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REPORT

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# Policy Changes for SourceAmerica Nonprofit Agencies: Impacts of Eliminating Section 14(c) and Reducing AbilityOne's Required Direct Labor Ratio

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## GLOSSARY OF ACRONYMS

| | |
|---|---|
| DLR | Direct labor ratio |
| ERS | Employee Research System |
| GAO | Government Accountability Office |
| ID/DD | Intellectual and developmental disabilities |
| JWOD | Javits-Wagner-O'Day Act |
| MSA | Metropolitan statistical area |
| NPA | Nonprofit agency |
| PTSD | Post-traumatic stress disorder |
| QER | Quarterly Employment Report |
| SGA | Substantial gainful activity |
| SSDI | Social Security Disability Insurance |
| SSI | Supplemental Security Income |
| VR | Vocational rehabilitation |
| WIOA | Workforce Innovation and Opportunity Act |

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# EXECUTIVE SUMMARY

The AbilityOne program uses federal procurement to promote the employment of workers with disabilities. Nonprofit agencies (NPAs) annually sell more than $3 billion in products and services to the federal government under AbilityOne, employing 45,000 workers with significant disabilities to do so. SourceAmerica serves as an intermediary agency that helps facilitate contracting between NPAs and the federal government. SourceAmerica currently works with 494 NPAs that employ workers with a variety of disabilities to produce goods and services.

AbilityOne contracts are governed by regulations intended to provide a competitive advantage to NPAs that employ workers with disabilities. One important regulation requires that an NPA have at least 75 percent of the direct labor hours worked across the NPA, including work for customers other than the federal government, be worked by persons with disabilities. A second important regulation is Section 14(c) of the Fair Labor Standards Act, which allows certain workers with disabilities to be paid a commensurate wage. A commensurate wage is expressed as the productivity-based share of the full prevailing wage, the wage paid to an average experienced worker without a disability, and is often below the minimum wage. In 2014, President Obama issued an executive order restricting the use of commensurate wages. The executive order established a federal minimum wage of $10.10 for workers on new federal service contracts, though they can still be paid commensurate wages under Section 14(c) as long as those wages are greater than $10.10.

SourceAmerica engaged Mathematica Policy Research to conduct an independent and objective study of the potential impacts of changes in these two regulations on workers with disabilities and the NPAs that have AbilityOne contracts facilitated by SourceAmerica. We consider the impacts of these potential policy changes above and beyond changes that may have already taken place due to President Obama's executive order.

The elimination of Section 14(c) would significantly impact some NPAs' businesses. Many would need to counterbalance the resulting increase in wages by either hiring fewer workers or increasing prices. Responses would differ substantially depending on the NPA's characteristics. There would also be a large impact on workers with disabilities. It seems likely that some workers with disabilities would lose their jobs, particularly those with the lowest productivity who generally are among those with the most severe disabilities; many workers in this group have significant intellectual and developmental disabilities. Changing requirements in the labor ratio would have different effects. Reducing the labor ratio would enable NPAs to expand the scope of their business and contracting; however, it would likely reduce employment of workers with disabilities.

## Study approach

To analyze the potential impacts of eliminating Section 14(c) and reducing the required direct labor ratio, we relied on four key sources: (1) the economics literature, (2) a web survey completed by SourceAmerica's NPAs, (3) in-depth qualitative interviews with select survey respondents, and (4) SourceAmerica data on NPAs and their workers.

The survey was completed by 180 NPAs with active AbilityOne contracts through SourceAmerica. NPA staff reported how their business and employment of workers with disabilities would likely change under each of the two policy changes. We completed 12 in-depth qualitative interviews to get additional detail about the driving forces behind the survey responses. We used SourceAmerica program data to model the potential impact of changes to Section 14(c) under a variety of scenarios. We estimated how wages paid, hours worked, total sales, and number of workers might change under alternative scenarios. We also identified characteristics of NPAs and workers most likely to be affected by changes in Section 14(c). We frame our results in theory and empirical findings from the relevant economics literature.

## Key findings

Eliminating Section 14(c) would likely mean fewer jobs and lower earnings for many workers whose disabilities substantially restrict their productivity. NPAs could not maintain the employment of all workers with lower productivity. Across SourceAmerica's NPAs, we estimate that total wages paid would increase by $30 million if agencies continued to pay all workers for the same number of hours they currently work, an increase of 5.7 percent. Most of this increase would be concentrated among a subset of NPAs more affected by the policy change because they pay many workers with low productivity using Section 14(c). NPAs would likely try to mitigate some of the impact of eliminating Section 14(c) by hiring workers with higher productivity or by passing on some of the costs to the federal agencies they serve.

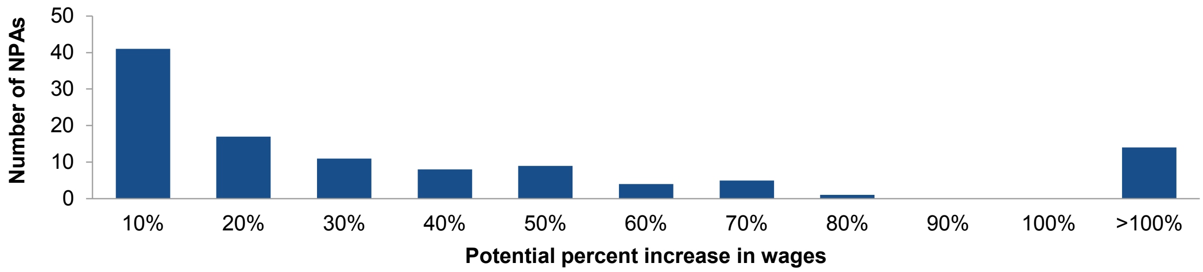
Reducing the required direct labor ratio would likely broaden the scope of business at existing NPAs and encourage new NPAs to participate in AbilityOne. However, this expansion would come at a cost to workers with disabilities because the growth would be driven by hiring workers without disabilities. In theory, growth in the work performed by NPAs could fully offset the direct effect of lowering the ratio on employment of workers with disabilities, though growth of that magnitude seems unlikely in the absence of other changes in federal procurement policy.

**Barring the use of Section 14(c) would be financially challenging for many NPAs.**

The impacts of eliminating Section 14(c) are likely to vary significantly by NPA. Almost half of NPAs do not pay workers using Section 14(c) or only employ workers with 100 percent productivity. These NPAs would not be directly affected by the elimination of Section 14(c) because it would not change the way they pay their workers. For the remaining half of NPAs, the impact of the policy would vary by the share of their workers paid using Section 14(c) and the productivity of those workers. NPAs that employ a large share of workers with low productivity will be affected the most. These NPAs tend to be smaller, product-making NPAs located in rural parts of the Midwest.

If Section 14(c) were eliminated and NPAs maintained current employment levels, total AbilityOne wages paid would increase by approximately $30 million. This is a 5.7 percent increase in total AbilityOne wages. Almost three-quarters of the increase would be concentrated at NPAs that are deemed to be more affected; the $22 million increase in wages paid at these NPAs would be a 60 percent increase above their current AbilityOne wages. At less-affected NPAs, the $8 million increase in wages would represent just a 3 percent increase above current AbilityOne wages. Figure 1 shows the distribution of the potential increase in wages for NPAs affected by the elimination of Section 14(c). Though many NPAs would experience small increases in wages, a fairly large number would see wages more than double.

**Figure 1. Distribution of NPAs by potential increase in wages.**




Source: Analysis of SourceAmerica 2015 Employee Research System data.

NPAs likely would not maintain the same level of workers and hours if Section 14(c) were eliminated, mitigating some of the potential wage increases. In their survey responses, 82 percent of NPAs indicated that they would expect to reduce the number of workers with disabilities they employ, and 77 percent would reduce the hours worked by workers with disabilities. The reduction in employment would limit their ability to maintain the same level of contracting. Thirty-five percent of NPAs indicated that they would reduce AbilityOne contracting and 56 percent would narrow the scope of their business. NPAs that primarily sell products were more likely to report expected reductions than were those that sell services.

