Federal IT Budget Request: Total Spending Growth Steady-State (SS), FY08-FY14

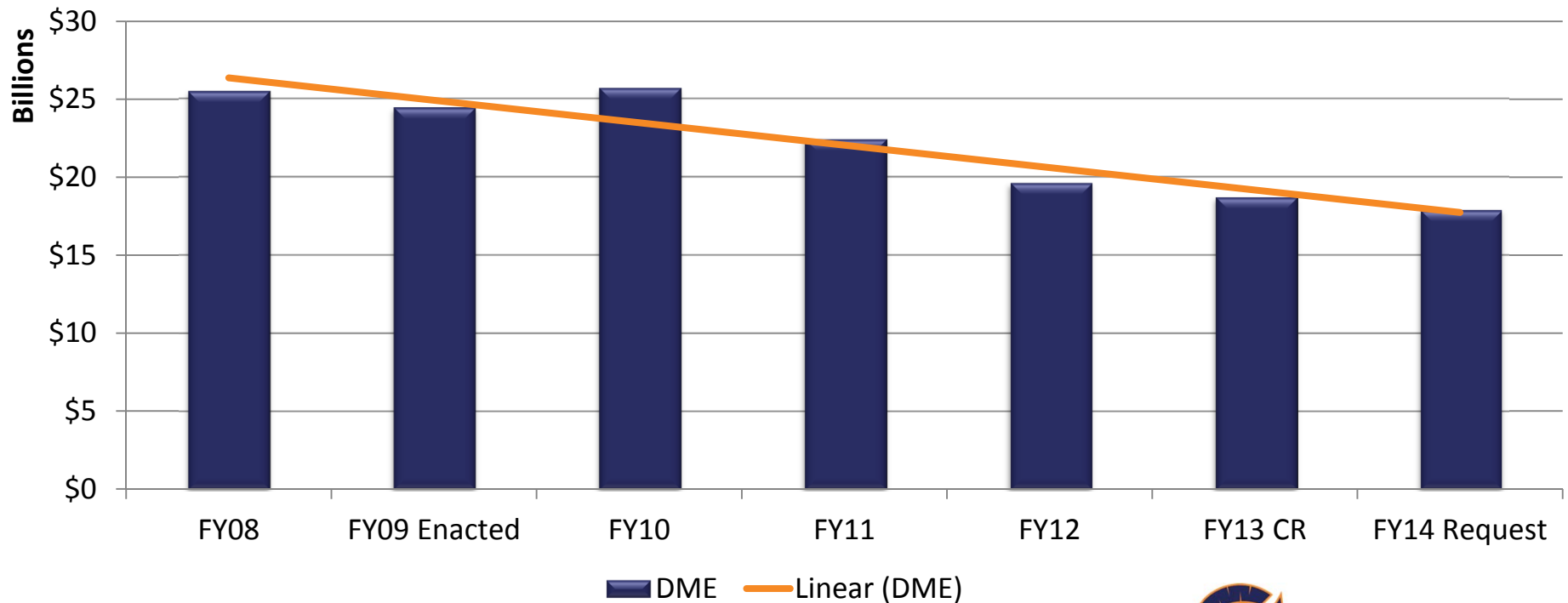
While the change in funding for current activities – Steady-State (SS) - decreased from FY10 to FY11, it has grown each subsequent year, with the FY14 request of \$58.6 Billion. The largest SS IT Investment is the HHS Centers for Medicare and Medicaid Services (CMS) Medicare Management Information System. This program, which has SS FY14 Agency funding of \$2.5 Billion, provides for the transfer of funds to the States for the federal share of State Medicaid system costs.



Source: President's Budget Request Exhibit 53, FY11-FY14 (non-classified investments)

Federal IT Budget Request: Total Spending Growth Development , Modernization, Enhancement (DME), FY08-FY14

