

October 18, 2012

Chairman Carl Levin
Senate Armed Services Committee
228 Russell Senate Building
Washington, DC 20510

Chairman Buck McKeon
House Armed Services Committee
2120 Rayburn House Office Building
Washington, DC 20515

Ranking Member John McCain
228 Senate Armed Services Committee
Russell Senate Building
Washington, DC 20510

Ranking Member Adam Smith
House Armed Services Committee
2120 Rayburn House Office Building
Washington, DC 20515

Dear Chairmen Levin and McKeon and Ranking Members McCain and Smith:

We, the undersigned public interest, government accountability, research, and labor groups, strongly urge you to lower the cap on maximum allowable compensation paid by government funds to all Department of Defense contract employees from \$763,029 to \$230,700, as contained in section 842 of the National Defense Authorization Act of 2013 (S. 3254).

Due to concerns about both fiscal responsibility and fairness, we believe it is important to reduce the compensation priced and/or reimbursed under U.S. government prime and subcontracts to defense contractor employees.

With budget cuts and sequestration looming, it is fiscally irresponsible to allow private contractors to charge escalating and exorbitant rates to the government. Since 1998, the compensation cap on government contracts has more than doubled. Over the past dozen years, the increase in allowable government compensation to contractors has outpaced inflation by 53 percent. The increase authorized by the Office of Federal Procurement Policy in April 2012 alone represented a 10 percent increase in allowable compensation for contractors while military personnel – the brave men and women actually risking their lives in defense of the nation – saw an increase of less than 2 percent and the pay of other federal employees was frozen. Private firms are of course free to pay their employees whatever they deem that they are worth, but the pricing and/or reimbursement provisions of government contracts should not allow such exorbitant rates to be paid by the American people.

Estimates obtained from senior DoD personnel indicate that capping allowable reimbursement of compensation to \$200,000 per employee would result in savings of at least \$5 billion a year,ⁱ almost 10 percent of the entire \$55 billion reduction in 2013 required by the Budget Control Act. A senior Army official testified the savings would be even higher.ⁱⁱ

Contrary to what some contractors claim, compensation levels over \$230,000 are not required to find and retain a talented workforce. David Wineland, an employee of the Commerce Department's National Institute of Standards and Technology (NIST), just won the Nobel Prize for physics for his work to improve atomic clocks, a technology that underlies everything from smart phones to GPS mapping. Many other Nobel Laureates work at government labs earning well below \$200,000 a year. And contractors are not prohibited from paying their employees whatever they like out of their companies' profits; section 842 merely limits the amount that can be priced or reimbursed by taxpayers.

The Commander in Chief of the United States earns \$400,000 a year. The Secretary of Defense earns \$200,000 to manage a military workforce of 1.4 million and a civilian workforce of 771,000 personnel. U.S. Senators receive \$174,000 a year to determine the resource needs of the defense department. An enlisted soldier's starting pay is under \$20,000 a year. And the average American worker earns less than \$43,000.ⁱⁱⁱ It is grossly unfair to expect working people to pay for the inflated salaries for defense contractor employees.

For all these reasons, we strongly urge you to ensure that the final version of the National Defense Authorization Act of 2013 includes the reduction in maximum allowable compensation contained in section 842 of S. 3254.

Sincerely,

J. David Cox, Sr.
National President
American Federation of
Government Employees, AFL-CIO

William Samuel
Governmental Affairs Director
American Federation of Labor and
Congress of Industrial Organizations

Charles M. Loveless
Director of Federal Government Affairs
American Federation of State, County,
and Municipal Employees, AFL-CIO

Lawrence Mishel
President
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Donald Cohen
Executive Director
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Gregory J. Junemann
International President
International Federation of Professional and
Technical Engineers, AFL-CIO

Christine Owens
President
National Employment Law Project

Colleen M. Kelley
National President
National Treasury Employees Union

Katherine McFate
President and CEO
OMB Watch

Danielle Brian
Executive Director
Project On Government Oversight

ⁱ 98 Fed. Contracts Rep. 320, September 10, 2012.

ⁱⁱ Jay Aronowitz, Deputy Assistant Secretary of the Army (Force Management, Manpower and Resources) submitted the following response to a Senate request: If a \$400K/Full Time Equivalent (FTE) Rate Cap was applied to the Fiscal Year (FY) 2011 Army Inventory of Contract Services, labor costs reported in the Contractor Manpower Reporting Application (CMRA) for FY 2011 would be reduced by \$6B (approximately 15% of the \$41B in invoices reported in FY 2011 for contract services). Post-Hearing Questions for the Record Submitted to Jay Aronowitz, Deputy Assistant Secretary, Force Management, Manpower and Resources U.S. Department of Army from Senator McCaskill, "Contractors: How Much Are They Costing the Government?" March 29, 2012, p. 3.

ⁱⁱⁱ National Average Wage Index for 2011, Social Security Administration. <http://www.ssa.gov/oact/cola/AWI.html> (Accessed October 17, 2012).