2017 STATE & LOCAL GOVERNMENT CONTRACTING FORECAST
OUTLOOK AND DISCUSSION WITH THE EXPERTS
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>03</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>04</td>
</tr>
<tr>
<td><strong>THE ECONOMY</strong></td>
<td>05</td>
</tr>
<tr>
<td>The 2017 Economic Outlook</td>
<td>06</td>
</tr>
<tr>
<td>Discussion: The Economy and the Fiscal Environment</td>
<td>08</td>
</tr>
<tr>
<td><strong>STATE &amp; LOCAL GOVERNMENT PURCHASING</strong></td>
<td>10</td>
</tr>
<tr>
<td>The 2017 SLED Purchasing Outlook</td>
<td>11</td>
</tr>
<tr>
<td>2017 SLED Outlook for Bids</td>
<td>13</td>
</tr>
<tr>
<td><strong>EXPECTATIONS FOR INFRASTRUCTURE</strong></td>
<td>14</td>
</tr>
<tr>
<td>State &amp; Local Historical Infrastructure Trends</td>
<td>15</td>
</tr>
<tr>
<td>The 2017 Infrastructure Spending Outlook</td>
<td>16</td>
</tr>
<tr>
<td><strong>EXPECTATIONS FOR IT</strong></td>
<td>18</td>
</tr>
<tr>
<td>State &amp; Local IT Trends</td>
<td>19</td>
</tr>
<tr>
<td>The 2017 IT Spending Outlook</td>
<td>20</td>
</tr>
<tr>
<td>Conclusion</td>
<td>22</td>
</tr>
</tbody>
</table>
In an environment of heightened economic and political uncertainty, we provide a special forecast for 2017 providing guidance and insight to help contractors and government officials navigate the coming months and make informed decisions.

**REVIEWING THE BASELINE**

To help provide context and a historical perspective, we supplement the contributions and expectations of our panel with quarterly economic trend data provided by the Bureau of Economic Analysis (BEA):

- **The broader economy**, measured by Real Gross National Product
- **Overall Purchasing** by state and local governments
- **Purchasing of infrastructure**
- **Purchasing of IT**

**UNDERSTANDING FUTURE DIRECTION**

We go beyond historical trends, offering special insights and perspective around where the national economy as well as state and local purchasing will be headed in the near future.

**ASKING THE EXPERTS**

We assembled a panel of three thought leaders in economics, infrastructure and technology to bring clarity around certain trends and new developments that can have significant impacts on government budgets, purchasing and the fiscal environment.

- **Dan White**, Senior Economist at Moody’s Analytics and noted authority on government fiscal policy
- **Mary Scott Nabers**, Leading expert in infrastructure and public private partnerships
- **Ben Vaught**, Director of Onvia Exchange and former state government IT executive

**FOCUS ON THE NEXT 12 MONTHS**

At a time of transition with a new administration forming and limited information about policy details and spending, longer-term forecasts can be seen as speculative at best. However, in the short-run our experts are able to provide a useful profile of what the environment is looking like for business and government over the next 12 months.

**AREAS COVERED:**

- How the economy will perform
- How long will it take for the policies of the new administration to begin affecting the economy
- The new fiscal realities in 2017 for agencies, revenue and budgets
- Prospects for significant infrastructure funding in 2017 and what form it will likely take
- Expectations for continued growth in technology spending and contracts
THE ECONOMY
- Slight uptick in 2017, following a slower 2016
- Reverting to typical 2% pace of GDP post-recession
- 2017 to be a transition year, with full effects of new policies not felt for several quarters
- Many questions remain about economic, tax, regulatory and fiscal policies

STATE & LOCAL GOVERNMENT PURCHASING
- Overall, slow growth continues above inflation, with differences by industry
- IT continues modest but healthy growth

• Infrastructure spending expected to ramp up in 2017, based on President Elect’s proposed $1T long-term plan supplemented by over $200B in new funding approved by voters in 25 states in November
• For all other goods, services and equipment purchasing, expect relatively slow growth