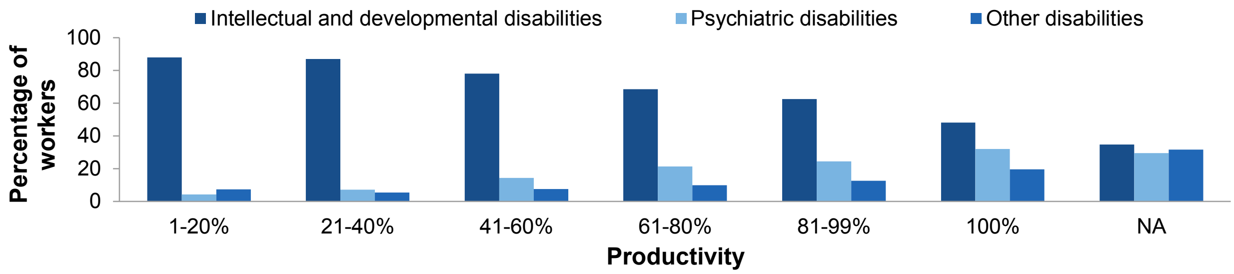
**Workers with the lowest productivity are most likely to lose jobs if Section 14(c) is eliminated.**

The elimination of Section 14(c) would increase the earnings of workers who maintain employment. Workers with the lowest productivity would have the biggest potential impacts on their wages; a worker with 50 percent productivity would receive double the wages if paid the full prevailing wage. However, workers with lower productivity are most likely to lose their employment if Section 14(c) were eliminated. Seventy-two percent of NPAs said that they would change the types of workers with disabilities that they employ, with more than 90 percent of them responding that they would try to employ workers with higher productivity. Some NPAs mentioned that they would impose a productivity threshold that a worker must meet to be hired.

NPAs replacement of lower-productivity workers with higher-productivity workers is consistent with theoretical predictions. Workers with lower productivity would have the largest gap between the value of the goods they produce and their wage. Economic theory suggests that a firm’s demand for workers with low productivity is likely to be particularly sensitive to wages. Sensitivity to the wage is also high because prices of AbilityOne contracts are fixed in the procurement list and NPAs can substitute more productive workers to do the same tasks.

NPAs can mitigate the effect of Section 14(c) elimination by letting go some workers currently paid under Section 14(c). To illustrate, if NPAs maintained the same level of workers and hours, total wages would go up by about $30 million. If NPAs let go all workers below 50 percent productivity and replaced those hours using workers with higher productivity, total wages would go up only by $13.1 million. Low productivity workers are disproportionately likely to have intellectual and developmental disabilities. Figure 2 shows the distribution of disabilities for workers by productivity and for those not paid commensurately.

**Figure 2. Distribution of workers' primary disability, by productivity quintile**




Source: SourceAmerica 2015 Employee Research System data.

Note: "NA" refers to workers not paid under Section 14(c) who therefore do not have a productivity rating.

**The impact of eliminating Section 14(c) could be mitigated somewhat by how the change is implemented.**

All estimates summarized so far assume that workers must be paid the full prevailing wage. If the law allowed NPAs to continue paying workers commensurately as long as they were paid at least the minimum wage, the total impact on wages would be substantially lower. If workers had to be paid at least the state minimum wage, total wages would increase by at most $9.2 million rather than $30 million. If workers had to be paid only the federal minimum wage, the maximum total increase would be $6.9 million.

Additional policy options would also mitigate the impact of eliminating Section 14(c). The impact could be smaller if SourceAmerica paid a subsidy to NPAs to help offset some of the potential wage increase. The impact could also be smaller if the federal government raised prices on the procurement list. Increases in prices would help NPAs pass on the burden of increases in wages. An average price increase of 1.2 percent on all AbilityOne contracts would be sufficient to cover the increase in wages for the current NPA workforce, though it would not ensure that NPAs would continue to hire the same number or mix of workers with disabilities.

**Eligibility for disability benefits is unlikely to change, though aggregate benefit payments could increase slightly.**

Eligibility for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) benefits is unlikely to change. Eligibility criteria for both programs require both having a severe disability and having income below the Substantial Gainful Activity (SGA) level. Although wages for workers who remain employed following the elimination of Section 14(c) could increase from below SGA to above SGA, leading them to lose eligibility for benefits, this is unlikely to happen for many workers. At most, 9 percent of workers who currently have income below SGA would have their wages increase above SGA if all workers maintained the same level of employment. However, the workers who would potentially lose benefits if they remained employed are also most likely to lose their jobs, given that they have low productivity. Their eligibility is unlikely to increase; 92 percent of workers with productivity below 50 percent already have earnings below SGA and thus could be eligible for benefits. Thus, there are likely to be small changes in eligibility for disability benefits.

Disability benefit payments could increase slightly for workers who lose their jobs. SSDI benefit payments would not change because beneficiaries receive a fixed monthly payment. SSI benefit payments could increase because, if earnings are low enough for the worker to receive an SSI benefit, benefit amounts increase by $1 for every $2 earnings reduction until earnings fall to as low as $85 per month. Many low productivity workers already earn less than $85 per month, so further reductions in their earnings would not increase benefits; the average monthly wage for all workers below 50 percent productivity is only $83. SSI benefits would increase by at most $2.3 million annually if all workers with productivity below 50 percent lost their jobs; by comparison, annual SSI payments to all working-age people with disabilities are $36 billion.

**Reductions in the direct labor ratio would likely ease financial pressures on NPAs but with a likely negative effect on employment of workers with disabilities.**

Reducing the required direct labor ratio would lead NPAs to expand the scope of their businesses. The direct labor ratio is a quota, and the economics literature finds that imposing or expanding quotas on employers tends to reduce their output. Hence, a reduction in a quota generally helps businesses grow. Consistent with this theoretical prediction, about 40 percent of NPAs said they would increase their AbilityOne contracting. Almost half of the NPAs would increase their scope of business, which includes non-AbilityOne contracts. More than half anticipated that reducing the required direct labor ratio would lead new agencies to join the AbilityOne program.

Though the lower labor ratio may be beneficial to NPAs, it would likely reduce employment of workers with disabilities. Theoretical predictions show that quotas increase employment for the targeted group, so reducing the quota of workers with disabilities would likely reduce the employment of workers with disabilities. Consistent with this theoretical prediction, NPAs anticipated that reductions in the required direct labor ratio would reduce employment of and hours worked by people with disabilities. About 40 percent of NPA respondents said that they would decrease the number of workers with disabilities employed at their agency, compared with 20 percent who said they would increase the level of employment. One-third of NPAs expected the hours worked by a typical worker with a disability to decrease, whereas only one-eighth expected hours worked to increase. Though there is likely to be entry to the market so that more NPAs employ workers with disabilities, the gains from this would likely not be large enough to counter the reductions at agencies that already exist, unless the market to which NPAs provide goods and services is substantially expanded in some other way, for example, by expanding the number and scope of federal contracts that provide a competitive advantage to qualified NPAs.

**Reducing the direct labor ratio requirement would make it easier for NPAs to adapt to elimination of Section 14(c).**

Reducing the required direct labor ratio would make it easier for NPAs to meet contracting needs by allowing them to employ more workers without disabilities. If the elimination of Section 14(c) were coupled with reductions in the direct labor ratio requirement, it is possible that employing more workers without disabilities could help subsidize the increases in wages for workers with disabilities. This would mitigate some of the negative impacts on NPAs stemming from the elimination of Section 14(c). If the direct labor ratio was reduced at the same time that Section 14(c) is eliminated, NPAs with the mission of employing workers with the lowest productivity might be able to retain more of them than if the direct labor ratio was not reduced.

