

Contractors Worried as More Government Jobs Go In-house

By M. J. McAteer and Paula C. Squires

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Last year, program analyst Ryan Sturgill worked for RGS Associates, Inc., a medium-size government contractor based in Arlington. His job was to provide IT services to the office of the chief of naval operations (CNO), the Navy's representative on the Joint Chiefs of Staff.

This year, Sturgill provides those same services but no longer as an RGS employee. Instead, he is a highly ranked federal worker. Sturgill's "badge flipping" from the private to the public sector came about after the Department of Defense (DoD) targeted his job for "insourcing," meaning that it wanted the work done in-house by a federal employee instead of by an outside contractor.

Sturgill's Navy contacts recommended that he apply for the new government position. He got it, and the change has worked out well for him. Sturgill says he has more power over decision-making and that his eight years in the military count toward vacation time and years of service.

Despite his happy ending, insourcing is fast becoming a dirty word in Northern Virginia. In this region, federal contractors serve as the largest private employer, doing about \$25 billion worth of defense contracting a year. But the Obama administration wants the government to assume more of the contract work. On top of that, Defense Secretary Robert Gates plans to cut defense contract spending by 10 percent a year for each of the next three years.

According to Stephen Fuller, director for the Center for Regional Analysis at George Mason University, that translates into a loss of about \$6 to \$7 billion from the local economy. So it's no wonder contractors are on edge.

Sturgill's former boss, RGS Executive Vice President Dyson Richards, says that in the past year, he has lost 15 to 17 employees to insourcing, or more than 10 percent of his work force of 125. And Richards is not alone in wondering what impact insourcing and defense budget cuts might have on their businesses.

Calling the system "broken," Obama issued a directive in March 2009 asking federal agencies to trim 7 percent from baseline contract spending over the next two years, for a savings of \$40 billion annually.

According to Stan Z. Soloway, CEO and president of the Professional Services Council (PSC) — the largest national association of companies providing services to the federal government — Gates' new call for cuts means that he's curtailing most of the DoD's insourcing activities, because they have not achieved projected savings.

In a statement responding to Gates' budget cuts, Soloway said this validates the council's view that the insourcing initiative "has devolved into a budget drill based on arbitrary quotas and significantly overstated savings assumptions. Yet at the same time, the secretary announced a new round of arbitrary cuts for reducing contract support."

Gates wants to save \$100 billion over the next five years by reducing bureaucratic bloat so that more money from the department's annual \$570 billion budget can go for troops and weapons.

Soloway says he understands the need to cut costs. "... But identifying and capitalizing on opportunities for efficiencies and savings is not a matter of who does the work. Indeed, smart contracting is often the best means to achieving that important goal."

Outsourcing government jobs began in the Reagan era, escalated under the Clinton and Bush administrations and skyrocketed after 9/11. Today, private contractors with the highest of security clearances perform many top-secret functions. In some cases, Soloway says, the trend has gone too far. The result is an erosion of the feds' ability to perform "inherently governmental functions" such as acquisitions, engineering and contract management.

The PSC president also does not dispute the rationale for insourcing less-critical jobs if the change is cost effective. He just doesn't want to see an arbitrary, quota-driven approach.

What comes up repeatedly in conversations around Northern Virginia about insourcing are three specific issues.

The first is the lack of a clear definition of what exactly is “an inherently governmental function.” The Office of Federal Procurement Policy of the Office of Management and Budget (OMB) has been tasked with defining the parameters for insourcing, but in practice, agencies freely interpret OMB’s guidance, Soloway says. As reported in a July investigative series by the Washington Post, 31 percent of the federal government’s top-secret intelligence workers — 265,000 out of 854,000 — are private contract workers. Many would argue that if top-secret security jobs are not “inherently governmental functions,” just what jobs would be?

Like Soloway, Bobbie Kilberg, president and CEO of the Northern Virginia Technology Council — a trade association representing 200,000 employees — doesn’t dispute the need for greater efficiency. “No one disagrees that the government needs to increase its procurement review capability but President Obama’s commitment to insourcing with a goal to initially bring \$50 to \$60 billion in contracting work back into the federal government is not good public policy,” she says.

The real issue, she adds, is “whether the private or public sector can more effectively and cost efficiently perform a function rather than formulating an arbitrary definition of ‘inherently governmental’”.

The second often-cited problem is the lack of a level playing field. While contractors are required to delineate fully burdened costs when bidding on a job — including equipment, health insurance, office space, etc. — federal agencies often base their estimates on personnel costs alone, critics say.

Democratic Rep. Gerald Connolly represents Virginia’s 11th District, which includes much of Fairfax County. His county posted \$17 billion in federal contracts in 2008. That’s a big chunk of the \$35 billion that flows to the greater Washington region, accounting for more than 530,000 contracting and related jobs. Yet Connolly also represents many federal workers. His position on insourcing, therefore, is premised on “a case-by-case analysis of what makes sense.”

Yet Connolly, too, finds it “ironic that the government insists that you [the contractors] have fully loaded costs, but the government is not doing the same. Such arbitrary metrics are injurious to everyone involved.”

So far, contractors such as RGS have felt most of the squeeze. Meanwhile, companies such as SRA International, a large national security contractor in Fairfax, have felt only a pinch. Stanton D. Sloane, SRA’s CEO, says he has lost 50 to 75 positions out of an employee base of 7,000, although he “anticipates that will pick up.” Yet, he, too, calls some instances of insourcing “misguided” and pronounces the financial assessments upon which they are based “bad.”

The third and perhaps most controversial issue of insourcing is employee poaching. RGS’s Richards says that his employees have been told, “we’re going to cancel the contract, so if you enjoy what you’re doing, come work for us.”

Kilberg has heard much the same thing. “Ten guys employed by a private contractor might be on a project and are told they need to come to work for the federal government by Friday.”

“Some of it [recruitment] has clearly crossed ethical lines,” Connolly says.

An OMB spokesman who would speak only on background admits that her agency has heard the poaching allegations but also says that no one has come forward to provide details so that OMB can investigate. At least one contractor, who also asked to remain anonymous, says the reason for that is obvious: “I don’t have a shadow of a doubt that there would be retaliation,” he says.

Ultimately, Soloway does not believe that the push toward insourcing “will be a game changer.” Still, he warns that state and local economies might see a dip in tax revenues and a rise in vacancy rates for commercial space if contractors have to downsize or close shop.

Meanwhile, Congress has waded into the issue with a House amendment to the 2011 National Defense Authorization Act that mandates that federal workers be considered first for all new work and for work that previously has been outsourced. This decree overrides the more nuanced guidance that OMB has so far provided. Connolly characterizes it as “overly broad and very damaging to small and medium contractors.”

If the House amendment prevails and Gates moves forward with his cuts, Northern Virginia — long the state’s most affluent region — looks to be in for a hit.