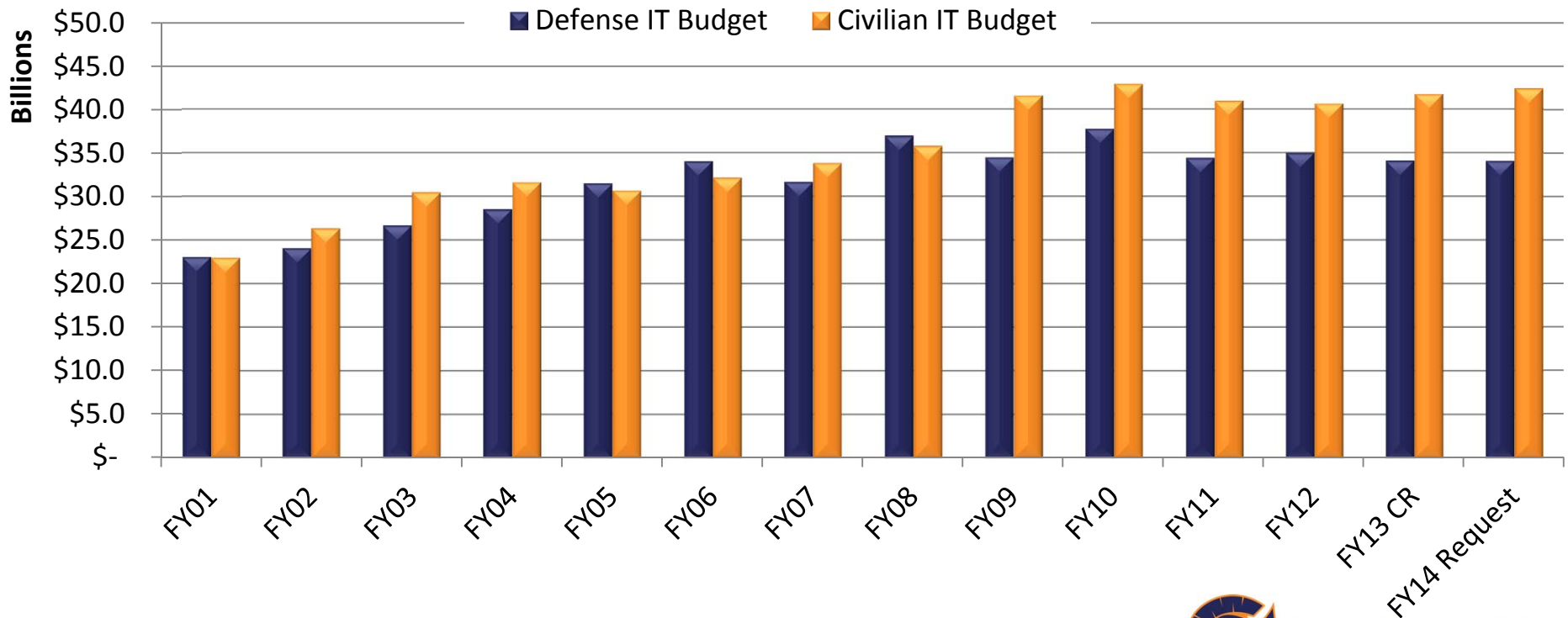
Along with Steady-State, new investments, through Development , Modernization, Enhancement (DME) funding, also peaked in FY10, at \$25.7 Billion. However, unlike the Steady-State budget request, DME funding has significantly decreased each year. DME funding was \$25.7 Billion in FY10, and the FY14 request is only \$17.9 Billion. The largest DME IT Investment is the Army's Warfighter Information Network – Tactical (WIN-T) Increment 2 with DME FY14 Agency funding of \$713 Million. WIN-T Increment 2 provides an initial commercial and military band networking OTM capability, enabling the distribution of information via voice, data and real time video from ground-to-ground and ground-to-satellite communications.



Source: President's Budget Request Exhibit 53, FY11-FY14

Federal IT Budget Request: Defense versus Civilian, FY01-FY14

Both the Defense and Civilian Information Technology budgets have grown over the last 10+ years. The Civilian IT investment funding peaked in FY10 with \$42.9 Billion, but has shown steady growth over the last few years, bringing the FY14 request to \$42.4 Billion. The FY10 Defense IT request was the highest, with \$37.8 Billion, followed by a sharp drop in FY11, to \$34.4 Billion. FY12, FY13, and the current FY14 request have remained steady, though the FY14 Defense IT request is the smallest since FY07, at \$34.1 Billion. These numbers reflect non-classified investments only. Classified investments add approximately \$5 Billion to the Defense IT Budget.