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# I. INTRODUCTION

The AbilityOne program uses federal procurement to promote the employment of workers with disabilities. The program exists under the Javits-Wagner-O'Day Act (JWOD). JWOD requires that federal agencies must buy certain goods and services from nonprofit agencies (NPAs) that employ people with disabilities. The Act, signed in 1971, expanded the Wagner-O'Day Act (1938), which applied only to individuals who were blind, to include individuals with significant disabilities. NPAs annually sell more than $3 billion in products and services to the federal government under AbilityOne, employing 45,000 workers with significant disabilities to do so. More than half of this revenue comes from contracts with the Department of Defense.

SourceAmerica serves as an intermediary agency that helps facilitate contracting between NPAs and the federal government. SourceAmerica currently works with 494 agencies that employ workers with a variety of disabilities to produce goods and services. A separate entity, called the National Institute for the Blind, is SourceAmerica's counterpart for NPAs focused on people who are blind. Approximately 90 percent of workers on AbilityOne contracts are employed through SourceAmerica NPAs.

NPAs with AbilityOne contracts provide services and employment opportunities outside of AbilityOne contracts as well. In addition to the nearly 45,000 employees with disabilities working at NPAs on AbilityOne contracts, another 75,000 persons with disabilities are employed at the NPAs performing other work. Many NPAs provide services including job training and career counseling to try to improve employment opportunities as well as social activities and psychological counseling to try to improve everyday life.

AbilityOne contracts are governed by regulations intended to provide a competitive advantage to NPAs that employ many workers with disabilities. One important regulation requires that an NPA have at least 75 percent of the direct labor hours worked across the NPA, including work for customers other than the federal government, be worked by persons with disabilities. This serves as a barrier to entry into the federal procurement market. A second important regulation is Section 14(c) of the Fair Labor Standards Act, which allows NPAs to pay workers with disabilities a wage lower than the wage that would be paid to workers without disabilities, under certain circumstances. This "commensurate wage" is expressed as the productivity-based share of the "prevailing wage," which is the wage paid to an average experienced worker without a disability. In many cases, the commensurate wage is below the minimum wage. These policies mean that neither the market for products and services produced by NPAs nor the labor market in which they hire workers is perfectly competitive.

This report considers the potential impacts of changes to these two regulations on NPAs, workers with disabilities, and federal agencies. The elimination of Section 14(c) and requiring all workers with disabilities be paid the full prevailing wage (which must be at least the minimum wage) would significantly affect some NPAs' businesses. Many would need to counterbalance the increase in wages by either hiring fewer workers with low productivity or increasing prices. The size of these responses would differ substantially depending on the NPAs' characteristics. There would be a large impact on workers with disabilities. It seems likely that many workers with disabilities would lose their jobs, particularly those with the lowest productivity who generally are among those with the most severe disabilities; many workers in this group have severe intellectual and developmental disabilities. Changing requirements in the labor ratio would have different effects. Reducing the labor ratio would enable NPAs to expand the scope of their business and contracting; however, it would likely reduce the employment of workers with disabilities.

In the remainder of this chapter, we summarize characteristics of NPAs that currently participate in the AbilityOne program through SourceAmerica, briefly introduce the potential policy changes that we considered, and then describe the sources of data we used to assess the potential impacts of these policy changes on NPAs and workers with disabilities.

## A. Characteristics of SourceAmerica NPAs

SourceAmerica NPAs vary in production and size (Table I.1). More than half of the 494 NPAs primarily procure services contracts, whereas only about one in six works on products contracts.[1] About one-third of agencies employ 200 or more workers, about one-half employ between 50 and 200 workers, and the remaining one-sixth employ fewer than 50 workers. The vast majority of NPAs are located in metropolitan statistical areas.

### Table I.1. Overview of SourceAmerica NPAs

| | Number | Percentage |
|---|---|---|
| Total number of NPAs | 494 | 100 |
| Products producing[a] | 69 | 14 |
| Services providing[a] | 298 | 60 |
| Mix[a] | 127 | 26 |
| Large (200 or more workers)[b] | 174 | 35 |
| Medium (50–199 workers)[b] | 230 | 47 |
| Small (0–49 workers)[b] | 90 | 18 |
| Located in MSA[c] | 384 | 80 |
| Has 14(c) certificate | 386 | 78 |

Source: 2015 Q4 Quarterly Employment Report (QER) data.

[a] We characterize NPAs by the percentage of their total contract revenues that are in products. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts.

[b] We characterize NPAs by the number of workers with disabilities they employ. Large NPAs are those that employ more than 200 workers with disabilities. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Small NPAs are those that employ 50 or fewer workers with disabilities.

[c] We characterize NPAs as in a metropolitan statistical area (MSA) if the zip code of their headquarters matches a zip code located in an MSA. Eleven NPAs do not match to the zip code crosswalk we use, which explains how the Located in MSA percentage is higher than Has 14(c) certificates despite the lower number.

[1] We classified NPAs as primarily services if more than 90 percent of their total sales revenues comes from service contracts. Similarly, products NPAs receive more than 90 percent of their total sales revenue from products contracts. We classified all others as Mix NPAs.

NPAs differ substantially by the primary contract type (Table I.2). The 69 NPAs that exclusively sell products have smaller workforces, on average, than do other NPAs. Agencies that work in services have higher average wages than those that work in products; the average wage of $9.93 per hour at services NPAs is nearly double the average wage of $5.53 per hour at products NPAs. Services NPAs tend to have a higher share of their total contract revenues come from AbilityOne contracts.

### Table I.2. Overview of SourceAmerica NPAs, by primary contract type

| Variable | Products NPAs | Services NPAs | Mix NPAs |
|---|---|---|---|
| Total agency workforce (mean) | 165 | 218 | 290 |
| Average hourly wage, agency (mean) | $5.53 | $9.93 | $6.25 |
| Average hourly wage, AbilityOne (mean) | $7.00 | $12.90 | $11.24 |
| Total wages, agency (thousands, mean) | $640.03 | $1,829.33 | $1,354.64 |
| Direct labor ratio, agency (percentage, mean) | 88.4 | 85.9 | 88.8 |
| Total contract revenues (thousands, mean) | $7,112 | $8,210 | $6,277 |
| Total product revenues (thousands, mean) | $6,993 | $44 | $2,449 |
| Total services revenues (thousands, mean) | $119 | $8,166 | $3,828 |
| Total AbilityOne revenues (thousands, mean) | $4,104 | $5,796 | $3,363 |
| AbilityOne share of revenues (percentage, mean) | 38.6 | 57.7 | 33.6 |
| Total number of NPAs (count) | 69 | 298 | 127 |

Source: 2015 Q4 QER data.

Similar differences in wages exist by the size of an NPA (Table I.3). The difference in the size of the workforce is notable—the average large NPA employs nearly 480 people with disabilities, the average medium NPA employs about 120 people, and the average small NPA only employs 27 people. However, small NPAs pay the highest average hourly wages, both throughout the agency and on AbilityOne contracts. Small NPAs are also the most likely to sell products, with almost half of total contract revenues coming from products contracts.

### Table I.3. Overview of SourceAmerica NPAs, by size

| Variable | Large NPAs | Medium NPAs | Small NPAs |
|---|---|---|---|
| Total agency workforce (mean) | 479 | 120 | 27 |
| Average hourly wage, agency (mean) | $7.63 | $7.88 | $11.03 |
| Average hourly wage, AbilityOne (mean) | $11.66 | $11.44 | $12.41 |
| Total wages, agency (thousands, mean) | $3,329 | $696 | $245 |
| Direct labor ratio, agency (percentage, mean) | 86.8 | 87.3 | 86.7 |
| Total contract revenues (thousands, mean) | $16,298 | $3,298 | $1,558 |
| Total product revenues (thousands, mean) | $3,022 | $935 | $731 |
| Total services revenues (thousands, mean) | $13,275 | $2,363 | $827 |
| Total AbilityOne revenues (thousands, mean) | $11,253 | $1,814 | $694 |
| AbilityOne share of revenues (percentage, mean) | 44.0 | 47.4 | 62.0 |
| Total number of NPAs (count) | 69 | 298 | 127 |

Source: 2015 Q4 QER data.

