Government Contracts, Cash Flow Predictability, and Debt Maturity

Sandra F. Akresi Arnold R. Cowan

Discussant: Philip Coyle

2026 FMA Europe Conference

Summary of the Paper

Question

- Do federal procurement contracts change firms' **debt maturity**?
- Proposed channel: contracts $\Rightarrow$ CF predictability $\uparrow$ $\Rightarrow$ ST debt $\downarrow$.

Summary of the Paper

Question

- Do federal procurement contracts change firms' **debt maturity**?
- Proposed channel: contracts $\Rightarrow$ CF predictability $\uparrow$ $\Rightarrow$ ST debt $\downarrow$.

Data & Method

- USAspending $\times$ Compustat, 2001–2023; competitive contracts.
- Main sample: **7,812** firm-years and **1,116** firms.
- Event-time regressions, OLS, stacked DiD, and placebo tests.

Summary of the Paper

Question

- Do federal procurement contracts change firms' **debt maturity**?
- Proposed channel: contracts $\Rightarrow$ CF predictability $\uparrow$ $\Rightarrow$ ST debt $\downarrow$.

Data & Method

- USAspending $\times$ Compustat, 2001–2023; competitive contracts.
- Main sample: **7,812** firm-years and **1,116** firms.
- Event-time regressions, OLS, stacked DiD, and placebo tests.

Main Findings

- Unexpected CF volatility falls after contract awards.
- Short-term debt falls; long-term debt is mostly unchanged.
- Effects are strongest for firms that look risky ex ante.
- Award size and subawards do not seem to drive the results.

What I Like

- **Important setting:** procurement is large and policy-relevant.
- **Interesting new fact:** contracts are followed by *less* short-term debt.
- **Careful debt evidence:** several designs point to the same post-award decline.
- **Useful heterogeneity:** the effects are strongest for ex-ante high-risk firms.

What I Like

- **Important setting:** procurement is large and policy-relevant.
- **Interesting new fact:** contracts are followed by *less* short-term debt.
- **Careful debt evidence:** several designs point to the same post-award decline.
- **Useful heterogeneity:** the effects are strongest for ex-ante high-risk firms.

My comments focus on three questions:

1. Is the predictability *measure* doing what we want?
2. Is this about predictability, or about better credit access?
3. What is the cleanest way to frame the financing outcome?

Comment 1: Is the “Predictability” Measure Clean?

The AR(1) residual may be sensitive to dynamic-panel bias.

- Panel AR(1) estimates can suffer from Nickell bias.
- A biased $\hat{\rho}$ feeds directly into the residual used for the mechanism.

Comment 1: Is the “Predictability” Measure Clean?

The AR(1) residual may be sensitive to dynamic-panel bias.

- Panel AR(1) estimates can suffer from Nickell bias.
- A biased $\hat{\rho}$ feeds directly into the residual used for the mechanism.

It would help to know what is changing in cash flows.

- Predictability could mean lower shocks, higher persistence, or both.
- The current evidence mostly reads as lower shocks.
- But higher persistence could also be part of the story.

Comment 1: Is the “Predictability” Measure Clean?

The AR(1) residual may be sensitive to dynamic-panel bias.

- Panel AR(1) estimates can suffer from Nickell bias.
- A biased $\hat{\rho}$ feeds directly into the residual used for the mechanism.

It would help to know what is changing in cash flows.

- Predictability could mean lower shocks, higher persistence, or both.
- The current evidence mostly reads as lower shocks.
- But higher persistence could also be part of the story.

Some of the volatility decline could be mean reversion.

- Firms are sorted on pre-award volatility.
- Low-volatility firms’ volatility rises afterward (Table 3, col. 4).
- The placebo and DiD tests are run on **debt**, not volatility.

Comment 1: Is the “Predictability” Measure Clean?

The AR(1) residual may be sensitive to dynamic-panel bias.

- Panel AR(1) estimates can suffer from Nickell bias.
- A biased $\hat{\rho}$ feeds directly into the residual used for the mechanism.

It would help to know what is changing in cash flows.

- Predictability could mean lower shocks, higher persistence, or both.
- The current evidence mostly reads as lower shocks.
- But higher persistence could also be part of the story.

Some of the volatility decline could be mean reversion.

- Firms are sorted on pre-award volatility.
- Low-volatility firms’ volatility rises afterward (Table 3, col. 4).
- The placebo and DiD tests are run on **debt**, not volatility.

Suggestion

- Bias-correct $\hat{\rho}$ using system-GMM or Kiviet-style corrections.
- Report pre/post persistence and innovation variance separately.

Comment 2: Predictability — or Credit Access?

The size-null is hard to square with a simple cash-flow story.

- Average contract $\approx$ **2% of sales**, duration $\approx$ **0.66 yr**.
- But award *size* has no effect on debt (Table 9).
- What matters is the *relationship*, not the size of the inflow.
- A mechanical cash-flow channel should scale more clearly with contract size.

Comment 2: Predictability — or Credit Access?

The size-null is hard to square with a simple cash-flow story.

