

# Government Contracting Community COVID-19 Survey

Research Summary

# SUMMARY

## WHY

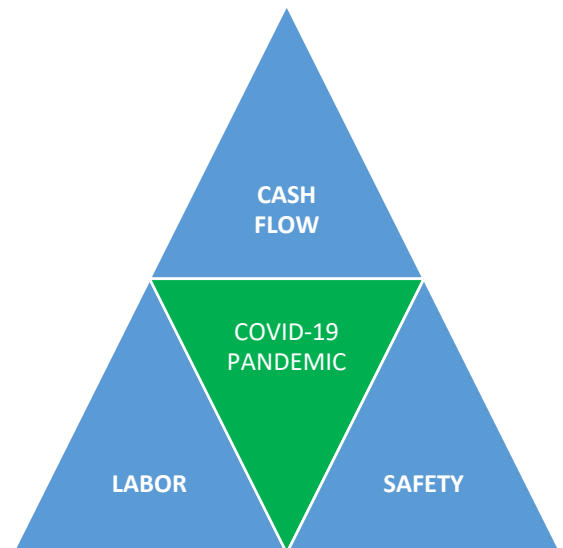
This study is part of KatzAbosch's ongoing commitment to conduct and share timely information to advance government contracting companies and the professionals who manage them. The COVID-19 pandemic has, as we all know, hit the industry with some unprecedented labor and financial obstacles. To get a sense of how government contracting companies are responding we reached out to our clients and contacts and invited them to participate in our peer survey.

The goal was to provide general benchmarking data to local companies around the impact COVID-19 to help reinforce operational best practices and highlight planning opportunities to allow your company to thrive in the next 3 to 12 months.

## INSIGHTS

Due to COVID-19 companies had to aggressively undertake workflow changes that impacted day-to-day operations for them.

The graph to the right represents the trifecta elements that emerged which will impact future planning.



# THE SAMPLE

Over 50 percent of the sample are Prime Contractors and Subcontractors. Most of the respondents' companies fall in the gross revenue size of 5 to 25 million. A large percentage of respondents have fixed fee contracts; followed by time and material.

Figure 1: Type of Government Contractors

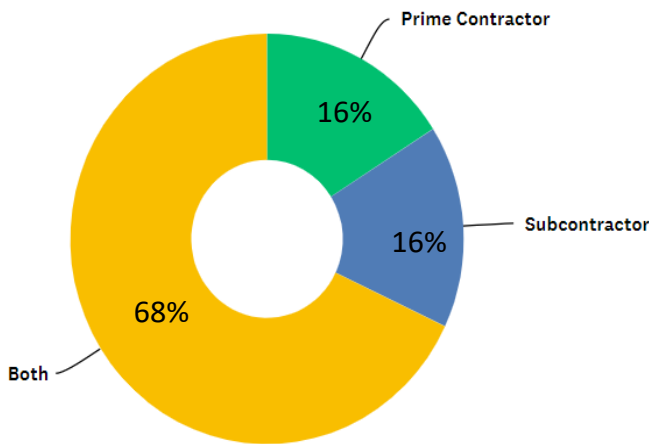


Figure 2: Government Contracting Companies by Gross Revenue

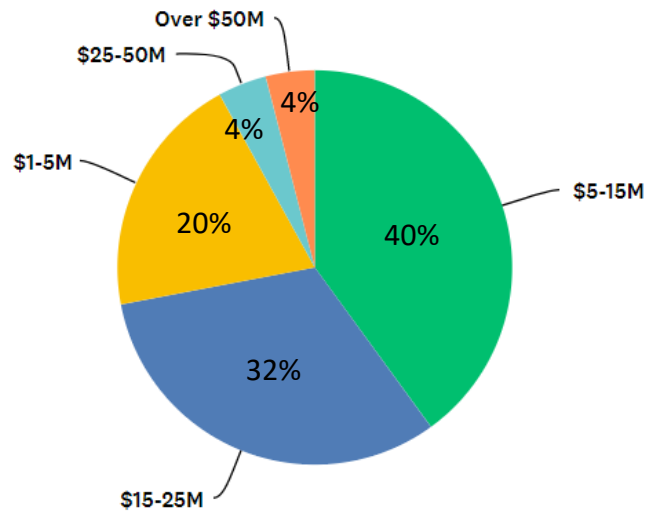
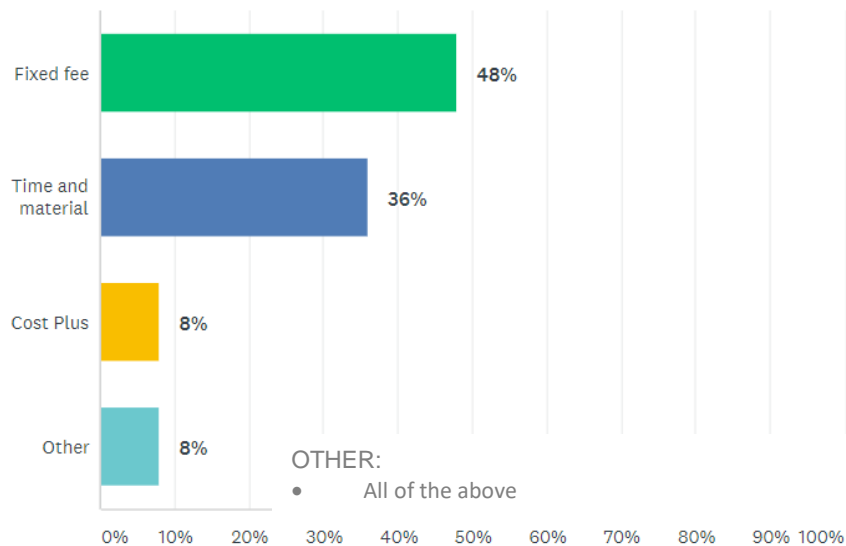


