GFC 14 056 16 October 2014

Office of Federal Procurement Policy
ATTN: Raymond Wong
New Executive Office Building, Room 9013
725 17th St. NW
Washington, DC 20503

RE: Report on Benchmark Alternatives

Mr. Wong,

DynCorp International (DI) appreciates the opportunity to provide comments on alternative benchmarks that would provide a more appropriate measure of allowable compensation. First DI would like to discuss the history of the compensation benchmark and then address different methodologies for calculating compensation caps.

The Government Accountability Office (GAO) issued a report in June 2013 that discussed at great length how previous contractor compensation caps were calculated, how the application of the caps applied, and the impact of lowering the cap to either the U.S. Vice President's or U.S. President's salary. (GAO-13-566)

Prior Compensation Cap Calculation and Application

Beginning in 1998 the cap was calculated as the median compensation amount for the five highest compensated employees for publicly owned U.S. corporations with revenue greater than $50 million for the most recent fiscal year that data was available at the time. The report states that DCAA contracted with an outside vendor to collect data from over 3,000 companies. DCAA would then review the data and recommend the cap level to the Office of Federal Procurement Policy (OFPP). The OFPP would then publish the cap amount in the Federal Register.

The cap failed to take into consideration many factors relevant to executive compensation. These factors include industry, size and complexity of the business, company financial condition, executive qualifications, and financial benchmarks such as revenue, assets, etc. These factors can be used in a multiple variable regression analysis to determine the reasonable compensation for a defined group of companies that vary in size.

DCAA's previous methodology ignored these factors and simply calculated a mean of all compensation across the 3,000 plus companies. This methodology benefitted companies with revenues of $50 million while impairing the allowable compensation of companies with revenues in the billions of dollars.

For example, Mercer's 2013 survey showed Chairman and CEO's mean total compensation for dozens of companies segregated by total company revenues. The following table summarizes a portion of the results of the survey by annual revenue.

Chairman and CEO Annual Compensation

Annual Revenue	$400M-1.2B	$1.2B-3.75B	$3.75B-7.5B
Total Cash - Actual	$ 1,520,370	$ 1,852,161	$ 2,567,407
% Diff from Lowest	0%	22%	69%

As the survey data demonstrates, there is a vast difference in the compensation levels based on the size of a company.

In 2012 the application of the compensation cap changed. Prior to 2012, the compensation cap applied to the top five highest paid employees at each of a contractor's home office and segments. The National Defense Authorization Act for Fiscal Year 2012 (the Act) changed the application of the cap to all contractor employees performing on contracts awarded by the Department of Defense (DOD), the Coast Guard, and NASA. Although the Act permitted the Secretary of Defense to establish exceptions for scientists and engineers, the DOD has yet to establish any such exceptions.

Potential Impact of Low Compensation Caps

Government contracting has always been a very competitive business. With spending cutbacks and sequestration, government contracting is becoming even more competitive. Government contractors are constantly competing with private industry to attract and retain the best, brightest, and highest performing executives and employees. Many technologies and industries have grown out of defense and space exploration research (i.e. government contracting). A prime example of this is the internet that started out as a DOD research project called ARPANET. The cap effective June 28, 2014, of $487,000 has the potential to stifle progress within this sector, which would be detrimental to the United States in maintaining its status as a world leader and innovator.

The Dodd–Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank act included a section that allowed for a "say-on-pay" for all public companies in the United States. The new rules require public companies to provide shareholders with an advisory vote on compensation of the CEO, CFO and at least three other most highly compensated executives. Say-on-pay provides a company's shareholders and investors an opportunity to provide input on what executive management is paid. The effect remains yet to be seen on U.S. company executive compensation. However, one study of 103,000 firms from 39 countries with say-on-pay requirements found 1) lower levels of overall CEO compensation, 2) higher pay-for-performance sensitivity, 3) increase in pay equality among executive management, and 4) higher firm value.[1]

Bureau of Labor Statistics' Employment Cost Index

The Employment Cost Index (ECI) is a measurement of the inflation, or deflation, of wages. The index is used by the Federal Reserve to adjust the prime interest rate and is also used in determining the annual adjustments to the U.S. Government general schedule. The ECI is not used to calculate adjustments those in the Senior Executive Service or Executive Schedule. Even the U.S. Government acknowledges that executive pay should not be tied to an index that encompasses all workers of all levels.

Recommendation

DI recommends that a formula be established based on a regression analysis using company revenue to calculate the allowable compensation for companies with revenues greater than $50 million. A formula that takes into consideration weighted average compensation based on company revenues would be more suitable than the Bureau of Labor Statistics' Employment Cost Index because it would recognize the extra responsibility placed upon executives just as the U.S. Government does with its own pay structures.

Final Comments

DI looks forward to the OFPP and DOD report on alternative benchmarks to Congress.

Sincerely,

Chris Gilley
Senior Director, Government Finance & Compliance
DynCorp International LLC

[1] Say on Pay Laws, Executive Compensation, CEO Pay Slice, and Firm Value around the World. Ricardo Correa, Ugur Lel. July 2013. http://www.federalreserve.gov/pubs/ifdp/2013/1084/ifdp1084.pdf