FISCAL ENVIRONMENT FOR STATE & LOCAL AGENCIES
• Fast growing mandated expenses like Medicaid and pensions limit increases in discretionary spending

SUMMARY OF SPENDING OUTLOOK BY TYPE

<table>
<thead>
<tr>
<th>TYPE OF PURCHASE</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>DRIVER OF OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Low</td>
<td>Strong</td>
<td>Low</td>
<td>Moderate</td>
<td>External/voter funding with large potential to expand $</td>
</tr>
<tr>
<td>IT</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Continued demand in several key areas; staying top of mind in priority &amp; importance</td>
</tr>
<tr>
<td>General Purchases &amp; Equipment</td>
<td>Low</td>
<td>Strong</td>
<td>Moderate</td>
<td>Low</td>
<td>Tight budgets; long-term competition with fast-growing required spending on social payments, pensions, etc.</td>
</tr>
<tr>
<td>All Purchasing</td>
<td>Low</td>
<td>Strong</td>
<td>Low</td>
<td>Low</td>
<td>Continuation of trends with infrastructure upside</td>
</tr>
</tbody>
</table>

Key: “Low” = under 2% after inflation, “Moderate” = 2-4% range, “Strong” = 4% or higher growth
SLIGHT UPTICK IN 2017
In a transition year with a new administration, business leaders seem generally excited about the implications of a more conservative or “business friendly” president. Hedging this enthusiasm on the other side is the presence of significant uncertainty about President-elect Trump’s policies in areas such as trade agreements, protectionism and opposing giant corporate mergers.

Observers seem to be keeping their expectations within a standard 2% range of inflation-adjusted Gross Domestic Product (real GDP) that has been seen in recent years. There is a general consensus among the 60 economists surveyed each month by the Wall Street Journal about the following:

- GDP growth will continue to be modest into 2017 at around 2%
- Slight uptick above a slower 2016, returning to more typical levels
- The election results have not materially affected the forecast for 2017

There is little variation in the 2017 predictions made throughout this year, including just after the election. Leading global forecaster Focus Economics agrees, leaving its 2017 U.S. forecast the same on November 23, noting however that it remains subject to the “uncertain evolution of economic policy.”

LONGER-TERM UNCERTAINTY
Nearly half (45%) of The Wall Street Journal survey panelists indicated the election had brought “much more uncertainty” to markets and the economy. This points to the potential for future outcomes that may look significantly different from those of 2017. Once the new set of policies are implemented, and their impacts can be measured, economists will have a better idea how any major changes will impact GDP growth moving forward. Until then, there is a sort of “wait and see” mentality as we await more clarity around:

- How the proposed infrastructure stimulus initiative is implemented and its timing
- Which existing trade deals such as NAFTA will be re-negotiated and how much they will change
- Whether significant tax reform overhauls are accomplished and how it impacts consumer spending, business profits and the national debt
- How The Affordable Care Act is modified
- How banking and investment regulations will change
- How immigration policies will play out

APPRICATING THE UNCERTAINTY
Besides the stock market, one of the best ways to measure uncertainty is the chance of a recession happening. The odds of a recession in 2017 have increased slightly over the last year in the Wall Street Journal’s survey, from around 14% to around 19% currently.

**IMPACT OF ELECTIONS ON UNCERTAINTY IN MARKETS/ECONOMY**

![Impact of Elections on Uncertainty in Markets/Economy](chart)

Source: Economic Forecasting Survey, Wall Street Journal
What economists and investors are saying about uncertainty:

“Will [the change of administration] put the economy in a higher growth orbit, or will it knock us down into the atmosphere?”
— Sean Smith, Director of the Institute for Economic Competitiveness at the University of Central Florida

“Everyone will lose if there is a global trade war”
— Jim O’Sullivan, chief U.S. economist at High Frequency Economics

“The source of the current optimism is tax cuts and infrastructure plans, but these would take longer to implement because they would need to go through Congress.”
— Wall Street Journal

THE QUARTERLY FORECAST: CHARTING THE IMMEDIATE FUTURE

The short-term forecast in the quarterly real GDP trend, which is again based on the Wall Street Journal’s panelists, calls for a slight uptick over the next few quarters versus the average growth of the last year.