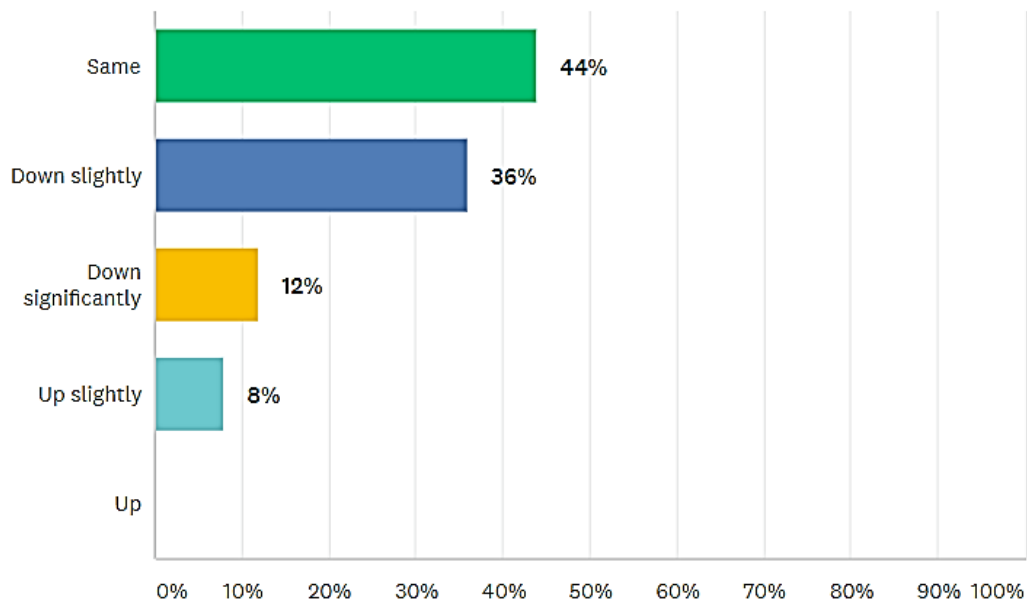
Figure 3: Majority of contract types



# REVENUE ENVIRONMENT

The COVID-19 pandemic has government contracting companies juggling a number of financial obstacles and challenges. However, a little under a half of the survey respondents feel confident their revenue will remain the same. Followed closely by 36 percent confident it will only be down slightly. This outlook may be off-set by the Paycheck Protection Program benefits. We will look more into that cash flow strategy on page 8.

Figure 4: Expected 2020 revenue/sales will be affected by COVID-19



# REVENUE ENVIRONMENT

In general responding contractors are concerned changes to the Federal budget will have a direct impact on their current and future contracts (Figure 5). Since March, most contractors have been considering submitting contract modifications or are taking a “wait and see” approach (Figure 6). This topic will be discussed more in our webinar on [Thursday, August 27](#).

