Industry Update

The FY 2027 Budget Request: A $1.5 Trillion Record Setting Defense Top Line

- The FY27 request grows the proposed Defense budget by 42.1% to $1.50T, including $350B sought through a new reconciliation bill, while proposed non-defense spending falls 10.0% to $660.1B
- In FY26, total base discretionary spending rose 11.7% to $1.79T, including national security spending which crossed $1T for the first time with help from a $155B reconciliation package
- This request remains subject to appropriations and faces a narrow House majority, conflicting appropriators, and a midterm election

$2.16T
Total FY 2027 base discretionary request (+20.8%)

$1.50T
FY 2027 Defense Budget, incl. $350B via reconciliation (+42.1%)

FY 2025 to FY 2027 Spending & Changes by Major Agency

- FY26 moved most civilian budgets by low single digits while defense grew 18.7%. The FY27 request proposes swings of an entirely different magnitude with the most extreme being proposed War spending increases above 40%. The VA and Justice are also proposed to receive increased budgets. Alternatively, numerous cuts of 10 to 67 points across HHS, HUD, State, EPA, and SBA..

- Historically, the Presidential Administration's proposed budget communicates the Administration’s spending priorities. Once the budget goes through the Congressional authorization and appropriation process, broader constitutes have historically resulted in moderated increases and keeping decreases to near flat levels. FY 2026 was an example of greater proposed reductions to many Federal Civilian budgets, but most FedCiv budgets stayed flat.

Agency	FY25 Actual	% Δ '25→'26	FY26 Enacted	% Δ '26→'27	FY27 Request
Cabinet Departments					
Agriculture (USDA)	25.0	**+2.8%**	25.7	**–19.0%**	20.8
Commerce (DOC, excl. rescission)	10.2	**+2.0%**	10.4	**–12.2%**	9.2
War (DoW, incl. mandatory)	850.1	**+18.7%**	1,009.1	**+43.7%**	1,450.0
Education (ED)	78.7	**+0.1%**	78.8	**–2.9%**	76.5
Energy (DOE)	49.9	**+6.2%**	53.0	**+1.8%**	53.9
Health & Human Services (HHS)	125.4	**+0.3%**	125.8	**–12.2%**	110.5
Homeland Security (DHS)	65.2	**–0.2%**	65.1	**–3.2%**	63.0
Housing & Urban Dev. (HUD, program level)	77.0	**+9.4%**	84.2	**–12.7%**	73.5
Interior (DOI)	19.5	**–6.7%**	18.2	**–12.9%**	15.9
Justice (DOJ)	36.1	0.0%	36.1	**+13.0%**	40.8
Labor (DOL)	13.3	0.0%	13.3	**–25.9%**	9.9
State & International Programs (DOS)	51.7	**–1.2%**	51.1	**–30.4%**	35.6
Transportation (DOT)	25.2	**–0.4%**	25.1	**+6.2%**	26.6
Treasury (UST)	14.2	**–7.7%**	13.1	**–11.7%**	11.5
Veterans Affairs (VA)	129.3	**+3.2%**	133.4	**+8.7%**	144.9
Major Agencies					
Corps of Engineers (USACE)	5.8	**+17.2%**	6.8	**–28.3%**	4.9
Environmental Protection Agency (EPA)	9.1	**–3.3%**	8.8	**–52.4%**	4.2
General Services Administration (GSA)	0.6	n/a	0.3	n/a	0.4
NASA	24.8	**–1.6%**	24.4	**–23.0%**	18.8
National Science Foundation (NSF)	8.8	0.0%	8.8	**–54.7%**	4.0
Small Business Administration (SBA)	0.7	**+42.9%**	1.0	**–67.2%**	0.3
Social Security Administration (SSA)	12.7	0.0%	12.7	0.0%	12.7
Subtotal, base discretionary	**1,604.1**	**+11.7%**	**1,791.7**	**+20.8%**	**2,163.6**
Defense Function 050	**894.2**	**+18.3%**	**1,058.2**	**+42.1%**	**1,503.5**
Non-Defense	**709.9**	**+3.3%**	**733.5**	**–10.0%**	**660.1**

Source: FY 2027 President's Budget, Table S-3 (OMB)