Other forecasts and commentators have expected a similar small uptick, with a recent Forbes article describing it as a “mild cyclical rebound” in 2017 – making up ground lost from a somewhat weaker 2016.

QUARTERLY REAL GDP – ANNUAL RATES OF GROWTH

COMPARING QUARTERS

Quarterly real GDP growth rates are based on the change from the previous quarter three months prior. They are then expressed as annual rates of growth (assuming that amount of change continued for 12 months) and the two quarters compared are also seasonally adjusted for direct comparability and further adjusted to account for inflation. In this chart, whenever groupings of quarters are combined (such as 2015 or Avg. 2016 Q1-Q3) the growth rate shown is based on averaging the percentage growth rates for each quarter included in each time period rather than summing the dollars across the period, which allows for more consistent comparisons of time periods with one, three or four quarters.
How long will it realistically take during 2017 for the new administration’s policy changes to affect GDP growth?

Growth can be affected in 2017, but that effect will come more from the anticipation of policy changes than any direct policy changes themselves. For example, financial markets are already beginning to price in some fiscal stimulus from the incoming administration, and that has dramatically pushed up long-term interest rates. Higher long-term rates will weigh on the pace of growth as early as the first half of 2017.

How likely do you think it is that the economy in 2017 deviates from the fairly consistent recent GDP growth rate of around 2%, either to an even lower growth level or a higher pace?

I think if anything growth could come in slightly below 2%. This is because of the effects I mention above, but also because of some of the direct policy changes that could come into effect by the end of 2017. For example, any new tariffs or other trade restrictions as well as anything that slows the pace of immigration into the U.S. could happen more unilaterally and thus quickly.

These all have the potential to come into effect before any proposed tax cuts or spending increases - which could otherwise push us above 2% - make their way through Congress.

The chances of a recession are considered fairly low currently. Do you consider the likelihood of this happening to be increasing or decreasing? If one were to happen, what would be the most likely cause or trigger?

I agree that the odds of recession in the next year are relatively low. The most popular narrative for the next recession had been the potential for the Federal Reserve to wait too long to begin raising interest rates. Under such a scenario, inflation could have eventually gotten out of control and forced the Fed to raise rates very quickly, thus inverting the yield curve and sending us into recession. Given what’s happened to long-term rates since the election, and the potential stimulus measures on the horizon, it should be a bit easier for the Fed to be aggressive normalizing monetary policy so this risk is diminished.
What do you expect the fiscal environment for state and local governments to look like?

I expect the next several years to be very tough sledding for states and local governments in terms of budgeting and spending, and that was going to be the case regardless of who won the election.

1) Tax Revenue Challenges. We continue to see a clear disconnect between what’s going on in the economy and what’s coming in the door in terms of tax revenues.

For example, even though we’ve seen a slight acceleration in GDP growth, state tax revenue growth has actually declined for four consecutive quarters. In fact, the most recent quarter for which we have data shows an outright year over year decline in state tax revenues. This disconnect is a result of both structural changes to state and local tax policy as well as some one-time unique dynamics, and it will continue out into the future, making life difficult for revenue forecasters.

2) Spending Pressures. Aside from revenues, spending pressures will continue to mount as well. In terms of pensions and other worker benefits, even governments with relatively healthy funded ratios are going to see more stress put on them as they transition to a world with more retirees collecting benefits and fewer workers paying into pension systems. What’s more, at the state level, Medicaid will continue to grow at a faster pace than revenues. This will continue to crowd out discretionary spending, and again make putting together a budget a lot more difficult.