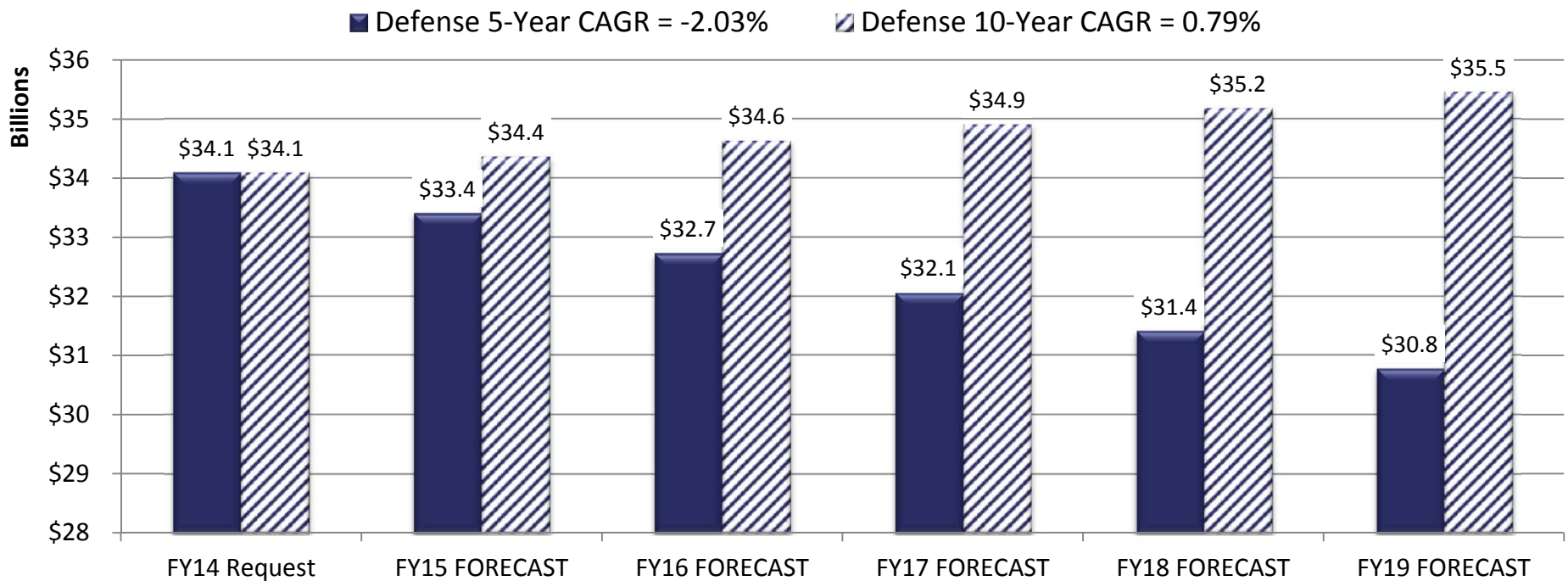


Source: President's Budget Request Exhibit 53, FY03-FY14 (non-classified investments)

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Federal IT Budget Request: Defense Forecast 5- & 10-Year Compound Annual Growth Rate (CAGR)

With the fluctuations of both Defense and Civilian IT budgets over the last few years, forecasting future spending can be tricky. The chart below reflects forecasts based on a 5-year CAGR (FY10 to FY14) and a 10-year CAGR (FY05-FY14). The Defense 5-year CAGR reflects the shrinking budget over the last few years, with a projected decrease of \$4 Billion by FY19 compared to the FY14 Request. Defense's 10-year CAGR, on the other hand, incorporates growth over the first five years, translating a positive CAGR, increasing the Defense IT budget approximately \$400 Million per year over the next five years.