The goal of the 75 percent direct labor ratio (DLR) requirement is to increase employment of workers with disabilities. It justifies the preferential treatment NPAs receive under JWOD; these agencies get guaranteed rights to win certain types of contracts specifically because they employ workers with disabilities, providing a public good. However, the high required DLR means that NPAs may struggle to find enough workers to deliver on the procurement contract and meet their ratio requirements.

The average DLR across all SourceAmerica NPAs is approximately 87 percent. The ratio is calculated as the share of total direct labor hours worked across the entire NPA that are worked by workers with disabilities. As is shown in Tables I.2 and I.3, there is little variation in the DLR by agency characteristics, whether the primary contract type is products, services, or a mix, or by the size of the NPA.

A second regulation that NPAs may be subject to is the ability to pay workers with disabilities subminimum wages. Section 14(c) of the Fair Labor Standards Act, the act that establishes the minimum wage, stipulates that workers with disabilities may be paid commensurate wages, which may be below the minimum wage, under certain conditions. This provision, referred to hereafter as simply Section 14(c), defines a worker eligible to be paid commensurately as one "whose earning and productive capacity is impaired by a physical or mental disability, including those related to age." It is not enough for a worker to simply have a disability; that disability must also affect the worker's productive and earning capacity. The wage that a worker is paid is determined by comparing the productivity of a worker with a disability to an experienced worker without a disability. The commensurate wage is calculated as a share of the prevailing wage, or the wage that is paid to an average experienced worker without a disability. For many services, the prevailing wage is mandated in the Service Contract Act; for products and other services, the NPA establishes and documents a prevailing wage. To pay workers under Section 14(c), NPAs must obtain a certificate allowing them to pay wages under Section 14(c) and must reevaluate a worker's productivity every six months.

Many NPAs working on AbilityOne contracts have 14(c) certificates, which allow them to pay their workers commensurate wages. Out of the 494 SourceAmerica NPAs, 386 (78 percent) have a 14(c) certificate. NPAs are not required to pay their workers using Section 14(c) just because they have a 14(c) certificate, however. Data reported by NPAs on their workers show approximately one-third of workers who meet the criteria to be characterized as having a disability for the purposes of calculating the DLR are paid commensurate wages. This share varies by type of agency; large NPAs pay about one-third of their workers with disabilities commensurately, whereas almost half of workers at medium NPAs and 10 percent of workers at small NPAs are paid commensurate wages. There are not large differences by type of contract, though slightly fewer workers at services NPAs are paid under Section 14(c).

Although any NPA with a 14(c) certificate can currently pay workers commensurately, an executive order issued by President Obama in 2014 had already led to restrictions in the use of Section 14(c). The executive order established a federal minimum wage of $10.10 for service contract workers, and it specifically disallows the payment of subminimum wages on federal service contracts. Importantly, the executive order does not apply to many workers and employers. First, the order does not apply to workers on products contracts nor does it apply to contracts that were in place when the order went into effect. Second, it applies only to federal contracts. The order did not ban commensurate wage payments; employers with a 14(c) certificate can still pay commensurate wages as long as they are above $10.10. Eliminating Section 14(c) would therefore still affect the wages of any worker who is currently paid commensurately, whether that commensurate wage is above or below the minimum wage. This study considers the impacts of no longer allowing NPAs to pay workers commensurate wages using Section 14(c).

## B. Policy uncertainty

The future of the Section 14(c) provision and DLR requirement is uncertain. Both Congress and the AbilityOne Commission have considered changes to these policies in recent years.

The Section 14(c) provision may be eliminated, meaning that NPAs would no longer be allowed to pay workers with disabilities commensurate wages. Opponents of Section 14(c) view paying workers with disabilities wages lower than those paid to other workers as unfair. They argue that this stigmatizes workers with disabilities and discourages them from seeking employment. On the other hand, supporters of Section 14(c) claim that requiring NPAs to pay all workers with disabilities prevailing wages, regardless of the worker's productivity, will make it infeasible for NPAs to employ workers with more severe disabilities.

The AbilityOne Commission has considered lowering the 75 percent DLR requirement, partially because agencies have difficulties finding enough workers with disabilities who want to work. The 75 percent DLR must be maintained across the entire agency, not just on its AbilityOne contracts. On the one hand, lowering the required DLR may encourage more agencies to enter the market, perhaps increasing total employment of workers with disabilities. On the other hand, reducing the required DLR could reduce employment of workers with disabilities, thereby undermining the rationale for preferential treatment of these NPAs under.

These policy changes are being considered as part of a changing landscape that promotes moving employment of workers with disabilities away from sheltered workshops, where workers with disabilities are provided extra services and mostly work with other workers with disabilities, and into community-based settings, where they would work with a broad range of people. Legislatively, the Workforce Innovation and Opportunity Act (WIOA), signed in 2014, encourages community-integrated employment for workers with disabilities. WIOA requires state vocational rehabilitation (VR) agencies, which are funded to help individuals with disabilities meet their employment goals, first place individuals in competitive, integrated employment. VR agencies may place clients in sheltered workshops only after they have been unsuccessful in maintaining employment in an integrated environment. Evidence on the potential impact of this shift is limited. Vermont closed all sheltered workshops in 2003, and by 2012, the rate of community-integrated employment in Vermont was twice the national average (Butterworth et al. 2012). Though this example suggests that workers with disabilities may be able to sustain integrated employment, there has been no rigorous evaluation of the impact on employment and earnings for those with the most significant disabilities.

## C. Overview of data and analysis

This study assesses the anticipated impacts of eliminating the Section 14(c) provision and reducing the required DLR. We consider how these policy changes will affect NPAs, workers with disabilities, and government agencies. These policy changes are controversial and may have wide-ranging positive and negative impacts, which are difficult to forecast precisely. However, because it is important to understand the potential impacts before policy changes go into place, this study offers the best insights that can be made with available literature and data on the benefits that may be accrued to some against the costs that may be imposed on others.

Eliminating Section 14(c) would likely mean fewer jobs and lower earnings for workers with the lowest productivity—presumably among those with the most severe disabilities—despite the intention to help workers with disabilities and provide greater employment protection. NPAs could not maintain the employment of all workers with lower productivity without other significant changes. Across SourceAmerica's NPAs, we estimate that total wages paid would increase by $30 million if agencies continued to pay all their workers for the same number of hours they currently work, an increase of 5.7 percent. Most of this increase would be concentrated at the subset of NPAs that pay many workers with low productivity using Section 14(c). Total wages paid would increase by $22 million, or 60 percent, at these more-affected NPAs. NPAs would likely try to mitigate some of the impact of eliminating Section 14(c) by hiring workers with higher productivity. Reducing the required DLR would likely broaden the scope of business at existing NPAs and encourage new NPAs to participate in AbilityOne. However, this expansion would come at a cost to workers with disabilities because the growth would be driven by hiring workers without disabilities. In theory, growth in the work performed by NPAs could fully offset the direct effect of lowering the ratio on employment of workers with disabilities, though growth of that magnitude seems unlikely in the absence of other changes in federal procurement policy.

To analyze the potential impacts of eliminating Section 14(c) and reducing the required DLR, we relied on four key data sources: (1) existing literature on wage floors and quotas, (2) a web survey completed by SourceAmerica's NPAs, (3) in-depth qualitative interviews with select survey respondents, and (4) SourceAmerica program data about NPAs and their workers.

The economics literature provides a framework for considering the potential impacts of both policy changes. The literature on the minimum wage provides valuable information on the impacts of wage floors imposed above the competitive market wage, as would be the case if NPAs were no longer allowed to pay subminimum or commensurate wages. The literature on hiring quotas for workers with specified characteristics and affirmative action helped to frame our findings on reductions in the required DLR.

