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STRATCOM 'Insourcing' Angers Defense Contractors

By Matthew Hansen

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Tommy Garrett says his company, the Garrett Group — a Bellevue-based contractor specializing in intelligence analysis — has lost nearly half its employees to insourcing. "We're just barely hanging on," Garrett says.

One recent Friday, an employee of an Omaha defense contractor drove through the Offutt Air Force Base gate, scanned his ID badge at the secure entrance for the Strategic Command headquarters and reported for work at the building where the U.S. military oversees its nuclear weapons.

For years, he and hundreds of other private-industry workers have toiled side by side with military officers and federal employees.

They fix computers. They maintain airplanes for the 55th Wing of the Air Force, based at Offutt. They even work as consultants on intelligence and cyberwarfare projects.

But things are changing at STRATCOM.

When the same man reported to work the next Monday, he sat at the same STRATCOM desk. He used the same STRATCOM computer to perform the same duties he had the previous week.

But he was now working for the federal government.

"No difference, other than some good-natured kidding from everyone," said the employee, who spoke on the condition he not be identified.

He had been "insourced," a controversial practice in which the military voids an existing contract with a private contractor and then turns around and hires the contractor's employee.

STRATCOM leaders have made this move, which they officially call contractor conversion, hundreds of times in the past three years.

STRATCOM has added some 744 government workers in that time span, suggesting it has subtracted nearly that many contractor employees. This avalanche of insourcing has altered the composition of workers who drive through the Offutt gate every morning.

STRATCOM leaders say there's an easy explanation for this shift: They save approximately \$40,000 every time they turn a contractor's employee into a federal civilian worker.

Defense contractors argue that insourcing is fiscally questionable and damaging to the Bellevue business community.

Several of the city's small, locally owned defense contractors have gone out of business or are teetering on the brink.

There's no relief in sight: Insourcing is still happening at Offutt even though it has stopped at almost every other U.S. base, contractors say.

The frequency, coupled with the belief that insourcing is unfair, has many in the Omaha-area defense community hopping mad.

"The government is just taking away the source of our income," said Julie Garrett, director of corporate operations for the Garrett Group, a Bellevue-based contractor specializing in intelligence analysis. "Today they work for us, tomorrow they work for the government, and we have no recourse. ... I feel like I live in Russia right now."

STRATCOM's repeated use of insourcing has wounded a once-thriving industry in Bellevue, say defense contractors, especially the smaller contractors who can't absorb dozens of sudden job losses.

Case in point is the Garrett Group, which Julie Garrett and her husband, retired Air Force Col. Tommy Garrett, and four other partners started in 2007.

At first, he was wrong — the Garrett Group struggled mightily to get off the ground, going almost a year before winning its first job.

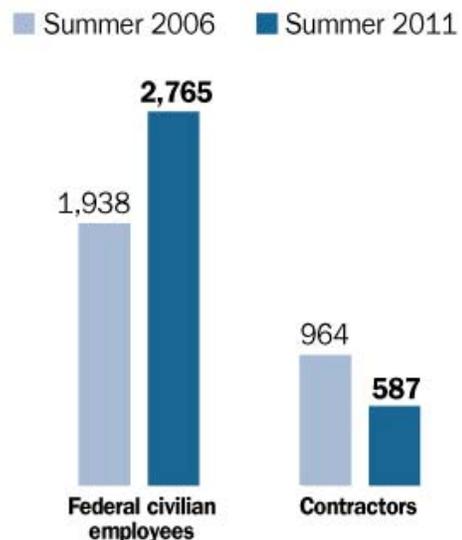
Then, he was very right — between 2008 and 2011, the Garrett Group won a series of contracts, including several pieces of a giant STRATCOM consulting contract known as USAMS II.

By last June, the Garrett Group had 70 employees, including dozens who worked on USAMS II. The company bought and remodeled a headquarters building on Fort Crook Road. It encouraged on-the-clock employees to go fill sandbags during the floods of 2011.

The Garrett Group gave 10 percent of its profit to charity, including dozens of college scholarships to local high school seniors, the Garretts said.

CHANGING OFFUTT WORKFORCE

Contractor conversion, commonly called insourcing, has altered the type of workers at Offutt Air Force Base. These numbers are base-wide, although contractors say the majority of insourcing has been with U.S. Strategic Command. Insourcing accelerated after these figures were compiled.



SOURCE: U.S. Air Force, 55th Wing
MATT HANEY/THE WORLD-HERALD

Then, in October, things began to fall apart.

One Friday, emails popped into the offices of several large Omaha-area defense contractors.

They filtered the news to dozens of subcontractors, such as the Garrett Group, that have a piece of the multimillion-dollar USAMS contract.

"The Government intends to in-source ALL positions on this task order as soon as possible," reads one.

That day, Garrett learned that STRATCOM would use "contractor conversion" on 10 consulting positions filled by Garrett employees, hiring most of those workers in the process.