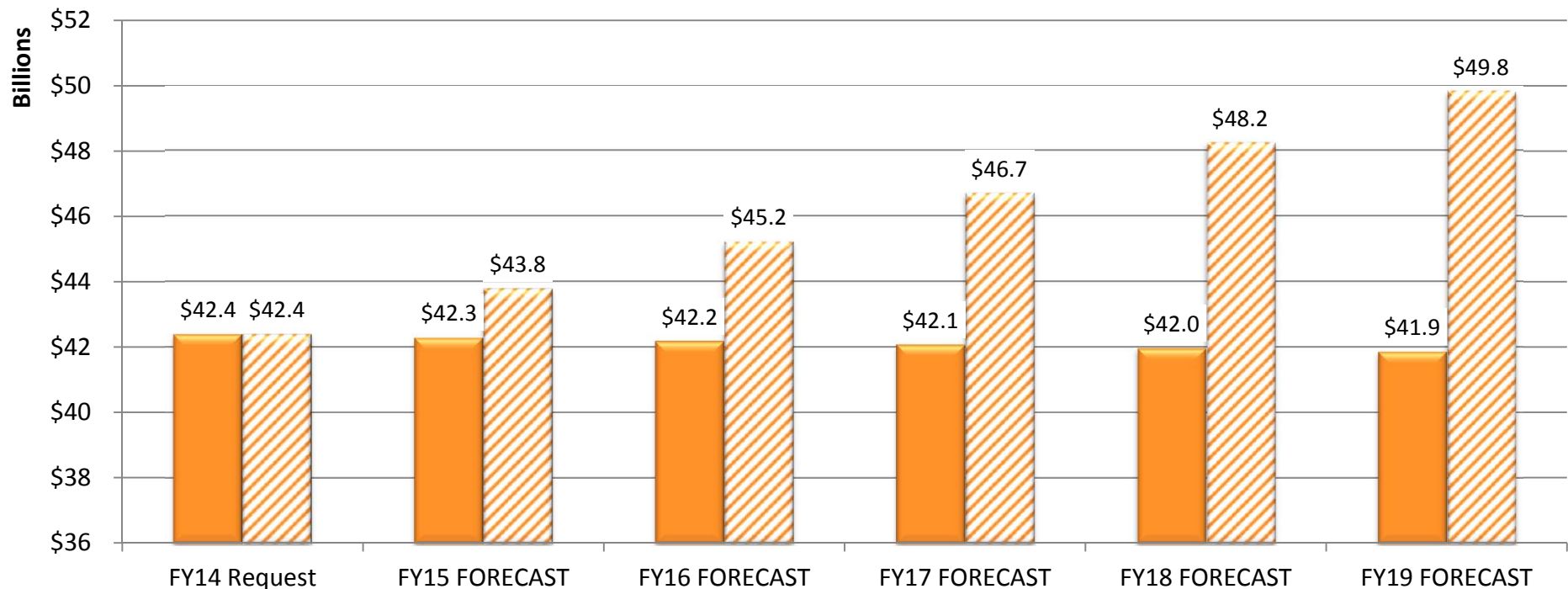


Source: President's Budget Request Exhibit 53, FY04-FY14 (non-classified investments), Centurion Analysis

Federal IT Budget Request: Civilian Forecast 5- & 10-Year Compound Annual Growth Rate (CAGR)

