

**Testimony for the Record**  
**Rick Terrazas, Vice President Government Affairs, SourceAmerica**  
**Subcommittee on Workforce Protections**  
**Hearing: Examining the Policies and Priorities for the Wage and Hour Division**  
**Feb. 14, 2024**

Chairman Kiley, Ranking Member Adams, and members of the Subcommittee, I appreciate the opportunity to provide testimony on behalf of SourceAmerica regarding the impact that delays in setting wage determinations under the Service Contract Act (SCA) are having on nonprofits performing service contracts under the AbilityOne Program. We encourage the Subcommittee to urge the Department of Labor (DOL) to address this issue.

Established in 1938 and administered by the U.S. AbilityOne Commission®, the AbilityOne® Program has led the way in employing people with disabilities. The AbilityOne Program leverages the purchasing power of the Federal government, awarding essential product and service contracts to community-based nonprofit agencies that are dedicated to training and employing people with disabilities. SourceAmerica and the National Industries for the Blind serve as the two Central Nonprofit Agencies that manage the Program. The Program’s mission is “To tap America’s underutilized workforce of individuals who are blind or have significant disabilities to deliver high quality, mission-essential products and services to Federal agencies in quality employment opportunities.”

The current process the Wage and Hour Division uses in making wage and hour determinations under the SCA has a negative impact on the SourceAmerica nonprofit network in the Program. Specifically, the nonprofit community has raised concerns that increases in wages for service workers on federal contracts, as determined by the SCA, lag behind wages for private sector employees. This disparity creates a financial barrier for federal contractors to pay competitive market wages, including an estimated 320 nonprofit agencies employing over 28,000 people with disabilities through the AbilityOne Program on federal service contracts.<sup>1</sup>

Multiple factors contribute to this issue. For example, wages generated using the current SCA methodology are often lower than those found in the private sector. The consistently lower wages suggest that there may be an error in the methodology or that updates to SCA have fallen behind wage increases in the private sector. Additionally, the *Executive Order on Increasing the Minimum Wage for Federal Contractors (E.O. 14026)* exacerbated challenges for nonprofit agencies in the AbilityOne Program by creating wage compression.<sup>2</sup> According to The Society for Human Resource Professionals (SHRM), pay compression, also referred to as salary or wage compression, occurs when the pay of one or more employees is very close to the pay of more-experienced employees in the

---

<sup>1</sup> FY22 SourceAmerica Data Collected per AbilityOne Program Requirements

<sup>2</sup> GSA AL-MV-21-08-0

same job, or even those in higher-level jobs, including managerial positions. Often, it is the result of a market rate for a given job surpassing the increases historically awarded to long-term employees. Without corresponding changes to “fair market pricing” for indirect labor positions, nonprofit agencies will struggle to provide competitive market wages.

SCA policies and procedures require that wage determinations be reviewed periodically – typically annually<sup>3</sup> - as new data becomes available. Despite DOL requirements for regular updates, nonprofit agencies in the AbilityOne Program performing service contracts have found that compensation currently offered for employees working on service contracts is not commensurate with local wages. In July 2023, nonprofit agencies participating in the Program found a variety of examples where private sector wages in their locality exceeded the predetermined SCA wage for comparable work. For example, the current SCA wage for a mail clerk in Ft. Walton Beach, FL is \$16.20 an hour. However, they found UPS is offering \$18.00 an hour. In Oak Arbor, WA the SCA store worker wage is \$16.20 an hour versus Safeway which pays \$21.15 an hour.

As noted earlier, the increase in the federal minimum wage for federal contractors has contributed to wage compression, thereby increasing challenges to hiring among AbilityOne network nonprofits.<sup>4</sup> By creating a new minimum wage floor for service workers - regardless of the labor category – the Executive Order (E.O. 14026) results in compression with higher-level positions. In effect, the EO overrides the wage determination process used by DOL, negating pay differentials related to technical skills or responsibility for managing others. For example, nonprofits have reported that the pay difference between Cook 1 and Cook 2 positions was eliminated by the EO, which reduces worker motivation to develop their technical skills or take on greater responsibilities and undermines an employer’s ability to financially incentivize upward mobility. This has a ripple effect when establishing wages for indirect labor positions (managers and above) and direct support professionals who provide employment services alongside persons with disabilities.

Since its creation in 1938, the AbilityOne Program has evolved to meet changing needs and requirements and has always delivered on its core mission to provide employment opportunities for people with disabilities. We encourage the Subcommittee to request that the DOL make the necessary changes so that the SCA wage determination process does not lag behind the private sector and that these changes address the issue of wage compression. This will ensure that federal service contract wages remain competitive, and SourceAmerica and its network nonprofits can continue to meet their missions.

---

<sup>3</sup> FAQs Pertaining to the Issuance of Wage Determinations Under the McNamara-O’Hara Service Contract Act of 1965, as Amended

[dol.gov/agencies/whd/government-contracts/service-contracts/faq](https://dol.gov/agencies/whd/government-contracts/service-contracts/faq)

<sup>4</sup> GSA AL-MV-21-08-0

Finally, in addition to providing employment opportunities for individuals who are blind or have significant disabilities, the AbilityOne Program has an impressive return on investment for the Federal government. A recent study by Mathematica, Inc. determined that the average return on investment is \$2.66 for every \$1 spent to administer the AbilityOne Program. The estimated savings are primarily driven by a reduced reliance on public programs and an increase in tax revenue from the individuals with disabilities employed through the Program. The report also found that the income generated via multiplier effects in the local economy resulted in between \$25 million and \$74 million in additional tax revenues.<sup>5</sup>

Again, thank you for allowing me to provide testimony. We look forward to working with the Subcommittee to address the wage disparities under the SCA.

---

<sup>5</sup> Socioeconomic Impact Analysis Evaluation Report  
<https://www.sourceamerica.org/sites/default/files/2023-06/socioeconomic-impact-analysis-evaluation-report.pdf>