Figure 5: Percentage of Contractors Concerned that the Changes in the Federal Budget Will Have a Direct Impact on Current and Future Contracts

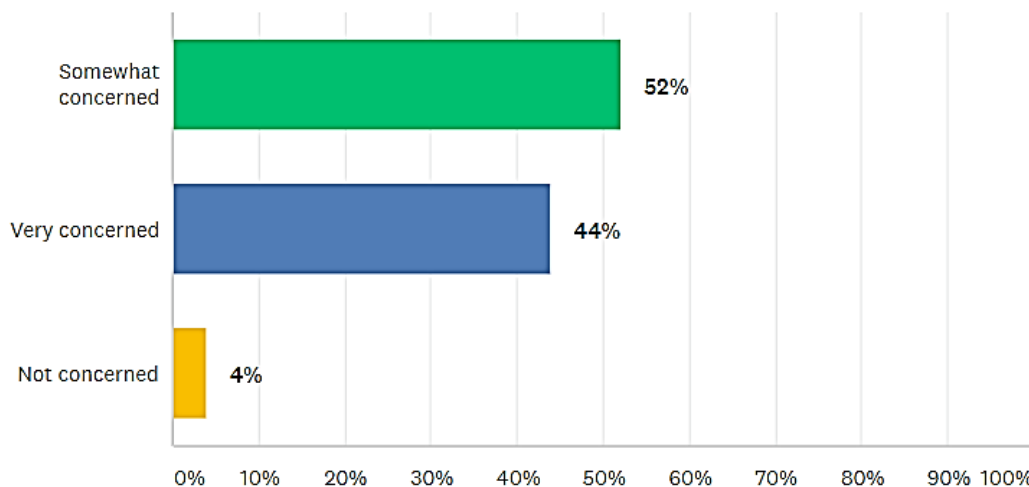
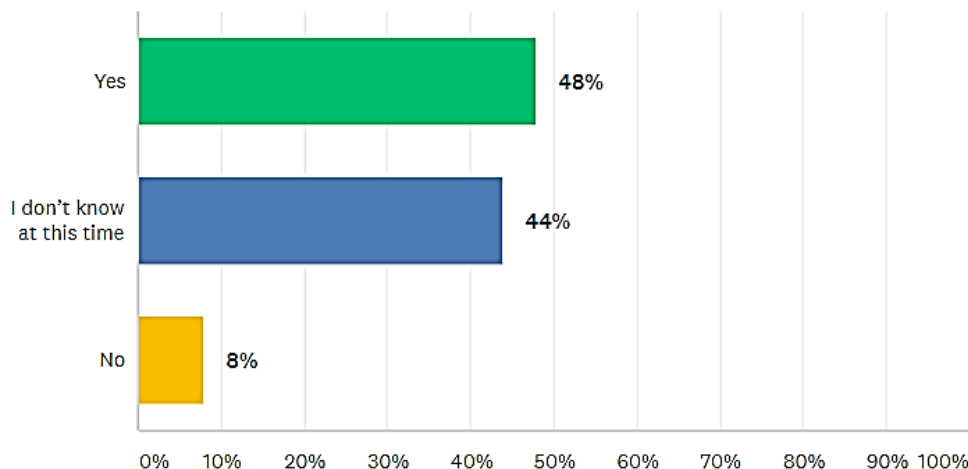


Figure 6: Percentage of Companies Considering Submitting Contract Modifications Due to COVID-19



# REVENUE ENVIRONMENT

There is a trend that work will be sluggish over the next year as seen by the status of the survey respondents' comments on their 2019 and 2020 RFP pipelines. Overall, companies are actively submitting, and no one has experienced any withdraws. This indicates that expected revenue may be overly optimistic (Refer Back to Page 5 graphs).