How can state and local agencies factor infrastructure stimulus spending into their planning and budgeting?

The biggest thing to understand about new infrastructure funding is the importance of public private partnerships or P3s. The new administration hasn’t, at least publicly, fleshed out its plans in a very detailed way. However, it has made it abundantly clear that it wants the private sector to play a significant role. Those governments who best understand how to take advantage of P3s will be ahead of the curve once a bill is put into place.

What do you see as the implications of a Trump presidency on federal grants and transfers to states?

The biggest impact on grants and aid from the federal government will likely come in Medicaid. It appears most likely that Medicaid will be transformed into some type of block-grant in the not so distant future, and this carries with it a unique set of risks. Fortunately, those risks are balanced and depend largely on how the block-grant is structured. States will in all likelihood receive less federal assistance to administer their Medicaid programs, which is the bad news. The good news, however, is that states will have an extraordinary amount of freedom to implement their programs.

This will allow more states to get creative in ways to pay them without potentially crowding out more discretionary spending. The biggest downside risk is what happens during a downturn in the business cycle. Most likely this would occur after state Medicaid allotments have been set, leaving states in a precarious position without some type of stabilizing mechanism in place.
A REVIEW OF RECENT TRENDS
Total purchasing by state and local agencies finally emerged in 2015 from several years of declines following the Great Recession with a brief season of stronger-than-normal growth driven by delayed purchases or pent-up demand. Over the first three quarters of 2016, growth rates have slowed to a more sustainable pace that is roughly consistent with a fairly slow, steady rate of economic growth (real GDP). Data from the BEA can be used to track spending in three basic areas: infrastructure (“structures”), IT, and all other types of purchases, including general goods and services as well as equipment investments other than IT such as vehicles. Further analysis of trends in both infrastructure and IT are offered later in this report.

TOTAL PURCHASING
% Annual Change vs. Prior Year, Q1-Q3 YTD, Adjusted for Inflation

Purchasing by Type
% Annual Change vs. Prior Year, Q1-Q3 YTD, Adjusted for Inflation

Source: BEA
Continued Growth Among Vendors
Government contractors interviewed in Onvia’s 2016 survey indicated remaining cautiously optimistic in the continued health of the marketplace through 2017. Our Confidence Index tracks four indicators including previous growth in revenue from the public sector, expected growth and expectations for changes in government budgets. The focus is more on whether or not these companies will grow, rather than the exact amount of growth.

Efficiency-Seeking, Tight Budgeting Buyers
Over 550 government agency procurement staff were interviewed by Onvia in 2016 and asked about the current budgeting and purchasing environment. 58% indicated staying the same in spending levels over the coming year. 33% expect an increase while only 9% expect to decrease their amount of purchases. These answers were very similar to changes experienced in the last 12 month period before the survey (May 2016). One of the major themes to emerge from the survey was the strong need for finding more value and buying in more efficient ways, both from the standpoint of not having enough dollars to work with as well as being generally short-staffed and favoring buying off of existing contracts to limit the number of times a new, formal bid process is needed.

Understanding the Market Direction
On a per person or per capita basis, total SLED government spending seems to be transitioning to a more sustainable trend that will likely remain higher than inflation but not necessarily growing on a per person standpoint (see chart).

Total purchasing should benefit from expected improvements in infrastructure spending. At the same time, preliminary trending based on the GDP forecast appears to support slow spending growth in general purchases and equipment. IT spending should continue at a modest or healthy rate.

With scores remaining well above the 100.0 or “neutral” level, government contractors expect to find more room for growing their business in the coming year rather than expecting a flat or declining scenario. The slight decrease in the index value is consistent with the softening in the overall pace of purchasing activity seen recently in the 2016 economic data.

