

WASHINGTON -- Private defense contractors in the Omaha area are crying foul over a Defense Department push to trim contract work and instead hire new government employees.

The move is part of a broader philosophical debate that cycles through the military -- often with the arrival of a president of a different party from his predecessor. The debate has a direct economic effect on military communities.

Defense Department officials say the shift could save millions of dollars and improve military readiness. But contractors say that officials overlook the long-term costs of keeping those federal employees on once contracts expire and that contractors do more for the areas where they work and live.

The government refers to the hiring push as "insourcing," but it feels more like "stealing" employees to Dave Everhart, president of Veteran Defense Services Inc. of Bellevue.

He said the military is hiring the contractors' employees to do the work they're already doing. In the process, the military cuts out the contractors who paid to recruit and train those people, he said.

Everhart said he has had 10 employees snapped up by the military over the past year and expects several more to go this summer. He's not sure exactly how many will go because often he learns which employees are making the move only when they're walking out the door. By then he's left in the lurch, typically losing both the contract and the employee.

Military officials say that they're just following the directions set by Congress and that it's a free labor market -- one that contractors have used for years to lure top military talent to the private sector.

Congress mandated insourcing in 2006, the same year Everhart and his partner started their business. The Obama administration, however, has stepped up the pace, Everhart said.

"A year ago, it became a fire sale," Everhart said.

Offutt Air Force Base houses the 55th Air Force Wing and the U.S. Strategic Command. The wing has yet to make any hires under the insourcing push, but StratCom has hired 164 people to do work previously slotted for contractors.

Thomas Hessel, senior manpower analyst in the Defense Department in Washington, said the military is attempting to rebalance its work force among active, reserve, civilian and contractor personnel. The plan is to create more than 33,000 new civilian positions over five years to take over services currently offered by private contractors.

But Hessel said that plan actually is conservative, given that the department's total civilian work force is more than 750,000.

"Contractors are and will continue to be a vital source of expertise, innovation and support to the department," he said. "We cannot meet our missions today or tomorrow without contracted support services. We're not engaged in a war on contractors."

The move is part of the Obama administration's broader goal of relying less on contractors, and Hessel noted that a contractor strike last summer shut down operations at Vance Air Force Base in Oklahoma.

Still, contractors are nervous about how far the military will go and say bases such as Offutt with unified commands are more likely to see more insourcing than others.

The Garrett Group, a local contractor specializing in intelligence work, has yet to lose anyone to the insourcing push, but the company's president, Tommy Garrett, said he fears the momentum of the effort will eventually roll over his company.

"We're afraid," he said.

Everhart's offices are housed in a modest red-brick building just off Cornhusker Road. The offices are quiet, the conference room dark, as his employees mostly work in the government facilities at Offutt, alongside their government counterparts. Their work is classified but generally involves tasks such as assessing StratCom mission performance and software engineering.

The Greater Omaha Chamber of Commerce named the contractor its 2009 Emerging Business of the Year, and the Bellevue Chamber of Commerce named it 2009 Small Business of the Year for those employing 16 to 50 workers.

At its peak the company employed 32 people but is down to 15, partly because of insourcing.

Ned Holmes, the military liaison at the Omaha chamber, said he has heard from Everhart and other area contractors concerned about the issue and said the chamber sent a letter of support on their behalf to Sen. Ben Nelson, D-Neb., a senior member of the Senate Armed Services Committee. Holmes said the military seems to go through cycles of contracting out work and moving it back in-house.

"Right now, it's swinging in the wrong direction," he said.

Rep. Lee Terry, R-Neb., recently offered an amendment to the defense authorization bill aimed at limiting the number of positions the military can convert from private to public employees at individual installations.

"The impacts of these conversions ripple through our community," he told the Rules Committee. "As smaller contractors convert to government employees our local economy suffers."

Terry's amendment was shot down on a party-line vote.

Nelson and Sen. Mike Johanns, R-Neb., both said they are working on the issue, although neither currently plans to offer legislation. Both stressed the need to look out for taxpayers' interests.

About half of the current insourcing moves are driven by cost -- the government has determined that it's cheaper to do the work in-house, Hessel said.

The other half is motivated by different concerns, such as keeping functions that officials deem inherently governmental within the government. Some of those moves will save money, and some will cost taxpayers more, Hessel said. Overall, the Pentagon expects to save about \$900 million this year by insourcing contractor support services.

John Pike, director of GlobalSecurity.org and a leading defense analyst, said that under President George W. Bush, the military sought to get as many service members on the front lines in Iraq and Afghanistan as possible.

"Their theory was that everybody who could carry a rifle, should carry a rifle," Pike said. "They were basically looking under sofa cushions for more people who could go serve on the frontier of freedom in the sandbox."

That resulted in a need for more civilian workers, either through direct hiring or contracted services.

And, Pike said, the previous administration favored contracting out. "Part of that was just an ideological predisposition toward the private sector as opposed to the 'dadburned gubmint.'"

Those predispositions are different under President Barack Obama, he said.

Pike said he can understand the concerns of contractors, especially smaller operations where the loss of one contract can be tough to weather. "They're getting hit in the pocketbook, and they do this for a living."

But Pike also said defense contractors have been largely insulated from the recession that hit the rest of the economy.

"Anybody who was making Defense Department money just sailed right past the recession. The rest of the economy had a recession. The Defense Department didn't. ... If this is the worst of their problems, then I think they're in pretty good shape."

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