Figure 7: Status of 2019 RFPs

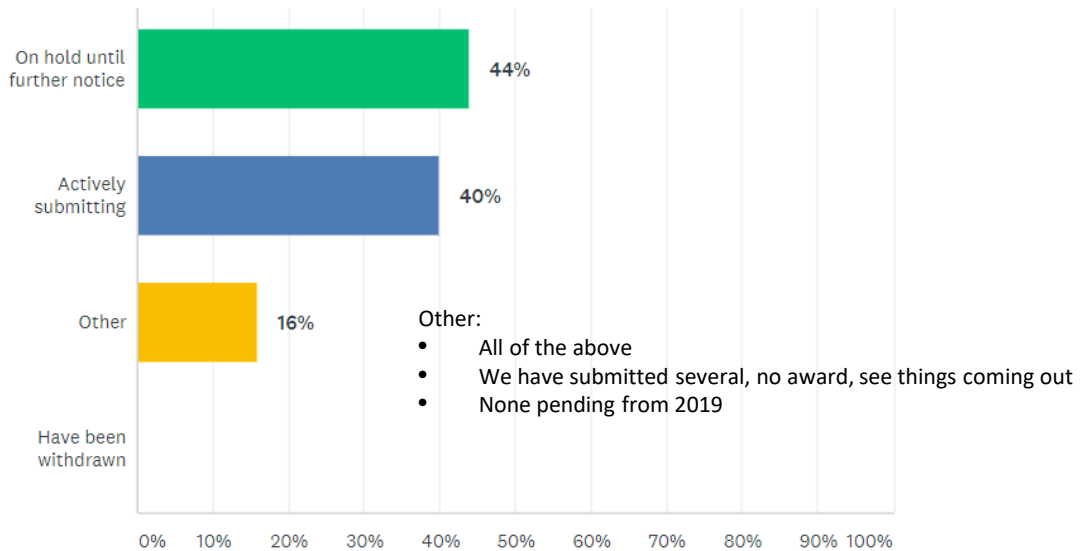
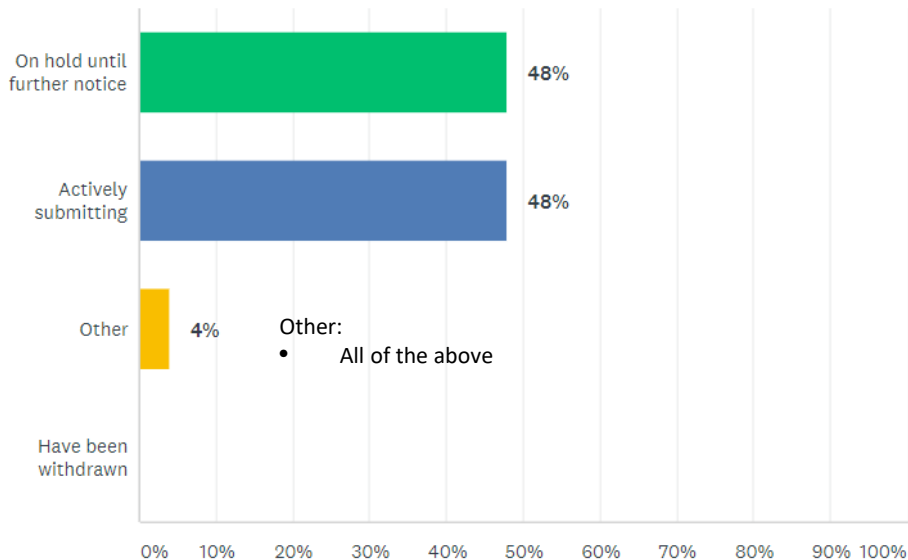


Figure 8: Status of 2020 RFPs



# CASH FLOW OUTLOOK

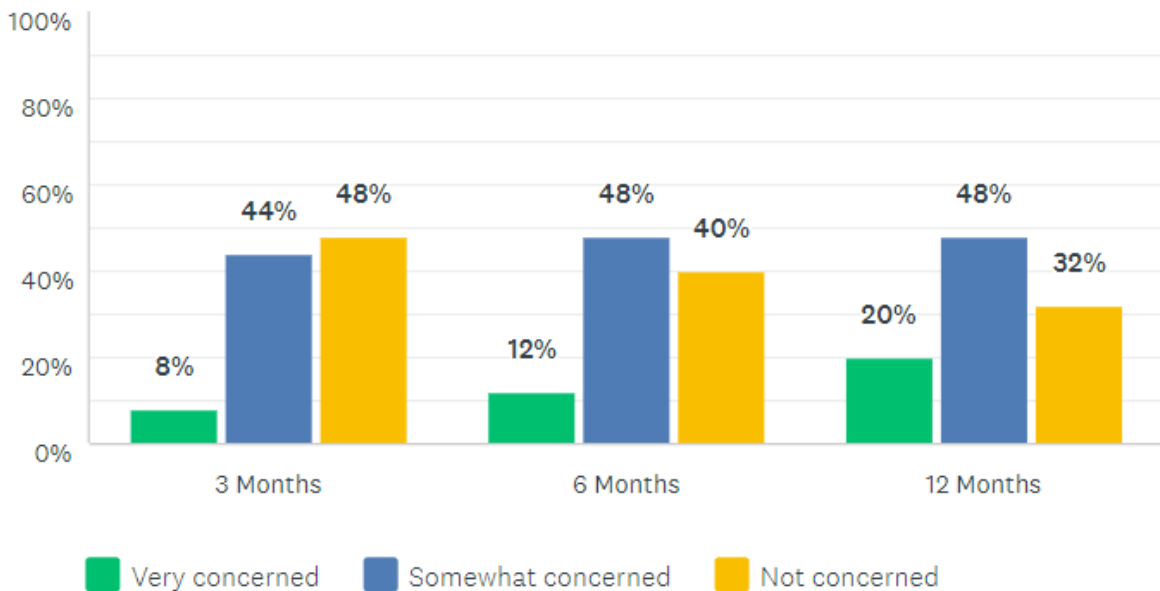
## OVERVIEW OF THE NEXT 12 MONTHS

Overall there is only a slight growing concern that COVID-19 will be impacting the industry and cash flow into the following spring. As such we recommend focusing on cost saving measures. Cost saving strategies may vary for each company. Top three for the government contracting industry typically are:

