

**Statement of Roger A. Krone
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“Government Shutdowns: Contract Killers”

Testimony before the Subcommittee on Government Operations

Committee on Oversight and Reform
U.S. House of Representatives

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I am Roger Krone, the Chairman and Chief Executive Officer of Leidos. The views I express in this testimony are my own. Mr. Chairman, I will summarize this written statement but ask that it be included in the record.

I want to thank you, Subcommittee Chairman Connolly, Ranking Member Meadows, and the other members of the Subcommittee for the opportunity to discuss a key concern facing Leidos and the professional services industry. The impact of further government shutdowns, whether total or partial, will have serious and long-term impacts on our industry's ability to attract and retain the talent to support the critical missions of our Federal agency customers.

I believe it is through productive dialogues such as these that we will find solutions to the multi-faceted challenges that lay before us. So, thank you again for the opportunity.

Leidos Introduction

For those of you who may not know Leidos, I offer a brief introduction.

We are a Fortune 500 information technology, engineering, and science solutions and services leader working to solve the world's toughest challenges in the defense, intelligence, homeland security, civil, and health markets. The company's 32,000 employees in more than 300 locations support vital missions for government and commercial customers. Headquartered in Reston, Virginia, Leidos reported annual revenues of approximately \$10.19 billion for the fiscal year ended December 28, 2018.

We have a significant presence in many states, as well as in the UK and Australia, but our largest concentration of employees is here in the DC area, with 6,700 employees working in Virginia, 900 working here in the District, and 6,500 working in Maryland. That's a total of a little over 14,000 employees just here in close by areas. These locations span from Baltimore to Aberdeen Proving Grounds (APG) to Columbia, to Fairfax County and all the way down to Norfolk.

Industry Perspective

Given our most recent experience during the latest shutdown, and after conferring with many industry colleagues at different companies, I am deeply concerned about the impact of a future potential lapse in appropriations on government agencies. This concern does not stop at the agencies however – it extends to concern for Americans who depend on their services, and also to contract employees, like those at Leidos, who support these agencies' missions.

As you are aware, hundreds of thousands of workers support the government through contracts. They deliver critical services to citizens, develop, maintain and modernize thousands of information and data systems, and stretch across America's health, law enforcement, training, energy, aviation and other infrastructure industries.

As the recent partial shutdown dragged on, more and more of these workers lost or risked losing their work and their pay.

Unlike federal civilian employees, legislation has not been enacted to provide them with back pay to cover the financial impact of their being laid-off. These contractors work side-by-side with their government counterparts. They are dedicated to their missions and motivated by the same goals of public service and safety. They deserve to be treated the same as their federal civilian counterparts. I urge Congress to provide for the same redress for government contractors as it does for federal civilian employees.

Quantified Impact

Let me take a few moments to speak to the impact that the recent partial government shutdown had on our company. While we were grateful that defense funding was in place, we still saw a significant impact.

Although the effects of the shutdown spanned the entire Leidos enterprise in some way, we felt the most significant impacts within our Civil Group. This is the group that serves many non-defense agencies including the DOE, DHS, FAA, FBI and many others.

We lost an estimated \$14 million in revenue as a result of these disruptions – that's about \$400,000 a day. We also experienced a delay in payments on outstanding invoices totaling about \$18M, but more importantly we saw work on 22 programs of significant importance to our country stall or come to a screeching halt. This included impacts to about 200 of our subcontractors, of which about one-half are small businesses.

Now I'd like to shift gears a bit because I believe you have heard those points frequently and from many different sources. My main focus today will be on the people side, as that is where I believe we saw the most impact – the human side of things.

Leidos prides itself on being a people company, our talent is our treasure, and it is the skills of our talented workforce that helps us do great work for our customers, many of them government, and ultimately make the world safer, healthier, and more efficient – that is the mission of our company. We are about 25% military veteran, many more alumni of civilian government agencies, and about 40% of our workforce in total have degrees in STEM (Science, Technology, Engineering and Math) career fields. I can tell you that each of our employees is committed to serving this great Nation, and their customer's missions, regardless of his or her role.

Due to the partial government shutdown we experienced, 893 of my colleagues had either no or limited work to perform because they worked on contracts for Federal agencies that were shut down. This impacted a number of indirect functional staff as well who were left with no function to perform.

These Americans were put in a position where they were no longer able to do what they come to work each day to do – what you and I also come to work to do – ultimately to provide for our families.