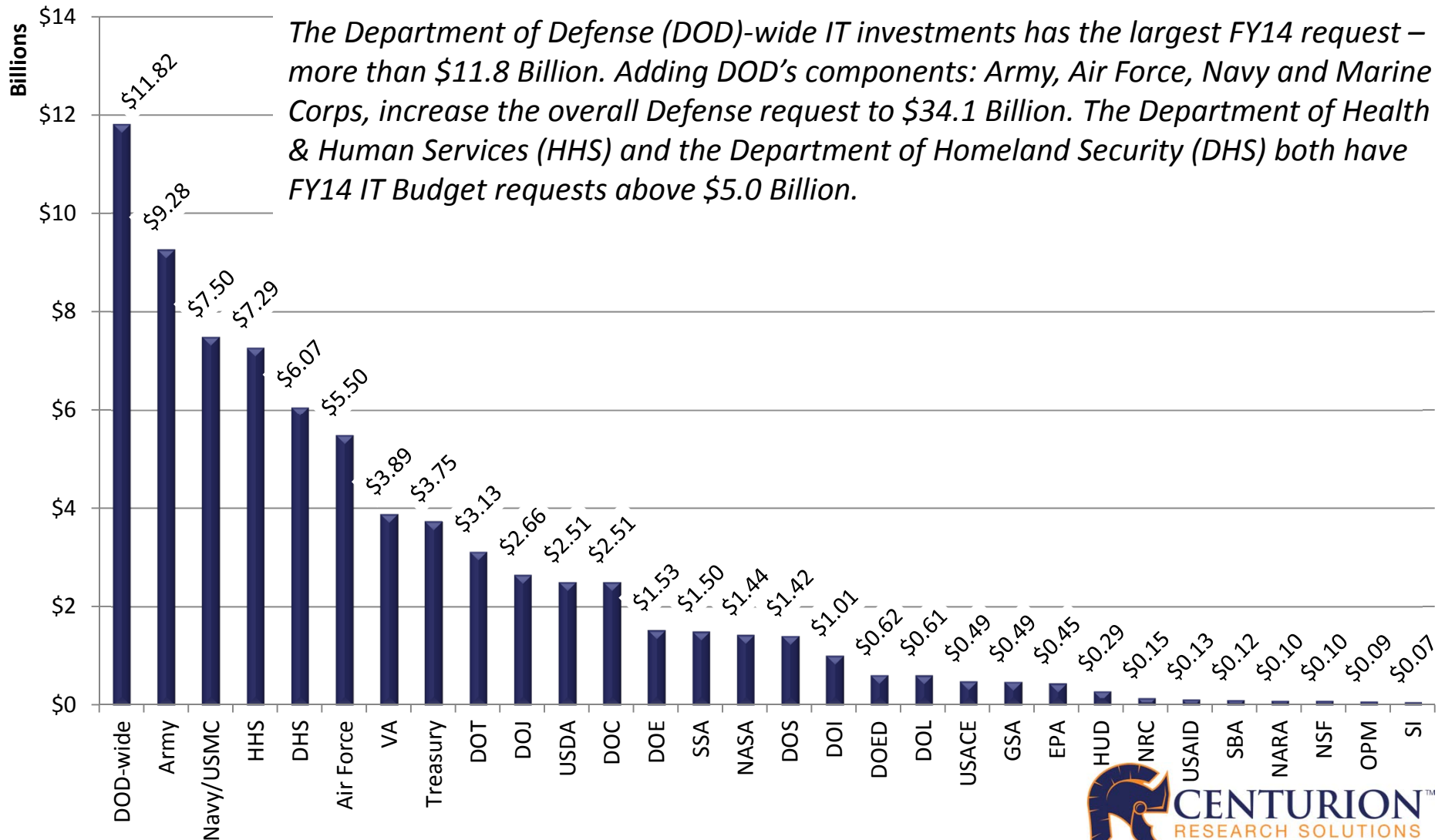
As with the Defense IT 5- and 10-year CAGR, the Civilian IT 5-year reflects negative growth and the 10-year reflects positive. However, the negative growth rate under the 5-year CAGR is much slower than Defense, decreasing the Civilian IT Budget by about \$100 Million each year. The 10-year CAGR forecasts more significant growth over the next five years, increasing the Civilian IT Budget Request to more than \$49 Billion.

■ Civilian 5-Year CAGR = -0.25% ▨ Civilian 10-Year CAGR = 3.28%



Source: President's Budget Request Exhibit 53, FY04-FY14 (non-classified investments), Centurion Analysis