- Extend terms with vendors
- Right-size your expenditures
- Project PPP expenditures

We will be discussing this topic more during the webinar on [August 27<sup>h</sup>](#).

Figure 9: Percentage of companies concerned with cash flow over the next 3 to 12 months



# CASH FLOW OUTLOOK

## PAYCHECK PROTECTION PROGRAM AND FORGIVENESS OF DEBT

The graph to the right (Figure 10) represents the percentage of companies taking advantage of the forgiveness of debt under the Paycheck Protection Program. Figure 11 shows government contracting companies are concerned about the complicated process of receiving reimbursement under Section 3610.

Figure 10: Percentage of Companies Taking Advantage of Forgiveness of Debt Under the Paycheck Protection Program

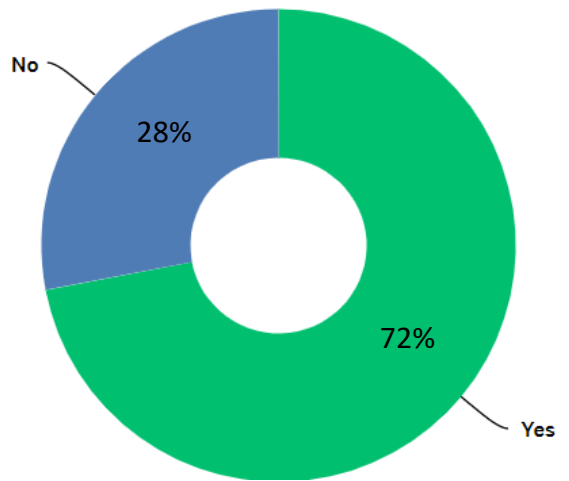
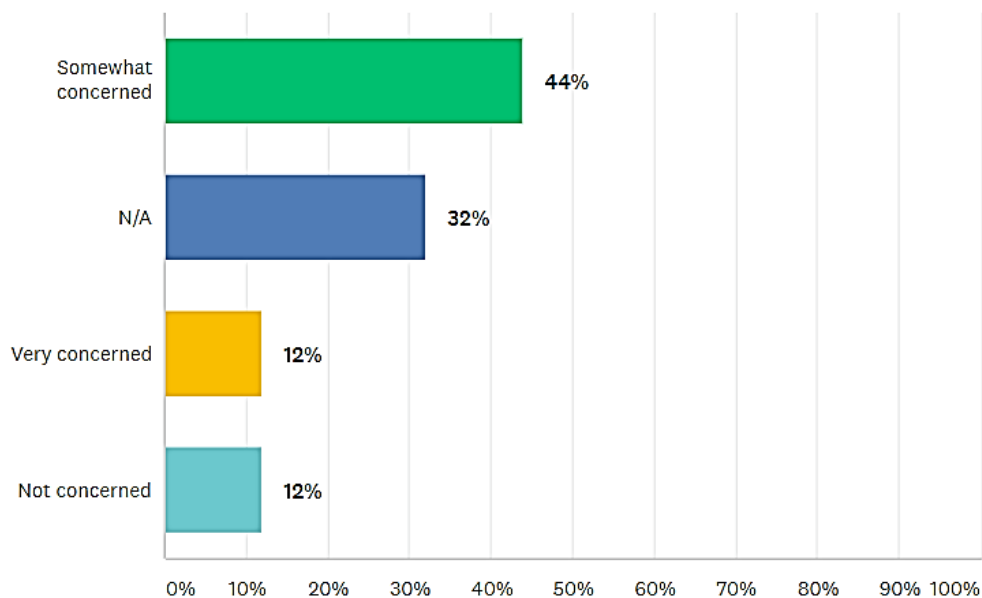


Figure 11: Percentage of Companies Concerned About the Complicated Process of Getting Reimbursement Under Section 3610





# SAFETY OUTLOOK

## PRODUCTIVITY

Employee safety is priority number one. Telecommuting and productivity challenges includes various results for our survey respondents. Figure 13 shows a little under half of the survey respondents have remained open and operating during this time. We can also see that the rest of the companies are planning to reopen their facilities or offices over the next six months.

