



Service Contract Act Wage Disparities Impacting Nonprofit Agencies in the AbilityOne Program

Issue

The AbilityOne[®] Program nonprofit community working with SourceAmerica has raised concerns that increases in wages for service workers on federal contracts, as determined by the Service Contract Act (SCA), lag behind wages for private sector employees. This disparity creates a financial barrier for federal contractors to pay competitive market wages, including approximately 320 nonprofit agencies employing over 28,000 people with disabilities through the AbilityOne Program on federal service contracts.¹

There are multiple factors contributing 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.² 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 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.

Background

The SCA, established in 1965 and administered by the Wage and Hour Division of the U.S. Department of Labor (DOL), requires contractors and subcontractors performing services on federal contracts (valued above \$2,500) to pay service employees across job classifications no less than the wage rates and fringe benefits found prevailing in the locality, or the rates contained in a predecessor contractor's collective bargaining agreement. The DOL generates wage determinations based on the available data identifying prevailing wage rates in a specific locality. When a single rate is paid to most of the workers engaged in similar work in a particular locality, that rate is determined to prevail. SCA policies and procedures require that wage determinations be reviewed periodically – typically annually - as new data becomes available.³

¹ FY22 SourceAmerica Data Collected per AbilityOne Program Requirements

² SA AL-MV-21-08-0

³ dol.gov/agencies/whd/government-contracts/service-contracts/faq

Examples of Wage Disparities

Despite DOL requirements for regular updates, nonprofit agencies in the AbilityOne Program performing services 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 told SourceAmerica that they found examples of private sector wages in their localities exceeding 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, a nonprofit reported that UPS is offering \$18.00 an hour. In Oak Arbor, WA the SCA store worker wage is \$16.20 an hour, while a local nonprofit indicated that Safeway pays \$21.15 an hour.

Examples of Wage Compression

The President’s *Executive Order on Increasing the Minimum Wage for Federal Contractors* exacerbated this issue by creating a new minimum wage floor for service workers, regardless of the labor category, resulting in compression with higher-level positions.⁴ In effect, the EO overrides the wage determination process used by DOL, negating pay differentials related to technical skills or responsibility for managing others.

A paper published in May 2022 in the Social Science Research Network highlights that an increase in minimum wages paid on government contracts has positive impacts; however, it is also a contributing factor to the creation on wage compression.⁵ As a result of E.O. 14026 creating a new minimum wage floor for service workers, nonprofits in the Program are seeing wage compression throughout labor categories. For example, nonprofits have reported that the pay difference between Cook 1 and Cook 2 positions has substantially narrowed since the Executive Order. This reduces worker motivation to develop their technical skills or take on greater responsibilities and further 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.

Recommendations

It is SourceAmerica’s position that a regulatory and/or statutory change is needed to ensure that prevailing wages determined through the SCA wage determination process are commensurate with those in the private sector. The precedent exists for the necessary changes to the SCA wage determination process. We seek the following:

1. We ask DOL to undertake a new public rulemaking process to update its SCA wage determination regulations and implementing guidance. This process should mirror DOL’s recent rulemaking process on “Updating the Davis-Bacon and Related Acts Regulations.”⁶ Improvements from the Davis-Bacon rulemaking that should apply to the SCA include more frequent updates to prevailing wage schedules, the recognition of trends in local economies to adjust prevailing wages based on market conditions, and the ability to adopt wages set by local or state governments.

⁴ GSA AL-MV-21-08-0

⁵ The Need to Reform the McNamara – O’Hara Service Contract Act

⁶ Final Rule on Updating the Davis-Bacon and Related Acts Regulations: [Updating the Davis-Bacon and Related Acts Regulations](#)

and Frequently Asked Questions regarding the final rule: [Frequently Asked Questions: Updating the Davis-Bacon](#)

and Related Acts Regulations Final Rule.

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2. In the absence of progress by the DOL, we ask the Committees of Jurisdiction in the United States Congress to introduce legislation to reform the Department's SCA wage determination processes.
3. We ask that the resulting rulemaking process specifically address the issue of wage compression to promote greater upward mobility and economic self-sufficiency for workers in direct and indirect positions while mitigating challenges for contractors to hire and retain labor essential to supporting the Federal Government's procurement needs.