Second, we used information collected in a web survey of SourceAmerica NPAs. NPA staff reported how they expected aspects of their business, such as their participation in AbilityOne and the number of workers with disabilities they employ, would change if Section 14(c) were eliminated and the required DLR were reduced. NPAs that no longer used Section 14(c) reported on their actual experience shifting away from use of Section 14(c). As shown in Table I.4, 180 out of the 463 (39 percent) active SourceAmerica NPAs providing products or services through Ability One responded to the survey. As a group, these NPAs are relatively larger than the average SourceAmerica NPA; responding NPAs represented 46 percent of total AbilityOne sales. Only 24 percent of small NPAs responded to the survey, compared with 48 percent of large NPAs.

### Table I.4. Overview of survey respondents

| Variable | Responded | Did not respond |
|---|---|---|
| Percentage of NPAs | 39 | 61 |
| Percentage of products NPAs | 41 | 59 |
| Percentage of services NPAs | 39 | 61 |
| Percentage of mix NPAs | 38 | 62 |
| Percentage of large NPAs | 48 | 52 |
| Percentage of medium NPAs | 38 | 62 |
| Percentage of small NPAs | 24 | 76 |
| Percentage of total sales represented | 46 | 54 |
| Percentage of total workers represented | 42 | 58 |
| Count of total NPAs | 180 | 283 |

Source: 2015 Q4 QER data, web survey of SourceAmerica NPAs.

Third, we used information collected from in-depth telephone interviews with 12 NPAs. We selected the NPAs to reflect diversity in terms of size, primary output being products versus services, use of Section 14(c), and how they responded to several survey questions. The interviews, which lasted approximately 45 minutes each, provided NPAs an opportunity to go into greater detail about the driving forces behind their survey responses, and to explain how policy changes might affect workers' disability benefit receipt and how SourceAmerica could help their agency adapt to policy changes.

Fourth, we used two sets of SourceAmerica program data to model the potential impact of changes to Section 14(c) under a variety of scenarios. SourceAmerica's Quarterly Employment Report (QER) provides aggregate information about all NPAs, such as total workers, sales, wages, and hours worked at the agency, and is primarily used to ensure that NPAs participating in the AbilityOne program are compliant with the 75 percent DLR. SourceAmerica's Employee Research System (ERS) collects information about individual workers at an NPA, including their wages, hours, if they are paid under Section 14(c), and if so their productivity rating. We used these data to estimate how wages paid, hours worked, total revenues, and number of workers on AbilityOne contracts might change under alternative scenarios. We also identified characteristics of NPAs and workers most likely to be affected by changes in Section 14(c).

Although we made use of the most comprehensive data sources available to complete this study, our sources have some limitations. The survey and interviews were voluntary and may not be representative of all NPAs. NPAs also voluntarily fill out the ERS. In addition, they generally provide data only on workers working on AbilityOne contracts. Table I.5 compares QER data for agencies with and without ERS data, demonstrating that the ERS data are not representative of all NPAs. On average, compared to all NPAs, NPAs that participate in the ERS are larger, pay higher wages, and have a greater share of their revenue from AbilityOne sales. These differences are important to account for when considering the broader implications of how all NPAs may be impacted by the elimination of Section 14(c), rather than just the NPAs for which we have data. We adjust several aggregate estimates we produce from ERS data to reflect the full composition of NPAs across a number of key characteristics.[2]

### Table I.5. Overview of SourceAmerica NPAs, by ERS participation

| Variable | Has ERS | No ERS |
|---|---|---|
| Total agency workforce (mean) | 285 | 189 |
| Average hourly wage, agency (mean) | $9.55 | $7.52 |
| Average hourly wage, AbilityOne (mean) | $11.98 | $11.48 |
| Total wages, agency (thousands, mean) | $2,465 | $875 |
| Direct labor ratio, agency (percentage, mean) | 85.3 | 88.3 |
| Total contract revenues (thousands, mean) | $12,289 | $4,149 |
| Total product revenues (thousands, mean) | $2,600 | $935 |
| Total services revenues (thousands, mean) | $9,689 | $3,214 |
| Total AbilityOne revenues (thousands, mean) | $9,169 | $1,880 |
| AbilityOne share of revenues (percentage, mean) | 60.7 | 40.3 |
| Total number of NPAs (count) | 207 | 287 |

Source: 2015 Q4 QER data.

[2] To do so, we use a multivariate reweighting algorithm called raking (Izrael et al. 2000) and reweight ERS NPAs to reflect NPA characteristics as reported in the QER.

# II. EFFECTS OF ELIMINATING SECTION 14(C)

This chapter considers the potential impacts of eliminating Section 14(c). We first provide a detailed overview of the law, the number and types of workers paid under Section 14(c), and how recent legislative changes impact its use. We then provide an overview of the literature that helps inform our thinking and analysis. Next, we describe the characteristics of those likely to be affected by the elimination of Section 14(c). Finally, we consider the impacts of eliminating Section 14(c) on NPAs, workers, and federal agencies. There may be substantial adverse impacts of this policy, though the magnitudes of impacts differ by the characteristics of the NPA and of the worker with a disability.

## A. Overview of Section 14(c)

The Fair Labor Standards Act establishes the minimum wage. Section 14(c) of the Act establishes conditions under which workers with disabilities who have impaired earning or productive capacity can be paid wages below the minimum wage. Employers can obtain certification by the Department of Labor to pay subminimum wages if they meet a set of conditions. Employers must submit documentation and an application to receive this Section 14(c) certificate, which must typically be renewed every two years.

Section 14(c) requires an employer to conduct a multistep study to determine the wage that a worker with a disability may be paid if below the minimum wage. First, the employer must determine the prevailing wage, or the wage a typical experienced worker without a disability would be paid for the task. The prevailing wage on service contracts is often established by the Service Contract Act. Second, the employer must establish a worker's productivity. To do so, the employer often conducts a time study evaluating the relative quantity and quality of the work produced by the worker with a disability relative to an objective standard that is what the typical experienced worker without a disability would be able to produce in the same amount of time. The final wage paid to the worker with a disability, called the commensurate wage, is found by multiplying the worker's productivity by the prevailing wage. The worker's salary is the productivity share of the prevailing wage.

The number of employers and workers using Section 14(c) has declined in recent years (Butterworth et al. 2012; National Council on Disability 2012). As of July 2016, there were approximately 216,000 employees paid subminimum wages at 2,400 employers,[3] a drop of almost 50 percent from the 424,000 employees paid subminimum wages at 5,600 employers in 2001 (Government Accountability Office [GAO] 2001).

There is little recent information about the number and characteristics of employers and workers using Section 14(c). A 2001 report by the Government Accountability Office provides the most recent information about the workers and employers who use Section 14(c) (GAO 2001), however, the information is based on data from 2000 and 2001. Most workers paid subminimum wages (about 74 percent) had intellectual and developmental disabilities as their primary impairment, and 46 percent had multiple disabilities. Seventy percent of Section 14(c)

[3] This estimate comes from the Department of Labor's online database of employers with active Section 14(c) certificates and the number of employees paid under Section 14(c) at these firms.

workers with disabilities had productivity lower than 50 percent. Having productivity lower than 50 percent means that the worker is less than half as productive as an average experienced worker without a disability. The GAO report notes that more than half of Section 14(c) eligible workers earned less than $2.50 per hour, just under half of the federal minimum wage at the time. Almost all workers (95 percent) paid under Section 14(c) worked at work centers that aim to provide employment and support services to people with disabilities. The types of jobs offered at these centers tend to be in services or production, such as mopping floors and maintaining restrooms, or assembly line work like packaging colored markers. Services provided by the center include both job and non-job related services, like career counseling or speech therapy.