Figure 12: Percentage of Companies Expecting To See a Decrease In Billable and Non-Billable Work Productivity Due To Telecommuting

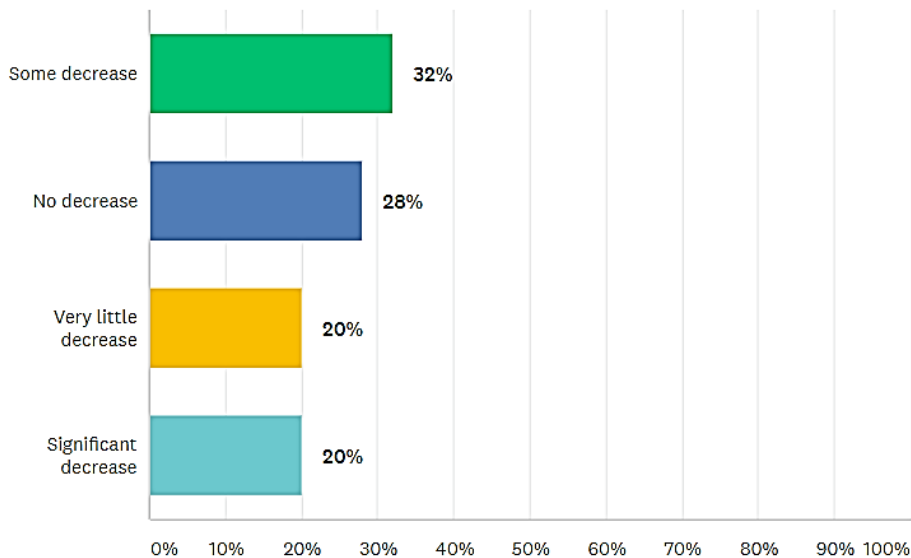
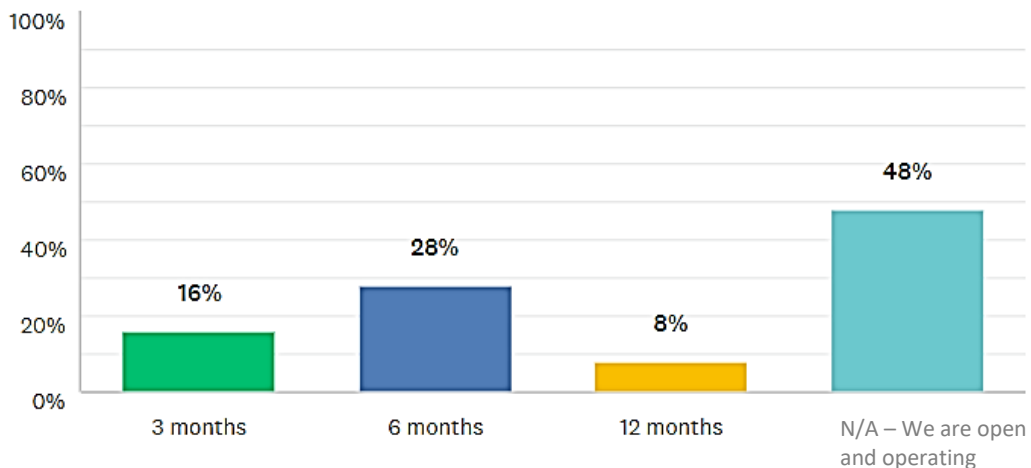


Figure 13: Percentage of Companies Expecting To Re-Open Their Facility/Office In The Next 3 To 12 Months



# SAFETY OUTLOOK

## LABOR RETENTION

Challenges for employers will continue to be centered around making employees feel safe as they continue to work in government facilities. As indicated in Figure 14, there is a good mix of feelings between facilities hindering productivity with taking too many safety precautions and others not. The majority are concerned with having difficulties with employees returning to work due to COVID-19 related issues (Figure 15). Challenges such as: childcare, high-risk individuals, and coping with employees who test positive, may force companies to address their sick leave policies and communication strategies. Companies may be able to take advantage of the payroll tax credits for paying employees to stay home as specified under the expanded Family and Medical Leave Act (FMLA).