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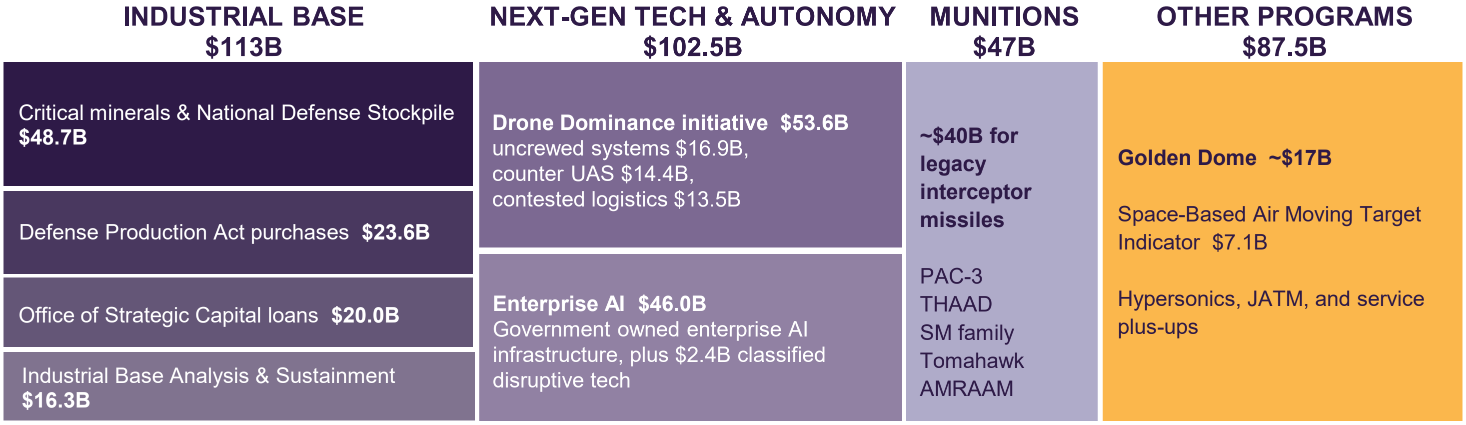
DEFENSE RECONCILIATION AND COMMITMENT TO REARMAMENT

Of the overall Department of War (DoW) proposed budget, procurement and Research, Development, Test & Evaluation (RDT&E) together total $756.8B, up 74.3% in one year and roughly the size of the entire defense budget a few years ago. Procurement alone, at $413.1B, runs more than double its $190.5B average from FY22 through FY26. By department, the Air Force is proposed to grow 23.5% and the Navy 14.8% while the Army rises 4.6%. Money is moving toward air and sea power, and a third of the overall budget plan depends on a reconciliation bill Congress has not yet taken up.

What's inside the $350 billion reconciliation request



Source: DoW FY 2027 Presidential Budget Request

It is important to note that none of the reconciliation spending is guaranteed. Senate Armed Services Chairman Wicker told reporters that defense reconciliation funds may not pass until November predicated on midterm elections. House Appropriations defense subcommittee Chairman Calvert is urging the Pentagon to move the programs into the discretionary budget, where, in his words, they belong. Rep. Bacon of the House Armed Services Committee concedes he is worried about passage given Freedom Caucus resistance, and The Hill reports that senior Senate Republican appropriators are leading opposition to such a bill. The Pentagon comptroller's office says it will pursue other avenues if reconciliation fails, but those avenues run through the same appropriations process.

Munitions procurement nearly triples

Component	FY24	FY25	FY26	FY27R	% Δ 26→ 27R
Army missiles	8.7	7.5	8.0	36.6	**+357.5%**
Navy weapons	6.6	7.1	10.2	22.6	**+121.6%**
Air Force missiles	6.4	5.3	6.3	11.4	**+81.0%**
Missile Defense Agency	5.5	2.3	2.4	5.7	**+137.5%**
Total munitions procurement	**27.1**	**22.1**	**26.8**	**76.3**	**+184.7%**

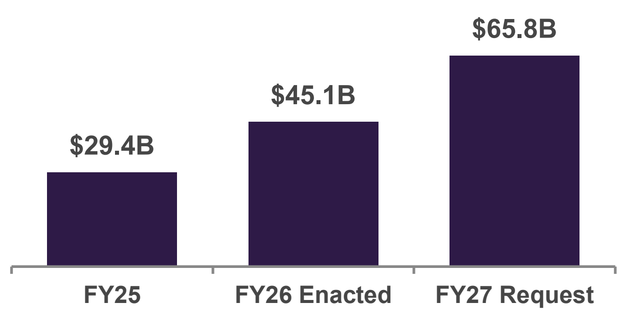
The Army's missile account jumps from $8.0B to $36.6B, more than the service's entire FY26 procurement budget. With Navy weapons at $22.6B and Air Force missiles at $11.4B, total munitions procurement reaches $76.3B, up 184.7% in one year.

Production targets jump accordingly. CSIS calls the rebuild a multiyear project; interceptor expenditure in last year's Iran operation opened a gap that elevated production will take years to close. The plan holds Army missile spending above $24B annually through FY31, against a $7.1B five-year average, and pairs the dollars with framework agreements signed since January to scale supplier capacity.