Federal IT Budget Request: FY14 Agency Request

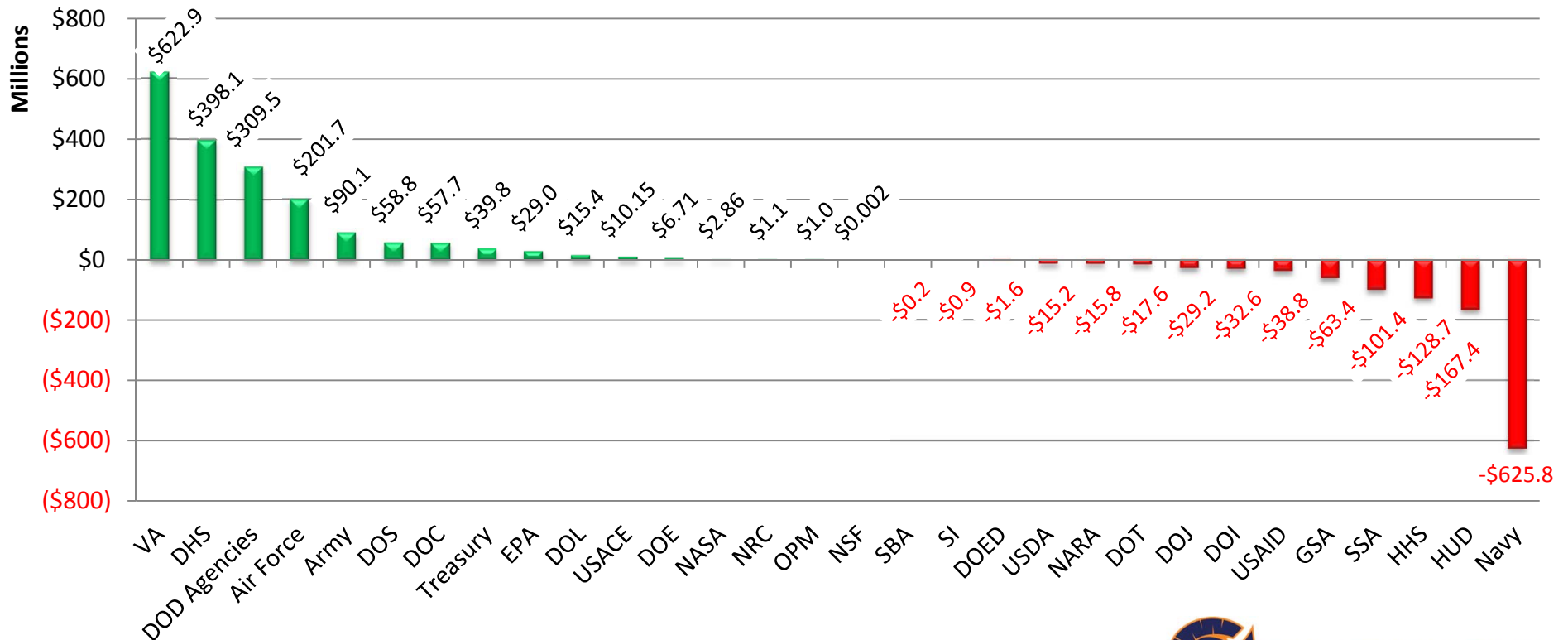


Source: President's Budget Request Exhibit 53 FY14 (non-classified investments)