Annual Per Capita SLED Agency Purchasing $ (All Purchases Including Infrastructure; In 2009 Dollars)

Source: BEA

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2017 OUTLOOK FOR BIDS: STABILIZING WITH POTENTIAL UPSIDE

BACKGROUND
Onvia’s quarterly State & Local Procurement Snapshot report tracks the annual growth rates of formal, advertised bids and RFPs on a year-over-year basis and breaks them down into three levels of government, as shown in the chart below. Since 2014, growth rates have risen from a decline of around 5% per year in Q4 of 2014 to an increase of about the same magnitude in Q4 2015.

The more recent softening can be attributed to the fiscal pressures Dan White discussed, which can lead to more buying in non-traditional ways, flattening out the growth rates even as total purchasing dollars expand.

In 2016 growth bottomed out at a slight negative year-over-year rate of -1.3% for the third quarter. The slight uptick forecasted in the broader economy next year can help protect against further erosion here.

THE 2017 OUTLOOK
Forecasting the coming year in the absence of details about the timing of infrastructure is difficult. However, if we ignore the uncertainty around when and how much these new investments may occur and just focus on the recent trending of all other services, there does appear to be a potential for a cyclical small improvement in the growth rate for bid volume in 2017, past zero to slight positive territory. Because construction and A&E contracts are such a large share of total activity, actual results for the overall market may end up stronger than this (see next section), but it is not likely to affect the other industries.

ANNUAL GROWTH RATES OF BIDS & RFPS BY LEVEL OF GOVERNMENT

ANNUAL RATE OF CHANGE

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth Rate</th>
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<tr>
<td>Q1 '16</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Q2 '16</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Q4 '15</td>
<td>+2.7%</td>
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One of the casualties of the Great Recession has been the lack of infrastructure investment by state and local governments. Adjusted for inflation (using 2009 dollars), annual spending fell from a high of around $280 billion in 2010 to a current inflation adjusted level of only $234 Billion in Q3 ‘16 – a drop of 16%. Measured on a real per person basis, annual spending declined by around $200 a year over this period – from around $900 to just over $700 (-20%). For a typical household of 2.5 people, that translates to around $500 less spent per year on “structures” (including things like roads, bridges, highways and public buildings).

While investment did begin to recover in the 2004-2005 period, recent quarters have shown the trend returning down closer to the lowest levels of the past six years. This trend provides the context or backdrop for President-elect Trump’s popular proposal to boost funding with a federal stimulus program in the coming years. It also helps to explain the increases in recent voter-approved debt for transportation projects – which was no doubt helped by an increase in public awareness about the scope of the problem during the presidential election campaign season. Our Infrastructure Outlook in the next section delves into the specific causes for optimism and what form these anticipated investments will likely take.
Infrastructure contractors have good reason to look forward to 2017, based on the emerging positive trends and encouraging new developments.

A highly touted and promised federal infrastructure plan plus an abundance of private capital waiting to be tapped will likely result in the launching of hundreds of large new public sector projects by early 2017. At least that’s what thousands of government contractors, economic development supporters and unemployed individuals hope will happen.

President-elect Donald Trump has promised to infuse at least $1 trillion for infrastructure spending. And, while his plan must be approved by Congress, there is widespread support and most believe it will be difficult for Congress not to comply.

THE COMING STIMULUS

While much is still unknown about Mr. Trump’s program, some things are known. More than $936 billion is needed immediately for infrastructure investment. Funding is long overdue for highways, bridges, aviation, ports, inland waterways and public transit, passenger and freight rails. The nation’s public infrastructure assets are deteriorating and Congress has in recent years deferred sufficient funding for repair and replacement. The Trump formula, much of which still remains a mystery, is said to be a 10-year plan that insiders say will be launched in the first 100 days of the new administration. Some items purported to be under consideration in this plan include:

- Federal tax credits totaling $137 billion for private investors who capitalize public transportation projects.
- Private capital will be sought through public-private partnerships (P3s);
- A national infrastructure bank would be created and capitalized to provide low-interest loans for infrastructure projects;
- Federal permitting and approval processes would be changed and streamlined to mitigate the bureaucratic red tape that has translated into extremely costly project delays in the past; and
- Additional infrastructure funding could possibly come from a one-time 10 percent tax on corporate revenues stored overseas that are repatriated and returned to the U.S.
RECENT VOTER-APPROVED FUNDS
Other infrastructure funding has also been made available recently. Seeking to take advantage of current low interest rates and mindful of the continued deterioration of local infrastructure, voters nationwide approved more than $200 billion in local and state bond and tax initiatives in 26 states in November.