We did three things to support our impacted employees:

1. We redeployed them to other open positions within the company.
2. We allowed impacted employees to advance paid-time-off (PTO) hours up to a balance of negative 80 hours.
3. And we offered hardship assistance through a relief foundation we have set up to assist employees in time of crisis. We call this the Leidos Relief Foundation.

We also managed and reduced our internal costs as a corporation, as much as possible, to ensure we maintained the billing rates that we have promised to our many government customers. One example of this is our corporate functions asked their teams to voluntarily take available additional PTO above and beyond what was already planned in an effort to reduce work hours.

To aid in the redeployment of our impacted employees, we stood up an Employee Redeployment Team to match affected employees to the 1,200 open and funded job requisitions we had at the time. This team put forth an extraordinary effort, working nights and weekends, closely coordinating with hiring managers to leverage temporary support from our impacted colleagues whenever feasible. Our executive leadership team committed to prioritizing our own people for open jobs wherever possible, and we did just that. I believe that helped us minimize the impact.

I mentioned earlier our Leidos Relief Foundation (LRF). To help those experiencing financial hardship because of the shutdown, the LRF launched a special initiative to enable employees to donate their paid-time-off or contribute via check or wire transfer to help these individuals. I filled out a donation form myself, maxing out a donation of my PTO – two weeks of vacation, and the majority of the Leidos executive leadership team did the same.

The outpouring of generosity from colleagues across the company was incredible. Even those who were only able to donate just a few hours of PTO, collectively helped us make a big difference for our colleagues in extreme financial hardship due to the shutdown.

During the time of hardship, we received more than 50 requests from employees for assistance, stating that they were in a state of “extreme financial hardship” due to the circumstances at hand. The LRF was able to give a \$2,500 grant to each individual who demonstrated financial hardship to help them through that time. It is important to note that if the shutdown were to have

continued any longer, we expected to receive another 100 requests for assistance within mere days.

Obviously, not every impacted employee reached out to receive hardship assistance. We hope that these grants and our other efforts helped many individuals and their families, especially those most severely impacted.

In summary, with a lot of maneuvering on our part, in most cases we were able to put workarounds in place for our impacted employees, but I assure you that despite the appearances – individuals and families who are caught up in these shutdowns suffer loss. Vacations are cancelled, they work through birthdays, and holidays are used to just ensure pay. And we watched as employees with no other options sank deeper and deeper into a negative leave status. Some individuals also used the portion of their leave normally reserved for ‘sick leave,’ which is intended to ensure the health and wellbeing of our workforce, to bridge the gap in desperation. These employees are receiving paychecks today, but they will be recovering from this most recent shut down for a very long time. The idea of time off with family, or taking a trip for the celebration of a wedding or a birthday may not be a reality any time soon.

We know many impacts went unreported. Many of our colleagues took it on the chin, quietly eroding their savings, stopping investment deposits, cancelling planned trips or down time, and even dipping into retirement accounts. This is a sad thing, when hard-working individuals are set back, especially those who are so dedicated to our customers’ missions. It can be demoralizing.

Potential Solutions

All of this leads me to my plea to this group today. We need to collectively look for ways to eliminate government shutdowns altogether. We should harness the pain of this most recent event, and learn from it – working together to enact a permanent fix.

First, we must recognize the impact of shutdowns go far beyond the issues I have described for Leidos in delaying or denying services to our citizens and disrupting programs and processes within the agencies. These impacts have been documented by the Congressional Research Service and others and are serious enough that Congress and the Executive Branch should put budget procedures in place to prevent them altogether. Many ideas have been proposed by others – the “automatic CR” solutions, biennial appropriations, designating more government functions and personnel as “essential” etc. In general we should enact legislation that prohibits a potential shutdown from being used as leverage on budgeting process.

Second, I ask that, in the event future shutdowns cannot be prevented, you see the contractor workforce – these women and men who stand shoulder to shoulder with their government colleagues, doing important work in support of our nation – as essential to the operation of our national government. I ask that we work together to find a way to enact legislation that will recognize the importance of their contributions and the human impact of a shutdown on this critical national resource and treat them just as their Federal workforce counterparts are treated. That means parity in the restoration of pay and mitigation of other impacts on benefits, such as leave. The goal should be parity in the treatment of Federal and contractor employees – that would be a good place to start. I would like to thank Chairman Connolly for his leadership on this issue, including co-sponsoring a number of bills, and for holding this hearing.

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