AbilityOne program data from ERS reveal more current information about workers who are paid using Section 14(c), however these workers represent only a small fraction of all workers paid under Section 14(c). About 67 percent of AbilityOne workers paid under Section 14(c) have intellectual and developmental disabilities, and 80 percent of the workers have multiple disabilities. Roughly 35 percent of AbilityOne workers who are eligible for Section 14(c) have productivity less than 50 percent, substantially lower than the 70 percent reported in 2001 across all workers paid under Section 14(c). The average wage among Section 14(c) eligible workers is $9.30, and approximately 13 percent are paid below $3.50 per hour, or almost half the current federal minimum wage of $7.25—similar to the relative level reported by GAO for the median paid to all Section 14(c) workers in 2001.

Several recent legislative developments affect workers paid commensurate wages under Section 14(c). First, President Obama issued an executive order in 2014 that established a minimum wage of $10.10 for workers under federal service and construction contracts. This minimum wage applies to AbilityOne contracts because they are federal, though it only applies to new service contracts. Although workers with disabilities must be paid at least $10.10 per hour, they can still be paid under Section 14(c). Consider two workers with jobs that have a prescribed salary of $16 per hour according to the Service Contract Act. For a worker with productivity of 50 percent, the commensurate wage under Section 14(c) would be $8 per hour. Under the executive order, the employer must pay the worker $10.10 per hour. For a worker performing the same job with productivity of 75 percent, the commensurate wage under Section 14(c) would be $12 per hour, and the employer could continue to pay this commensurate wage. Eliminating Section 14(c) entirely would require the firm to pay both these workers $16 per hour. Crucially, elimination of Section 14(c) would apply to a broader set of contracts than the existing executive order. It would apply to federal and nonfederal contracts and both services and products contracts.

Second, the Workforce Innovation and Opportunity Act (WIOA) discourages federal and state agencies from placing individuals with disabilities in jobs paying subminimum wages. Instead, WIOA promotes competitive, integrated employment for all workers with disabilities by strengthening VR programs and expanding transition services to youth and students with disabilities. Schools and VR agencies are no longer allowed to refer transition-age youth to any employer that pays workers with disabilities using Section 14(c), even if that transition-age youth would be paid a full prevailing wage. NPAs that use Section 14(c) can only hire youth or young adults under age 24 if the youth has received transition services, applied for and participated in VR services to the extent possible, and received career counseling.

WIOA also requires that while being paid subminimum wages, a worker must receive career counseling and information and referrals for employment. These services are typically provided by state VR agencies. The employer must also provide information about local opportunities for training in self-advocacy, self-determination, and peer mentoring. This counseling and information must be provided every six months during the first year of employment and annually thereafter. Collectively, these requirements reduce the supply of workers with disabilities available to work at NPAs that pay under Section 14(c) and increase the cost of employing them, adding pressure for the NPA to stop using Section 14(c).

## B. Relevant theory and literature

Eliminating Section 14(c) would require NPAs to change the way they pay many of their workers with disabilities. In a competitive market, wages are equal to the value of the marginal product the worker produces. Policies that mandate paying a wage above this free market wage introduce frictions in the market. One example of a relevant policy is the minimum wage, which provides a distortion when set above the free market wage. We can draw on the vast economics literature on the minimum wage to think about how eliminating Section 14(c), which requires workers with disabilities who have productivity below 100 percent to be paid above the value of their marginal product, could influence NPAs and workers with disabilities.

Neumark and Wascher (2008) provide a broad overview of the economic literature on the minimum wage. They review the effects of the minimum wage on prices and profits. There is evidence that increases in the minimum wage are partially passed on to consumers through higher prices (Card and Krueger 1995; Aaronson 2001). Though price increases may mitigate the negative impacts of the minimum wage on firms, firms do bear some of the burden of minimum wage increases, as seen through lower profits (Draca et al. 2006).

Findings from Aaronson et al. (2016) about how minimum wage changes affect the restaurant industry suggest how elimination of Section 14(c) would affect NPAs with AbilityOne contracts. They found that increases in the minimum wage substantially increased both entry and exit of fast food chains in affected markets. These restaurants were the most likely to employ large numbers of minimum wage workers and were thus most affected by the policy change. Their theoretical model implies that entry will be concentrated at capital intensive firms and exit will be concentrated among labor intensive firms. The net result is a reduction in industry employment, particularly at firms that rely most on workers paid low wages.

For NPAs that pay some of their workers commensurate wages, eliminating Section 14(c) increases the cost of labor because wage rates must increase. The NPA can respond to this potential increase in wages in many different ways. First, the NPA could continue to pay workers at their current hours, but increasing their hourly wage. Workers who remain in their jobs are likely to be paid more money, which could improve their well-being and potentially reduce their disability benefits received. Second, increases in the cost of labor may induce the NPA to try to minimize the cost growth by changing the number and types of workers with disabilities it employs, or reducing their hours worked. These reductions in wages for workers with disabilities could increase disability benefit payments. Third, NPAs could try to increase the overall productivity of their workers so there is a smaller gap between what the worker produces and the wage he or she must be paid. This could be achieved by investment in human capital to increase the productivity of existing workers or by hiring new workers with higher levels of productivity. Fourth, NPAs may seek higher prices on contracts to try to offset some of this cost increase. Fifth, NPAs could displace other funded services they provide to people with disabilities, such as day habilitation, to decrease some of their total costs. Finally, NPAs could seek out additional revenue from other sources to help offset some of the increases in the labor cost. Most likely, there will be some combination of these different responses.

The fundamental issue driving these potential changes is that NPAs would be required to pay workers with disabilities a wage that is higher than the value of their measured marginal productivity. Basic economic theory about the laws of labor demand and labor supply reveals that in competitive markets, workers will be paid a wage that equals the value of their production. Paying workers a wage that exceeds the market value of the good or service he or she has produced creates a wedge that is essentially a loss to the firm. The minimum wage can create a wedge, as can the elimination of Section 14(c), which requires workers to be paid above the value of their marginal productivity. Workers with the lowest productivity, whose wages NPAs would have to increase the most, would have the biggest gap, or wedge. This large wedge would make changes in employment largest for workers with the lowest productivity. However, the market for AbilityOne goods and services is not competitive, meaning that this standard rule may not apply. Workers with disabilities may in fact provide value to the NPA above the value of their marginal product by helping the NPA meet the DLR requirement and thus qualify for AbilityOne contracts.

The Hicks-Marshall laws of labor demand also provide an important theoretical framework for considering the magnitude of the response to changes in Section 14(c), how it is likely to vary across NPAs, and which workers are most likely to be affected. These laws of labor demand identify four cases where a firm’s demand for workers is likely to be most sensitive to wage changes (Ehrenberg and Smith, 2008). The first is when the consumers are sensitive to the price of the good that is being produced. In this case, little of the increase in wages can be passed along to the consumer without the firm facing a reduction in quantity sold. In the context of AbilityOne contracting, because the federal government sets prices for goods and services on the procurement list, it is not clear if and to what extent NPAs could mitigate the effect of wage increases through higher prices. One way for SourceAmerica to help mitigate the effects of elimination of Section 14(c) would be to advocate for changes in the prices on the procurement list.

A second predictor that labor demand will be more responsive to wage changes is the extent to which the firm can substitute other production factors for the particular labor type. This implies that employing low-productivity AbilityOne workers is likely to be very sensitive to wage changes. In the types of routine tasks performed by workers with low productivity, it is fairly easy to transition to using different types of workers who may be more productive, given the lack of specialization required. Across SourceAmerica NPAs, those likely to have the largest response are those that can easily replace workers with disabilities with low productivities with those with higher productivities. This is likely to vary by NPAs’ locations—those in more rural locations will be able to replace fewer workers than those in urban areas given that there are likely fewer workers available.