Over $200 Billion
In funding initiatives approved in November ‘16

Taxpayers understand the importance of all types of infrastructure, especially transportation.

Regardless of the size of Mr. Trump’s infrastructure plan, there will be new funding for infrastructure projects in 2017. Increased funding sources include:

- The Federal Highway Bill – FAST Act
- Several states have increased gas taxes to fund road construction
- Statewide water propositions passed in California and Texas
- Statewide transportation propositions were approved in Texas and Maine
- Local governments like Los Angeles, San Francisco and Seattle have passed large transit propositions
- Two states (Illinois and New Jersey) passed “lockbox” initiatives to ensure that state transportation-related funds are not diverted to other purposes

PUBLIC PRIVATE PARTNERSHIPS
Critical infrastructure needs and tight government budgets have made public private partnerships an attractive funding alternative. P3s should gain even more support by having a builder/developer occupying the White House for the next four years. Many P3 projects have already been announced. Examples include:

- **UC Merced expansion** – The University of California has embarked on a $3.6 billion project for design, construction and maintenance of new buildings on the UC Merced campus. Some work has started and future P3s are planned for billions of dollars’ worth of deferred maintenance projects and seismic repairs.
- **New Maryland courthouse** – Howard County officials are proposing a $128 million P3 to finance a new courthouse to replace the aging, overcrowded facility that hasn’t seen renovations in the last three decades.
- **Omaha VA medical facility** – A P3 to plan, design and build a new Veterans Administration hospital in Omaha is awaiting congressional action. Federal funding of $56 million has been secured for the project, which will also include private donations.
- **LA Metro** – With the recent approval of a sales tax increase in Los Angeles County to fund transportation projects, Los Angeles County Metropolitan Transit Authority is expecting to enter into a variety of P3 projects.

GREATER OPPORTUNITY FOR CONTRACTORS
There is widespread evidence of support for infrastructure spending throughout the country along with new funding for projects that public officials are eager to launch. With the expectation of perhaps up to a trillion more in additional funds over the next decade, government contractors are preparing for what promises to be a much better year ahead - a welcome change from years of under-investment in this important market.

States With New Voter-Approved Infrastructure Funding (Nov. ’16)

- Arkansas
- California
- Colorado
- Connecticut
- Florida
- Georgia
- Idaho
- Illinois
- Indiana
- Kansas
- Louisiana
- Maine
- Michigan
- Nevada
- New Hampshire
- North Carolina
- Oklahoma
- Ohio
- Oregon
- Rhode Island
- South Carolina
- Texas
- Utah
- Virginia
- Washington
EXPECTATIONS FOR IT
IT spending by state and local governments has continued to rise on an inflation-adjusted basis. Rather than see these products and services as an easy target for cutbacks and downsizing during the economic recovery, agency buyers have instead remained fairly bullish on tech. This points to a supportive mentality and a general consensus that many of these solutions are not just routine purchases but are “mission critical” in their importance. Because tech spending often goes to items that will continue to be used over multiple years and can often help save money or improve future efficiency, they are seen as investments that will continue to pay off. Onvia’s recent State of Government IT report goes into some of the drivers behind this healthy outlook. In the GDP data, economists break out IT spending from general “goods and services” spending as a distinct investment category alongside infrastructure. The annual spending figures shown below reflect data on IT spending by state and local agencies from the Bureau of Economic Analysis that are regularly collected for quarterly trending. Actual or total spending counting all sources is much higher, based on an annual market size estimate of over $70 billion made by global forecaster Statista. Adjusted for inflation (using 2009 dollars), annual spending rose from a 2010 level of $29 billion to a current level of $34 billion – an increase of 17%. On a per person basis (still adjusted for inflation), annual spending rose by 11% over this period ($95 to $105).
Historically one of the healthiest markets in government contracting, IT can expect continued growth in the value of purchasing along the lines of recent years. Smart governments will continue to bet big on technology in 2017 - to guard against cyber threats, streamline operations and, ultimately, deliver more value to the citizens they serve.