Federal IT Budget Request: FY14 Agency Winners & Losers

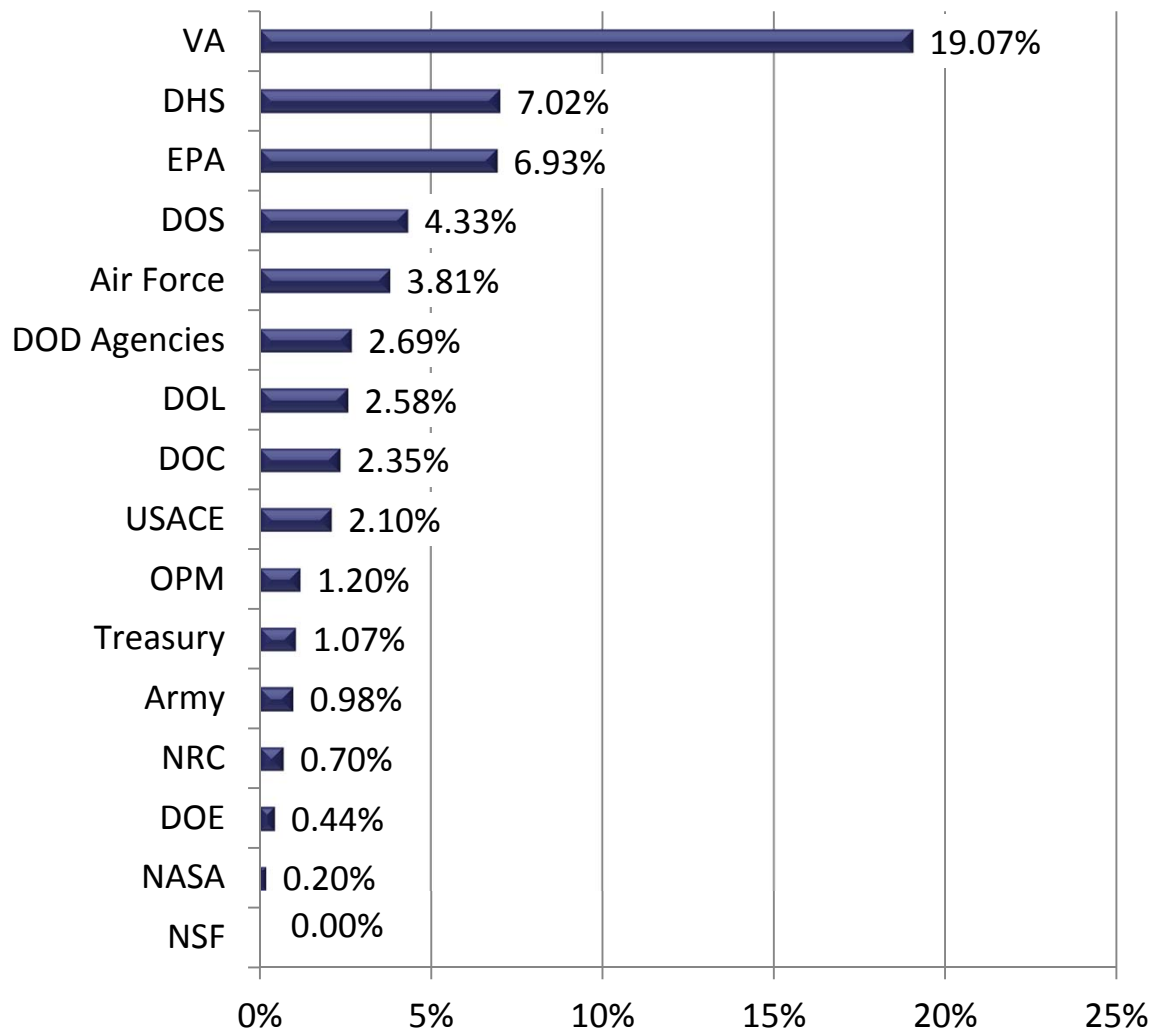
FY2013 versus FY2014 (\$ Change)