A third predictor of a large response to wage changes is the share that the wage bill makes up of total costs. Workers with low-productivity already make up a substantial share of labor costs at NPAs most likely to be affected by the elimination of Section 14(c). Large increases in the wages that must be paid to workers with lower productivity would likely greatly reduce the employment of workers with lower productivity. NPAs that have a more diverse mix of workers, with respect to productivity, would likely reduce their low-productivity workers less than proportionately.

NPAs that can no longer pay workers using Section 14(c) would be forced to pay some of their workers a wage higher than the value of their marginal product, to stop employing them, or to find some other way to remain economically viable. To remain economically viable and continue to employ the workers affected, the NPA must find ways to cut other costs, improve productivity, or charge higher prices. It is possible that through sustained funding or subsidies NPAs could mitigate the monetary impact of needing to pay much higher wages to workers with lower productivity. Most NPAs indicated that they would not expect such subsidies. However, it is possible that there could be more interest than anticipated in subsidies to continue employment because workers who lose employment may become more reliant on day habilitation and other costly services. NPAs that cannot remain economically viable through such adjustments must employ fewer low-productivity workers, possibly going out of business.

## C. Characteristics of NPAs and workers most affected by the elimination of Section 14(c)

### 1. Elimination of Section 14(c) disproportionately affects small, product-making NPAs

To analyze the characteristics of NPAs most vulnerable to the elimination of Section 14(c), we used worker-level data on hours, productivity, and wages from NPAs in the ERS. For workers paid under Section 14(c), we calculated the prevailing wage they would be paid if Section 14(c) were eliminated as their current wage divided by their productivity. We then grouped NPAs as likely to be more-affected, less-affected, or unaffected by the elimination of Section 14(c) based on the percentage the NPA's total AbilityOne wage bill would increase if the NPA continued to employ the same workers it currently does, with the same number of hours, but paid each worker the prevailing wage. Unaffected NPAs are those for whom the total wage bill would not change. This can be because the NPA does not employ any workers using Section 14(c) or because the workers who are Section 14(c) eligible are paid at 100 percent productivity. We then divided NPAs into those more or less affected based on whether the potential increase in wages is above or below the median percentage among the NPAs with an increase.

NPAs that are more-affected, less-affected, and unaffected differ along key characteristics (Table II.1). Relative to less-affected NPAs, more-affected NPAs are smaller, on average. More-affected NPAs have about one-third as many AbilityOne workers, one-quarter the size of total contract revenues, and average wage bills about one-fifth of the average wage bill at less-affected NPAs. They also have higher DLRs—about 90 percent, compared to 84 percent at less-affected NPAs. More-affected NPAs also have a much higher share of their contracts in products: about 50 percent of total sales as opposed to 10 percent at less-affected NPAs. This difference may be partially driven by the executive order requiring all federal employees paid under the Service Contract Act to be paid a minimum of $10.10 per hour so that service jobs have already seen increases in wages. A lower share of the total contract revenue of the more-affected NPAs comes from AbilityOne sales. They are also less likely to be headquartered in a metropolitan statistical area and more likely to be in the Midwest census region.

**Table II.1. NPA characteristics, by estimated impact of eliminating Section 14(c)**

| Variable | More affected | Less affected | Unaffected |
|---|---|---|---|
| Total agency workforce (mean) | 235 | 463 | 214 |
| Average hourly wage, agency (mean) | $6.25 | $10.34 | $10.97 |
| Average hourly wage, AbilityOne (mean) | $9.38 | $13.18 | $12.79 |
| Total wages, agency (thousands, mean) | $918 | $4,664 | $2,094 |
| Direct labor ratio, agency (percentage, mean) | 89.4 | 84.7 | 83.2 |
| Total contract revenues (thousands, mean) | $5,556 | $20,661 | $11,360 |
| Total product revenues (thousands, mean) | $2,208 | $2,424 | $2,922 |
| Total services revenues (thousands, mean) | $3,348 | $18,237 | $8,438 |
| Total AbilityOne revenues (thousands, mean) | $2,896 | $16,045 | $8,828 |
| AbilityOne share of revenues (mean) | 48.7 | 66.9 | 63.9 |
| NPA located in MSA (percentage) | 69.8 | 85.2 | 84.8 |
| NPA located in Northeast Census Region (percentage) | 11.3 | 18.5 | 7.6 |
| NPA located in Midwest Census Region (percentage) | 39.6 | 13.0 | 19.6 |
| NPA located in South Census Region (percentage) | 20.8 | 22.2 | 46.7 |
| NPA located in West Census Region (percentage) | 28.3 | 46.3 | 26.1 |
| Total number of NPAs (count) | 55 | 55 | 97 |

Source: 2015 Q4 QER data.

The composition of workers also varies across NPAs that are more, less, or unaffected by elimination of Section 14(c) (Table II.2). Not surprisingly, at NPAs that are more affected, a higher share of workers are eligible for Section 14(c) and have low levels of productivity. Average productivity at more-affected NPAs is about 50 percent, compared with 78 percent at less-affected NPAs. Only about 10 percent of workers eligible for Section 14(c) have productivity between 90 and 100 percent at more-affected NPAs, whereas almost half of workers have this high level of productivity at less-affected NPAs. Workers at more-affected NPAs are also much more likely to have intellectual and developmental disabilities.

## Table II.2. Characteristics of NPAs workers, by estimated impact of eliminating Section 14(c)

| Variable | More affected | Less affected | Unaffected |
|---|---|---|---|
| Number of workers at NPA (mean) | 87 | 252 | 108 |
| Number of 14(c) eligible workers at NPA (mean) | 75 | 106 | 9 |
| Average productivity among 14(c) eligible workers (percentage, mean) | 53.9 | 75.0 | 100.0 |
| Share of workers with productivity (percentage, mean): | | | |
| Less than or equal to 10 percent | 4.5 | 1.8 | -- |
| 11 to 20 percent | 8.6 | 3.2 | -- |
| 21 to 30 percent | 10.4 | 4.6 | -- |
| 31 to 40 percent | 10.3 | 5.2 | -- |
| 41 to 50 percent | 12.6 | 8.5 | -- |
| 51 to 60 percent | 11.4 | 5.6 | -- |
| 61 to 70 percent | 12.5 | 6.4 | -- |
| 71 to 80 percent | 10.8 | 8.4 | -- |
| 81 to 90 percent | 6.9 | 12.7 | -- |
| More than 90 percent | 12.0 | 43.6 | -- |
| Share of workers with disability type (percentage): | | | |
| ID/DD, developmental | 74.3 | 53.5 | 39.3 |
| Mental illness | 15.7 | 23.6 | 23.4 |
| Physical, sensory, and other | 9.5 | 20.3 | 33.7 |
| Observations | 55 | 55 | 97 |

Source: 2015 Q4 ERS data.

Note: Values in this table may differ from values in Table II.1 because of differences in reporting in ERS and QER data.

[a] Disability subgroups are organized as follows: ID/DD, developmental includes diagnoses of ID/DD (mild, moderate, profound, or severe), autism, borderline intellectual functioning, cerebral palsy, and other developmental disabilities; mental illness includes mood disorders, schizophrenia, other mental illness, PTSD, and substance abuse or alcoholism; and physical, sensory, other includes any other diagnosed disability. The numbers across the three categories do not sum to 100 percent because some workers are characterized as not having a disability.

In terms of their characteristics, unaffected NPAs generally fall somewhere in between more- and less-affected NPAs. They have total contract revenues, total wages paid, and number of AbilityOne eligible workers that are higher than more-affected NPAs' but lower than less-affected NPAs'. Unaffected NPAs are also somewhat comparable to less-affected NPAs in terms of the share of contracts that are in products and the share of contract revenues coming from AbilityOne contracts. The key difference between NPAs is the type of workers that they employ—unaffected NPAs employ substantially fewer workers with intellectual and developmental disabilities and substantially more workers with psychiatric, sensory, and other disabilities.[4]

[4] The data on disability type are only available in the ERS, so cannot be taken into account when extrapolating data to the QER. This is an important limitation of these extrapolations.