Four noteworthy forces will be at work that affect the way technology is purchased and utilized in state and local governments:

1. **THE EVOLVING ROLE OF IT IN GOVERNMENT**

   Over the past decade private sector CIO’s have moved from the back office to the boardroom, as information technology shifts from providing services to solving problems. In government the same transition is happening, as administrators and elected officials feel the pain of inadequate citizen services and outdated core systems. These public sector leaders increasingly look to government technologists to do more with less, bring antiquated systems into the modern age, and serve their constituencies at a level of service expected by a generation used to Amazon, AirBnB and Uber.

   This is a tall order. Savvy IT sellers recognize the plight of government technology leaders and offer solutions that work for the buyer, their authorizing environment, and the citizens they serve. Looking forward to 2017, government technology leaders will continue their shift from service provider to business enabler. They will seek strategic relationships with sellers who can help them clearly demonstrate the value – at all levels – that investments in IT generates.

2. **CYBER SECURITY BLOTS OUT THE SUN**

   As the last few years have taught us, every organization – and every individual – has become a target for cyber attack. For government officials, it can feel as if the odds are hopelessly stacked against them. They must safeguard some of the most sensitive data maintained by any organization, spanning mental health records, financial information, court records, identity protection and much more. To make this arduous task even harder, much of this information is housed in outdated, vulnerable systems that simply cannot withstand the complexity and sophistication of today’s cyber threats.
For this reason, more than any year before, this is the year that cyber security "blots out the sun," in the words of one state CIO. More and more government buyers will be asked to articulate and defend the cyber security posture of new IT purchases, often requiring alignment with federal, state, or government-specific standards. More governments will ask for - and receive in greater frequency - funds to replace old and vulnerable systems under the guise of cyber security concerns.

State and local governments will leverage national cyber security resources, particularly those provided by the Department of Homeland Security and the Multi-State Information Sharing & Analysis Center (MS-ISAC). Regional alliances will also see increased activity, as governments unite to identify and defend against cyber threats.

3. AGILE IN GOVERNMENT COMES OF AGE
Ever since the whiz kids from Silicon Valley helped save HealthCare.gov from its initial launch failures, governments large and small have been rushing to adopt Agile development. 2017 will see a continuation of this trend towards Agile adoption.

However, some progressive governments will get even more savvy with Agile. They will recognize that, in some cases, it pushes the technology buyer towards custom development in order to boost value and increase certainty of a fully usable end product while improving collaboration and stakeholder satisfaction. The key for buyer/users is having the intelligence to know when to use agile vs. traditional waterfall approaches. The wisdom part is in knowing when to custom build a solution that satisfies 100% of your requirements vs. buy an off-the-shelf solution that gets you 80-90% of what you need. There will inevitably be pushback against custom development from within the agency. Governments struggling with the high costs of custom-built legacy software are loathe to repeat the mistakes of the past. Smart technology companies will recognize and address this confusion and uncertainty among the decision-makers they interact with.

4. STANDARDIZED RISK MANAGEMENT AND ASSESSMENTS FOR CLOUD SERVICES
Governments like to manage risk. When it comes to cloud services, however, all the innovation and value they bring must be weighed against a measure of risk that seemingly changes as fast as the technology itself. Government buyers can't afford to evaluate each new cloud service individually, so increasingly they are turning to outside sources for help – reaching out to their peers and, increasingly, pooling resources.