Shipbuilding scales toward a 450-hull fleet

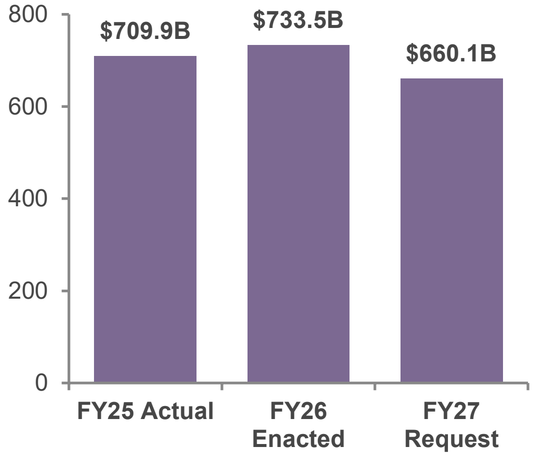
The Navy is asking $65.8B for shipbuilding, up from $45.1B in FY26 and $29.4B in FY25, covering 18 battle force ships including first investments in the proposed BBG(X) battleship and FF(X) frigate, plus 16 non-battle force ships. CBO has long pegged the Navy's plans at roughly $40B a year through 2054, and this request clears that bar in four of the next five years.

Drone boats debut in the 30-year plan, service officials describe a 450-hull fleet by 2031, and the budget adds a $1.9B shipyard industrial base program plus $14.8B for a multi-mission dry dock.



Source: FY27 Navy Shipbuilding Budget Request

Proposed Civilian Spending & Shifting Priorities



Despite initial Administration proposed reductions, Civilian agencies grew modestly in FY26, up 3.3% to $733.5B. Again the Administration in FY27 is reversing course with a 10.0% proposed cut to $660.1B. The reductions are not spread evenly. Science and grant-making agencies absorb the worst of it seen through the NSF losing more than half its budget, EPA falling 52.4%, SBA 67.2%, and State 30.4%.

Agencies tied to administration priorities move the other way. VA grows 8.7% to $144.9B on veteran care and facilities, Justice rises 13.0% tied to a $22B law enforcement surge, and Transportation gains 6.2% with new maritime and shipbuilding money.

Technology spending holds up even where toplines fall: the civilian IT request is $75.7B, up 11.4% from FY26 and back to FY25 levels, concentrated in modernization, AI, and legacy-system retirement.

For planning purposes, it is safe to treat FY26 enacted levels as the realistic floor for civilian accounts. Congress restored much of what the administration proposed cutting last year, and the appropriations math has not changed. The request still matters as a signal of where agencies will slow awards and where program offices feel safe spending.

Compliance Rules Are Changing Fast

PRICING POWER SHIFTS TO THE GOVERNMENT

An April 30 executive order pushes procurement toward firm-fixed-price. Contracting officers must justify any non-FFP award in writing, awards above $100M (DoW) or $10M (most civilian) need agency-head sign-off, and each agency must seek to renegotiate its 10 largest non-fixed-price contracts. Pricing risk moves onto the contractor's book.

COMPLIANCE BURDEN DROPS

Proposed rules raise the Truth in Negotiations Act (TINA) threshold from $2.5M to $10M, modified Cost Accounting Standards (CAS) to $35M, and full CAS to $100M. Nontraditional contractors and small businesses would be exempt from FAR Part 31 cost principles and most business-system requirements. Implications for contractors include fewer audit hooks and a lower barrier for commercial entrants.

CONTINUED SBA ENFORCEMENT

FY25 False Claims Act recoveries topped $6.8B across 1,297 new suits, including a $428M defective-pricing settlement at a major prime. Small Business Administration’s (SBA) review of all 4,300 active 8(a) participants has produced 1,091 suspensions and 800 terminations, roughly 20% of the program.

COMMERCIAL FIRST INITIATIVES

The 2026 National Defense Authorization Act (NDAA) sets a commercial-products preference and shifts the burden of proof. The Federal Acquisition Regulation (FAR) is being rewritten to cut clauses and widen competition, and General Services Administration (GSA) is consolidating the governmentwide procurement role. Schedule positioning is no longer optional for firms that want civilian revenue.

What we're watching

1 RECONCILIATION TIMING

Does a third bill materialize after the midterms? Golden Dome, the autonomy program, and the munitions ramp all hinge on it.

2 IRAN SUPPLEMENTAL

Originally floated near $200B; recent reporting suggests at least half that (Forecast International). It would lift the FY27 topline further.

3 FED CIV SPENDING

The Adminisitration’s proposed FedCiv reductions may stall new awards until the final budget is known.

4 AWARD PACE

Contentious appropriations and likely continuing resolutions leave agencies sitting on uncertain budgets which has slowed awards. Watch obligation rates slow into Q4.