Figure 14: Companies Safety Concerns With Employees Returning To Work Inside A Government Facility

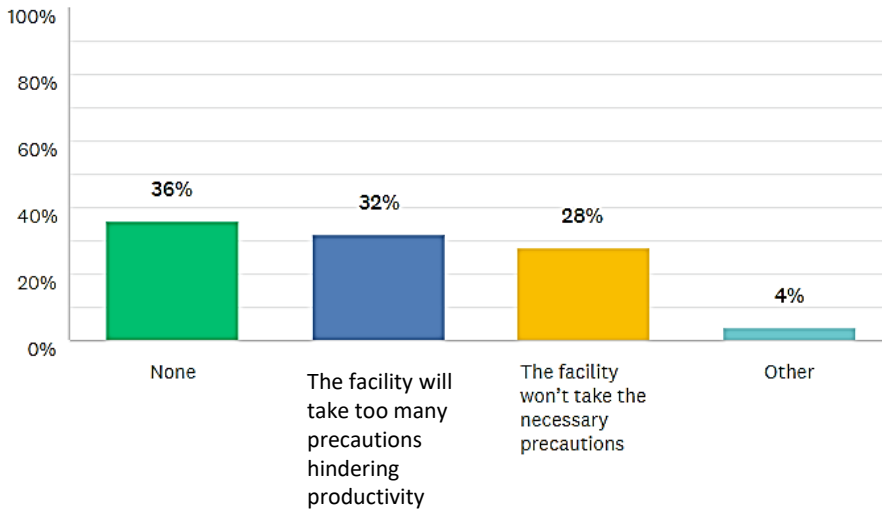
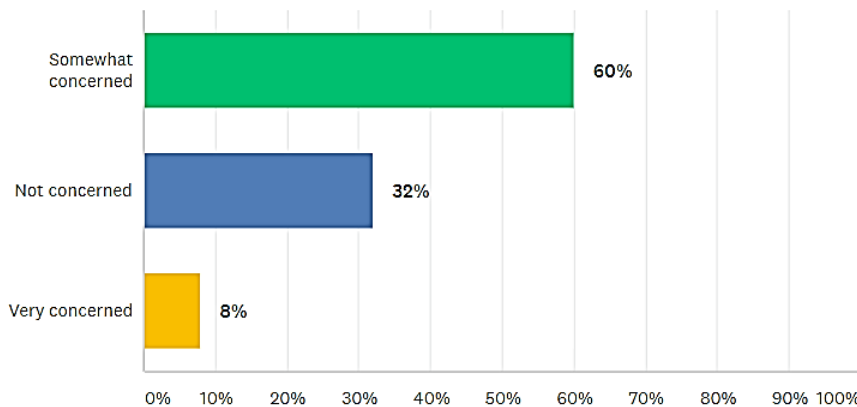


Figure 15: Percentage of Companies Concerned About Having Difficulty With Employees Returning Back To Work (i.e. they are unwilling to return due to COVID-19 related issues)?



# NEXT 12 MONTHS OUTLOOK

## CHALLENGES DUE TO COVID-19

The below graph (Figure 16) represents the percentage of government contractors who believe COVID-19 will impact their overhead rates. Many of the respondents are concerned, indicating they are anticipating a reduction of overhead rates as a result of COVID-19.

Figure 16: Percentage of Companies Concerned With COVID-19 Having A Significant Impact On Their Overhead Rates

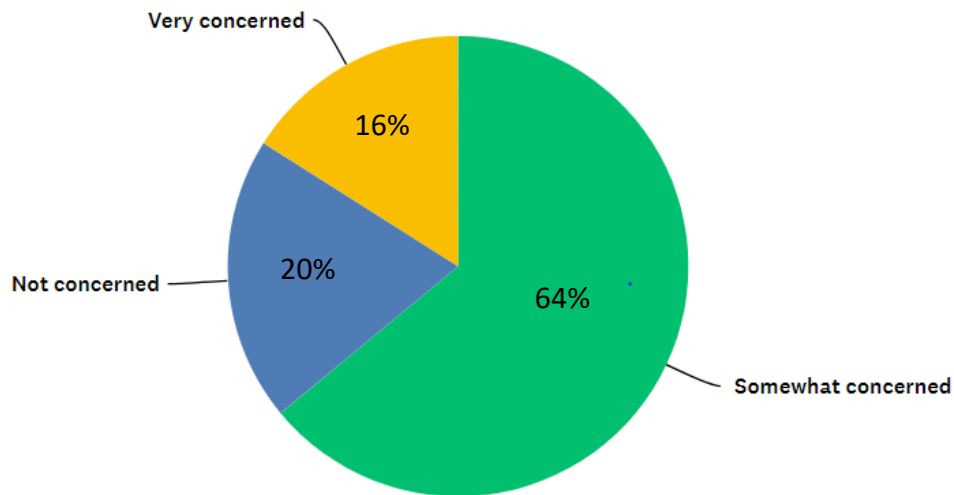


Figure 17: Rate Ranges and Averages from the companies that provided the information