Bigger contractors lost dozens of employees.

One office gave the day a half-joking, half-serious name.

Bloody Friday.

The drumbeat of insourcing has continued, Tommy Garrett said. The Garrett Group recently lost 15 more employees to insourcing, he said, and had to lay off its full-time accountant because of the resulting financial swoon.

In a matter of months, the small business has been sliced nearly in half, to 38 employees.

"We're just barely hanging on," Tommy Garrett said.

The Garrett Group isn't alone. VetDefense, a small contractor formerly co-run by Dave Everhart, was taken over by a bigger contractor last year after losing more than half its employees to insourcing, Everhart said.

Two other small subcontractors have gone out of business in the past year, and midsize contractors are struggling, said several executives at larger companies who agreed to speak on condition of anonymity.

One executive said his employer has lost more than 60 percent of its workforce to insourcing in the past three years.

"Morale is in the toilet," he said. "People's livelihoods are at stake here."

STRATCOM takes no joy in the plight of contractors, its leaders said, but they argue they are saving taxpayers money.

Steve Callicut, STRATCOM's point man on much of the insourcing, said the math is relatively simple:

On average, it costs \$180,000 to hire a contract employee for a year, he said.

It costs \$140,000 to hire a federal employee, he said, even when factoring in health care and retirement costs.

For years, outsourcing allowed defense contractors to build overhead costs and a healthy profit — sometimes as much as an 8 percent profit — into their military contracts.

"It turns out that's a pretty good business model (for the contractors)," Callicut said. "I suspect (the contractors) ... are not really happy this really good business model went away."

The contractors are, indeed, unhappy, but they said it has far more to do with the way STRATCOM has treated them during the insourcing process.

Four executives interviewed said they are bothered by the idea that they spent time and money recruiting employees, relocating them to Omaha and then training them.

Then they would be notified that STRATCOM had decided to insource one of their employees. Within a few days, that employee — and the money he or she generated for the contractor — would be gone.

"The business is just left with nothing, no reimbursement, no recourse," Everhart said. "It got so the phone would ring, and I wouldn't want to pick it up, because I knew what was coming."

The executives are also upset that STRATCOM has continued to insource after most other military installations stopped.

The insourcing push began in earnest in April 2009. At that point, the Department of Defense contracted out 39 percent of its support services.

That's when then-Secretary of Defense Robert Gates announced that the department would try to nearly halve its total number of contract employees and return to its pre-Sept. 11, 2001, level, when contractors made up about 22 percent of the military workforce.

But in August 2010, Gates said in a speech that "we weren't seeing the savings we had hoped from insourcing," and shifted the policy to try to eliminate unnecessary jobs instead of simply trading contract workers for federal employees.

The U.S. Army suspended insourcing in late 2010. Since then, nearly every base in every branch has followed suit, the contractors say.

But STRATCOM continues the practice, Callicut said.

STRATCOM spread out its insourcing more than other commands, figuring a shorter time frame would overload STRATCOM's civilian hiring system, he said.

Callicut also said he has given dozens of briefings on insourcing since 2009 to every business and military group that would have him. STRATCOM sent invitations to every contractor in the city.

"There was more than ample opportunity" to understand and plan for the insourcing, Callicut said. "This wasn't a surprise."

Perhaps the biggest point of dispute is STRATCOM's contention that insourcing saves money in the long term.

Contractors argue that contract employees are easily removed at the end of a five-year contract, meaning the military can shrink or expand based on its budget and needs.

Government employees, they said, are harder to get rid of if their job becomes obsolete or if they prove ineffective.

"If you hire a government employee, you know as well as I do, you got 'em for life," says one executive at a large defense contractor with an Omaha office.

"It practically takes an act of Congress to get rid of them. So how does that save money 10, 20 years down the road?"

Callicut said retirement benefits and other long-term costs are factored into STRATCOM's cost comparison. He scoffed at the idea that it's easier to get rid of contract employees, pointing out that most large military contracts are renewed over and over.

The bottom line, he said, is the price tag, especially as the Department of Defense prepares to cut \$487 million in projected spending over the next decade.

"I thought we got ourselves into deals that, in retrospect, we never should've put ourselves in," Callicut said. "I think, over time, cost became more of an overriding factor."

As STRATCOM and contractors bicker about insourcing, employees of defense contractors find themselves stuck, sometimes uncomfortably, in the middle.

STRATCOM generally notifies employees that the contract positions are disappearing and, in many cases, offers them a government job doing the same work, before their bosses know of the situation.

A small fraction of contract employees turn down the job offer, contractors say, because they are bothered by insourcing or don't want to take a pay cut.

But most accept the offer, trading a lower salary for better government benefits and longterm job security.

Week after week, workers leave Offutt Air Force Base on a Friday as contract employees and return on Monday as government employees.

"I've tried to focus on the people and the job and the mission," the insourced employee said of his switch. "I try to remember that we're all in the same boat here."