- Average contract $\approx$ **2% of sales**, duration $\approx$ **0.66 yr**.
- But award *size* has no effect on debt (Table 9).
- What matters is the *relationship*, not the size of the inflow.
- A mechanical cash-flow channel should scale more clearly with contract size.

A credit-access channel could fit the same facts.

- Hebous–Zimmermann, Di Giovanni et al, and Gabriel study a similar setting find real effects for constrained firms.
- Small firms in this paper raise long-term debt in the OLS results.
- Procurement wins may certify the firm or relax financing constraints.
- RepeatAward may partly capture that incumbency or certification channel.

Comment 2: Predictability — or Credit Access?

The size-null is hard to square with a simple cash-flow story.

- Average contract $\approx$ **2% of sales**, duration $\approx$ **0.66 yr**.
- But award *size* has no effect on debt (Table 9).
- What matters is the *relationship*, not the size of the inflow.
- A mechanical cash-flow channel should scale more clearly with contract size.

A credit-access channel could fit the same facts.

- Hebous–Zimmermann, Di Giovanni et al, and Gabriel study a similar setting find real effects for constrained firms.
- Small firms in this paper raise long-term debt in the OLS results.
- Procurement wins may certify the firm or relax financing constraints.
- RepeatAward may partly capture that incumbency or certification channel.

Suggestion

- Show **real-side outcomes**: capex, employment, and sales growth.
- Interact the effect with **financing-constraint proxies**.

Comment 3: What Is the Main Financing Outcome?

The paper studies several related outcomes.

- Outcomes: CF volatility, cash, net liquidity, ST debt, and LT debt.
- Cuts: size, CF volatility, and ST-debt reliance.
- The signs differ across groups, so the mechanism becomes harder to pin down.

Comment 3: What Is the Main Financing Outcome?

The paper studies several related outcomes.

- Outcomes: CF volatility, cash, net liquidity, ST debt, and LT debt.
- Cuts: size, CF volatility, and ST-debt reliance.
- The signs differ across groups, so the mechanism becomes harder to pin down.

The liquidity result is especially worth clarifying.

- A simple precautionary-savings story predicts less uncertainty $\Rightarrow$ less cash.
- But high-ST-debt firms increase cash and net liquidity (Table 4, col. 7).
- These are also the firms cutting ST debt.
- So are these firms reducing liquidity demand, or improving liquidity buffers?

Comment 3: What Is the Main Financing Outcome?

The paper studies several related outcomes.

- Outcomes: CF volatility, cash, net liquidity, ST debt, and LT debt.
- Cuts: size, CF volatility, and ST-debt reliance.
- The signs differ across groups, so the mechanism becomes harder to pin down.

The liquidity result is especially worth clarifying.

- A simple precautionary-savings story predicts less uncertainty $\Rightarrow$ less cash.
- But high-ST-debt firms increase cash and net liquidity (Table 4, col. 7).
- These are also the firms cutting ST debt.
- So are these firms reducing liquidity demand, or improving liquidity buffers?

Suggestion

- Pick one primary financing outcome and organize the story around it.
- Say ex ante which liquidity signs would support the mechanism.

Minor Comments

1. Winner-only data limits the design.

- Losing bidders and bid amounts are unobserved, so there is no close-auction RD.
- But `number_of_offers` could proxy for competition intensity.
- Does the effect vary with the number of bidders?

2. Post-treatment controls.

- Event-time regressions include contemporaneous size, OCF, and AP.
- These variables may themselves respond to procurement awards.
- Show robustness dropping or lagging these controls.

3. Framing: short-term debt, not maturity.

- There is no direct maturity-structure variable in the main tests.
- ST debt falls, LT debt is flat, and the maturity test in Table C.6 is null.
- "Reduced reliance on short-term debt" may be the cleaner contribution.

4. Polish.

- Typo: "short-abd".
- Fix Table 4 vs. 5 cross-references.
- Table 1: "Mean Contract Amount" $\longrightarrow$ "Total Contract Amount".

Takeaways

A promising paper with one key question

- The paper has a strong setting and a clean new fact.
- Short-term debt falls after procurement awards.
- The open question is whether *cash-flow predictability* is the right mechanism.

Takeaways

A promising paper with one key question

- The paper has a strong setting and a clean new fact.
- Short-term debt falls after procurement awards.
- The open question is whether *cash-flow predictability* is the right mechanism.

1. **Clean up the first link:** separate persistence from shock volatility.
2. **Rule out credit access:** show real outcomes and constraint heterogeneity.
3. **Clarify the outcome:** focus on ST debt and explain the liquidity result.

Takeaways

A promising paper with one key question

- The paper has a strong setting and a clean new fact.
- Short-term debt falls after procurement awards.
- The open question is whether *cash-flow predictability* is the right mechanism.

1. **Clean up the first link:** separate persistence from shock volatility.
2. **Rule out credit access:** show real outcomes and constraint heterogeneity.
3. **Clarify the outcome:** focus on ST debt and explain the liquidity result.

The setting is strong. A clearer mechanism would make the contribution much sharper.