	RATE RANGE	AVERAGE
FRINGE RATE	11 - 41	29.25
INDIRECT RATE	4 -30	13.6
GENERAL and ADMINISTRATIVE	6 - 22	12.16

*Please note: Rates tend to vary depending on geographic location, type of work, and allocation based used in the calculations. Due to our sample size these rates may be skewed slightly then national results.*

# NEXT 12 MONTHS OUTLOOK

Not since the 2007 Great Recession has the industry been faced with such economic uncertainty. However, based on the survey responses, government contracting companies are somewhat undaunted with COVID-19 impacting the health of their business.

Figure 18 shows that the majority do not plan to decrease their workforce as a result of COVID-19. This and the previous graphs depicting the revenue environment provides a snapshot of an industry that plans to succeed despite the other slow downs that may be occurring around them in the next 3 to 6 months.

The challenge, as mentioned in the research report, may be slow contract wins and completion. As such we recommend future planning to include the following strategies:

## 3 Months

### RESERVE CASH

- Talk to your bank
- Talk to your vendors
- Review your spending in full
- If hiring, consider veterans. Tax credits are available.

## 6 Months

### INCREASE BUSINESS DEVELOPMENT EFFORTS

- Seek opportunities outside the federal government; innovate around services.
- Invest in and optimize your pipeline technology
- Continue to review and plan for joint ventures and teaming arrangements

## 12 Months

### REVIEW COST CUTTING MEASURES

- Review operating expenses in detail
- Perform an efficiency review. Find ways to operate in a leaner fashion.
- Prepare for Federal budget cuts

Figure 18: Percentage of Companies Planning To Decrease Their Workforce As a Result of COVID-19

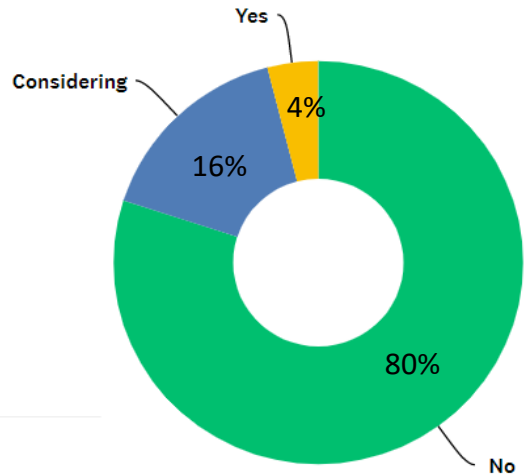
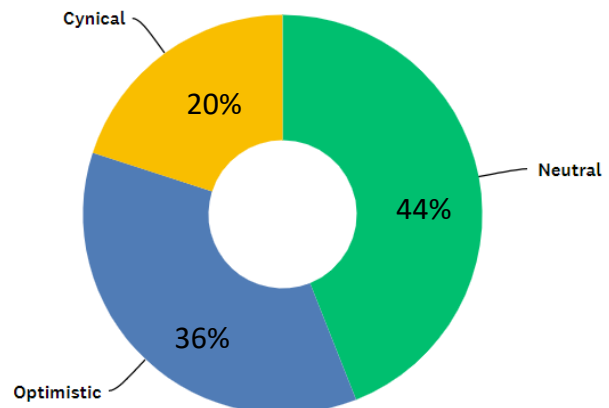


Figure 18: Percentage of Companies Feeling About the Health of Their Business And The Economic Uncertainty of the Country As A Result of COVID-19 Over The Next Year



# ABOUT KATZABOSCH

As a Mid-Atlantic serving accounting firm, our mission is to provide the highest quality accounting, tax, financial and management consulting services to our regional clients. We understand the needs and challenges of our clients and we have made it our obligation to create, grow and protect their asset value.

With over 50 years of experience serving government contracting companies, KatzAbosch has the knowledge and business expertise to help you set and reach the goals to which you aspire. Whether you are a small company in Baltimore, Maryland or one of the Mid-Atlantic region's largest companies, you can rely on the experienced CPAs and financial professionals of the KatzAbosch Government Contracting Services Group.

Our long-standing relations within the government contracting community are testimony to our proven track record of achievement. Our knowledge of what you do enables us to provide the guidance that will lead you into the future. We pride ourselves on making it our business to immerse ourselves in your business. We invite you to explore our full list of services at: [www.KatzAbosch.com](http://www.KatzAbosch.com)

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