FedRAMP (the Federal Risk and Authorization Management Platform) was started to pool risk management and assessment resources for federal agencies. Now a CSP (Cloud Service Provider) can go through the rigorous federal vetting and security assessment process once, making them eligible for most uses across the rest of federal government. Agencies can also monitor the penetration of CSPs across other federal agencies.

Risk and authorization management pools are emerging at the state level as well. Many states centralize their processes for CSP authorization, and an increasing number of cities, states and municipalities leverage this work.

FINAL THOUGHTS
Many of the most expensive and complex solutions are justified on the basis of saving money over the long-haul and making government more efficient. This motivation will continue in the current slow growth and challenged fiscal environment. Some spending is forced or compelled based on new standards or the high risk of not doing it (i.e. cyber and upgrading failing older systems). Finally, other IT projects are sought based on a need to please increasingly sophisticated citizens and pursue the vision of responsive, digital government. Forward-thinking agencies find they can't afford not to participate.
In a time of political and fiscal uncertainty, this report paints an overall picture of a marketplace in transition, supported by a slightly improving economy with upside in infrastructure but with long-term unknowns in policy.

**KEY TAKEAWAY #1**
**In the Short-Term, Incremental Not Major Changes**
Purchasing activity by state and local agencies – apart from infrastructure – should continue next year at a roughly similar and slow average pace. However, in a $1.5T market, every percentage point of growth is worth over ten billion in additional spending. The SLED marketplace is not likely to experience any major disruptions in 2017, mainly due to a steady and slightly improving economy and the fact that any major policy changes will not yet be fully reflected in tax revenues and spending.

**KEY TAKEAWAY #2**
**Infrastructure Upside Promising**
The upside potential in the overall trend will be based on how quickly additional infrastructure begins to be added in the next 12 months.

While forecasting an exact rate of recovery in spending is difficult, we reported that more than $200 billion in transportation funding initiatives were approved in November, to be spent over the next 1-10 years, and distributed across 25 states. With current spending of around $270B and declining, even $20B of additional short-term spending will make a difference. Federal stimulus funding in the form of P3s may also start affecting this market during 2017, and if it does it would likely be later in the year. All of this new funding represents a welcome departure from years of de-prioritization and decreasing funding.

**KEY TAKEAWAY #3**
**Continued Growth in IT**
As Onvia’s recent survey of vendors selling to government showed, IT suppliers appear healthier than those selling other goods or services to public agencies. The economic data on IT spending profiled here echoes this finding, showing a longer-term upward trend that comfortably exceeds inflation. Some of the reasons mentioned for our positive 2017 outlook include the transition from IT as a basic/routine expense to IT as an investment, the rise of cyber security concerns, new ways of standardizing cloud services, and the glaring need to modernize outdated legacy systems.

**KEY TAKEAWAY #4**
**Dollars Faster Than Bids**
The noticeable gap between slow growing spending and slightly declining bid volumes has to do with the continued pressures on state and local agencies to buy in more efficient ways. Vendors should investigate and take advantage of the expanded array of opportunities such as co-op purchases.

**KEY TAKEAWAY #5**
**Planning for Uncertainty**
Agencies and vendors must contend with the longer-term uncertainty in the economy, taxes and regulations, all the while balancing an already stressed fiscal environment where revenues are limited and some services are crowded out to afford fast rising mandated expenses like pensions. Regardless of the outcomes, governments will likely continue to seek operational efficiencies and look for new ideas from the private sector to make this happen.
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<table>
<thead>
<tr>
<th>Doing business in 3 states or less?</th>
<th>Selling in More Than 3 States?</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEE EXAMPLE PROJECTS</td>
<td>REQUEST A LIVE DEMONSTRATION</td>
</tr>
</tbody>
</table>

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