



AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

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March 18, 2011

President Barack Obama
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Re: Capping Taxpayer Reimbursement for Contractor Salaries at the Level of Cabinet Secretaries

Dear Mr. President:

For too long, certain politicians have attacked the compensation earned by federal civil servants—even though our salaries are often considerably less than those earned in the private sector by workers in comparable jobs. What's been conspicuously missing from the debate, of course, has been any discussion of pay for contractors—even though the number of contractors exceeds the number of federal civil servants and many contractors earn several times the maximum federal salary. For example, the Department of Defense reported that with respect to commercial and industrial type functions taxpayers supported 1,320,000 contractors but only 490,000 civilian employees.ⁱ At Booz-Allen-Hamilton, to single out just one immense contractor that could not exist were it not for taxpayer dollars, the five highest salaries are \$4,228,842, \$4,045,365, \$3,894,851, \$3,881,937, and \$3,808,038.ⁱⁱ

By implementing AFGE's reform, we can save money for the taxpayers and ensure that the highest paid contractors are finally required to make sacrifices. At a time of budget stringency, few parts of the budget or tax code should be off limits for scrutiny—and certainly not the lucrative salaries for contractors that are ultimately paid for through taxpayer dollars.

Before going any further, I want to make it clear that AFGE's reform would in no way change the compensation earned by contractors pursuant to the Service Contract Act, the Davis-Bacon Act, or collective bargaining agreements. Rather, our focus is on the most lavishly-compensated contractors—limiting taxpayers' reimbursement for their salaries to no more than \$200,000. Insisting that taxpayers should not be forced to reimburse contractors in excess of what is earned by the Secretary of Defense, the Secretary of State, or any of the other cabinet secretaries is hardly Draconian. However, there is no question that we should soon be making further reductions to this limitation.



Here is AFGE's three-point plan for saving taxpayer dollars and ensuring that contractors must finally begin to make at least some of the sacrifices that have already been made by working and middle class Americans, particularly federal civil servants:

1. **Immediate:** All agencies should be directed to include the following clause in each solicitation: "No funds obligated under this contract shall be used to pay compensation to any individual, either as a direct cost or as an indirect cost, or proration at a rate in excess of level I of the Executive Schedule prescribed at 5 U.S.C. 5312. Proration means that the amount charged for a less than full-time employee cannot exceed an annualized rate equal to the authorized Executive Level I rate. This applies to all functions performed using contract funds including subcontracts."
2. **Short-Term:** The Federal Acquisition Regulation should be modified at 48 C.F.R. 31.206-6(a) with this language: "Reasonable compensation should be limited by the contracting officer to an amount which does not exceed the total compensation payable to persons providing substantially similar services in the area where the program is being carried out, or the area of the particular employee's immediately preceding employment, whichever is higher. The contractor agrees to submit a justification of compensation when requested by the contracting officer. In no instance may compensation exceed Level I of the Executive Schedule prescribed at 5 U.S.C. 5312." Please note that this is comparable to the approach already employed by the Department of Labor.
3. **Medium-Term:** 41 U.S.C. 435 should be repealed and the current language at 10 USC 2324(e)(1)(P) and 41 USC 256(e)(1)(P) should be struck and replaced with: "Costs of compensation of contractor and subcontractor employees for a fiscal year, regardless of the contract funding source, to the extent that such compensation exceeds level I of the Executive Schedule prescribed at 5 U.S.C. 5312."

This proposal has the advantage of being simple and easily understood. It would neither "micro-manage" contractor compensation nor would it cap contractors' salaries. Rather, it would limit the amount that contractors can be reimbursed by taxpayers for outrageously high salaries. If contractors insist on continuing to pay such outrageously high salaries, they can—provided they get the necessary money from someone other than Uncle Sam.

AFGE will obviously be working with Congressional lawmakers to enact the medium-term fix. Achieving this taxpayer safeguard should unite lawmakers regardless of partisanship or ideology. However, given the sacrifices you have already asked of modestly-paid civil servants, I am confident your Administration will be eager to make the easy immediate and short-term fixes and strongly support the medium-term fix I have outlined above.

Thank you for your consideration of this important and long-overdue taxpayer safeguard.

Sincerely,

A handwritten signature in black ink that reads "John Gage". The signature is written in a cursive, flowing style.

John Gage
National President

ⁱ Department of Defense Report: Performance of Commercial Activities (2006 Submission), page 10.

ⁱⁱ USASpending.Gov.