While the Army, Air Force and DOD-Agency combined FY14 IT Budget request increased by \$601 Million over the FY13 Continuing Resolution amount, this was offset by the \$625 Million drop in the Navy's IT request – bringing the combined DOD FY14 IT change to a decrease of \$24 Million from FY13. Two civilian agencies, the Department of Veterans Affairs (VA) and the Department of Homeland Security (DHS) saw significant increases in their FY14 IT requests, with \$622 Million and \$398 Million, respectively.



Source: President's Budget Request Exhibit 53 FY14 (non-classified investments)

Federal IT Budget Request: Agency Winners FY2013 versus FY2014

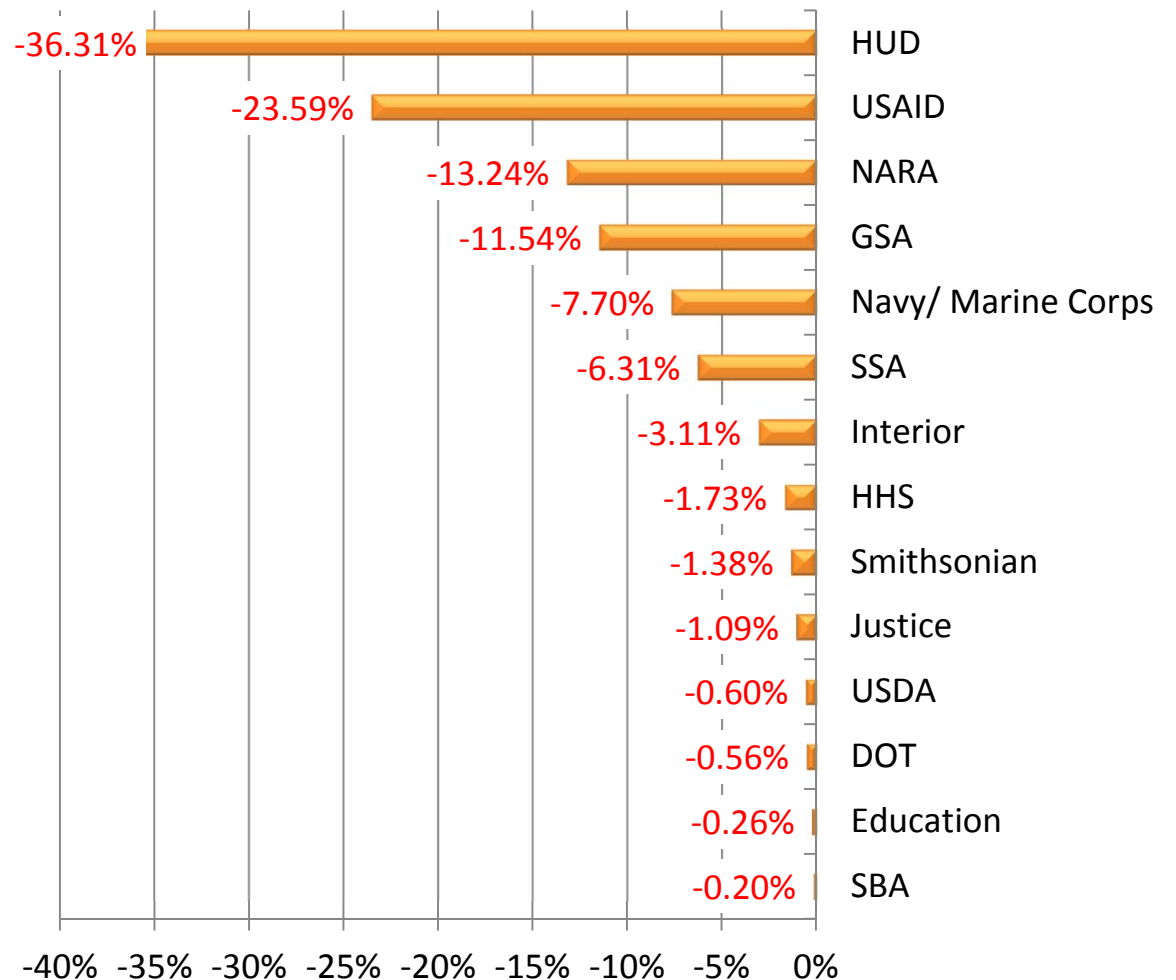


- The Department of Veterans Affairs (VA) saw the largest increase from their FY13 IT funding.
 - This includes \$251.9M for the Integrated Electronic Health Record (iEHR), up from \$68.8M in FY 2013 . The program holds solemn obligation to take care of our service members and veterans, and to protect our diplomats and civilians in the field.
- These “Winners” gained more than \$1.8 Billion in their FY14 IT Budget request, compared to FY13.

Source: President's Budget Request Exhibit 53 FY14 (non-classified investments)

Federal IT Budget Request: Agency Losers FY2013 versus FY2014

- The Department Housing and Urban Development (HUD) had the largest decrease from FY13 to FY14 IT Budget at 36.31%, a drop of \$167 Million.
- The Navy & Marine Corps FY14 IT Budget request dropped 7.7%, however as their IT Budget is very large, their FY14 decrease equates to \$625 Million less than FY13.
- These “Losers” lost more than \$1.2 Billion in their FY14 IT Budget request, compared to FY13.



Source: President's Budget Request Exhibit 53 FY14 (non-classified investments)

Glossary

- “Year” Designations:
 - CR = Continuing Resolution. Legislation which allows government operations to continue until the regular appropriations are enacted – specifically associated with 2013
 - FY = Fiscal Year. The period from October 1 to September 30 for a specific year.
- CAGR = Compound Annual Growth Rate. CAGR isn't the actual return in reality. It's an imaginary number that describes the rate at which an investment would have grown if it grew at a steady rate.
- DME = Development , Modernization, Enhancement. These are new investments. Like research & development (R&D) projects.
- IT = Information Technology. Specific industry covered by this report.
- LOB = Line of Business, may also be referred to as “BRM (Business Reference Model) Primary Function”
- Steady-State (SS) = This is continuation of current activities. Sometimes referred to as operations and maintenance (of current work). Not new initiatives.

Sources

- Discretionary Federal Budget Request = Summary Tables, FY14 (04/10/2013) and previous budget years
- Information Technology Budget Request
 - FY14 Total Federal IT Budget Request, FY14 (04/10/2013) – includes both classified and non-classified investment details
 - FY14 Total Federal IT Budget Request Agency 53 Exhibits, FY14 (circa 04/12/2013) – only includes non-classified investment details
- Office of Management & Budget, Exhibit 53, FY14 and previous budget years.
- CAGR, Analysis, additional research by Centurion Research Solutions, April 2013

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