### 2. Elimination of Section 14(c) disproportionately affects workers with intellectual and developmental disabilities

The elimination of Section 14(c) would affect workers who are paid commensurately because their salaries would increase if still employed. There are differences between workers who are eligible for Section 14(c) and those who are not (Table II.3). Relative to Section 14(c) ineligible workers, workers who are eligible to be paid under Section 14(c) are more likely to be white, are less likely to be married, and are slightly younger. Section 14(c) eligible workers work for fewer hours and are paid less for those hours, often subminimum wages. Workers eligible for Section 14(c) on average have worked at the NPA for about 3.5 years longer than workers not eligible for Section 14(c). They are also more likely to work at the NPA facility, likely in a sheltered workshop, rather than at a government facility; the latter is often a more integrated work setting. Section 14(c) eligible workers are also much more likely to have intellectual and developmental disabilities, with about two-thirds having this diagnosis, compared with about one-third of workers not eligible for Section 14(c). Section 14(c) eligible workers are therefore less likely to have a psychiatric, physical, sensory, or other type of disability.

**Table II.3. Characteristics of workers, by Section 14(c) eligibility**

| Variable | Eligible for Section 14(c) | Not eligible for Section 14(c) |
|---|---|---|
| Age (mean) | 41.5 | 42.8 |
| White (percentage) | 52.6 | 44.5 |
| Married (percentage) | 8.6 | 20.4 |
| Total wages in quarter (mean) | $2,156 | $4,259 |
| Total hours paid in quarter (mean) | 196.7 | 325.1 |
| Length of tenure (months, mean) | 107.7 | 68.9 |
| Primary work location (percentage) | | |
| At NPA facility | 46.6 | 24.8 |
| At a government facility | 45.3 | 71.2 |
| In the community | 6.0 | 3.7 |
| At a combination facility | 2.1 | 0.3 |
| Primary disability type[a] (percentage) | | |
| ID/DD, developmental | 66.7 | 34.8 |
| Mental illness | 20.5 | 29.5 |
| Physical, sensory, other | 12.5 | 31.8 |
| Number of workers | 10,786 | 18,392 |

Source: 2015 Q4 ERS data.

[a] Disability subgroups are organized as follows: ID/DD, developmental includes diagnoses of ID/DD (mild, moderate, profound, or severe), autism, borderline intellectual functioning, cerebral palsy, and other developmental disabilities; mental illness includes mood disorders, schizophrenia, other mental illness, PTSD, and substance abuse or alcoholism; and physical, sensory, other includes any other diagnosed disability. The numbers across the three categories do not sum to 100 percent because some workers are characterized as not having a disability.

Commensurately paid workers with lower productivity would be more affected. Among commensurately paid workers, productivity varies almost uniformly between 0 and 99 percent, with 37 percent paid at exactly 100 percent (Table II.4). Workers paid at high levels of productivity would not experience large changes in wages. For the 41.8 percent of commensurately paid workers with productivity above 90 percent, it is possible that the insubstantial increase in wages will be less costly than the administrative burden to the NPA of Section 14(c) compliance and its requirements of certificates and time studies.

**Table II.4. Productivity of commensurately paid workers**

| Productivity decile | Share of all commensurately paid workers (percentage) |
|---|---|
| Less than or equal to 10 percent | 4.5 |
| 11 to 20 percent | 7.9 |
| 21 to 30 percent | 8.4 |
| 31 to 40 percent | 6.9 |
| 41 to 50 percent | 7.0 |
| 51 to 60 percent | 5.6 |
| 61 to 70 percent | 5.9 |
| 71 to 80 percent | 6.1 |
| 81 to 90 percent | 5.9 |
| 91 to 99 percent | 5.2 |
| 100 percent | 36.6 |
| Total number of commensurate workers | 10,786 |

Source: 2015 Q4 ERS data.

Differences exist by the level of productivity among workers paid commensurately (Table II.5). A higher share of workers with lower productivity are white and have intellectual and developmental disabilities. At least 80 percent of workers in the lower half of the productivity distribution have intellectual and developmental disabilities, compared with about one-third of workers who are not eligible for Section 14(c). Workers with lower productivity are less likely to work outside of the NPA facility and their average hours and wages are lower. Whereas workers with the highest levels of productivity (between 90 and 100 percent) work on average two-thirds of full time, workers with the lowest levels of productivity work approximately one-quarter of full time.

## Table II.5. Characteristics of workers, by productivity decile

| | Productivity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Variable | Decile 1 | Decile 2 | Decile 3 | Decile 4 | Decile 5 | Decile 6 | Decile 7 | Decile 8 | Decile 9 | Decile 10 | Productivity equals 100 percent |
| White (percentage) | 75.1 | 71.6 | 67.8 | 66.8 | 66.4 | 59.1 | 52.7 | 52.1 | 52.8 | 42.4 | 37.3 |
| Total wages in quarter (mean) | $31 | $92 | $219 | $332 | $528 | $994 | $1,529 | $2,096 | $2,760 | $3,431 | $3,976 |
| Total hours paid in quarter (mean) | 25.2 | 32.7 | 57.3 | 74.2 | 84.1 | 144.4 | 177.6 | 214.8 | 253.5 | 294.8 | 315.0 |
| Primary work location (percentage) | | | | | | | | | | | |
| NPA facility | 93.2 | 90.3 | 85.5 | 83.0 | 66.4 | 56.2 | 38.6 | 32.0 | 25.0 | 19.1 | 21.4 |
| Government facility | 2.5 | 7.0 | 8.1 | 7.4 | 14.9 | 26.4 | 43.1 | 54.0 | 64.4 | 72.9 | 75.2 |
| Primary disability type[a] (percentage) | | | | | | | | | | | |
| ID/DD, developmental | 89.4 | 86.9 | 88.2 | 84.6 | 79.9 | 74.9 | 71.6 | 65.5 | 64.9 | 60.1 | 47.9 |
| Mental illness | 3.3 | 5.0 | 6.5 | 8.3 | 13.1 | 15.8 | 18.9 | 23.6 | 23.1 | 26.2 | 32.0 |
| Physical, sensory, other | 6.4 | 8.1 | 4.9 | 6.3 | 6.5 | 8.7 | 9.5 | 10.4 | 11.9 | 13.7 | 19.7 |
| Total number of workers | 482 | 856 | 910 | 747 | 750 | 609 | 634 | 656 | 632 | 561 | 3949 |

Source: 2015 Q4 ERS data.

Note: Productivity decile 1 refers to workers with productivity less than or equal to 10 percent; productivity decile 10 refers to workers with productivity from 91 to 99 percent.

[a] Disability subgroups are organized as follows: ID/DD, developmental includes diagnoses of ID/DD (mild, moderate, profound, or severe), autism, borderline intellectual functioning, cerebral palsy, and other developmental disabilities; mental illness includes mood disorders, schizophrenia, other mental illness, PTSD, and substance abuse or alcoholism; and physical, sensory, other includes any other diagnosed disability. The numbers across the three categories do not sum to 100 percent because some people are characterized as not having a disability.

## D. Key findings on potential impacts of eliminating Section 14(c)

This section considers how eliminating Section 14(c) might affect the NPAs, their businesses, and workers with disabilities. We explore how NPAs are likely to respond to these changes using their survey responses, information from in-depth qualitative interviews with NPA staff, and administrative program data, grounding our findings in the theory and literature discussed in Section II.B.

The impact of eliminating Section 14(c) at the most affected agencies is potentially substantial; many agencies indicated that they would need to reduce the scope of their business and their participation in AbilityOne to remain economically viable. If Section 14(c) were eliminated, the total wage bill at NPAs could go up by $30 million, with $22 million of that increase concentrated among the 30 percent of agencies considered most affected by the policy change. These factors imply that eliminating Section 14(c) would diminish the ability of NPAs to employ persons with disabilities, particularly among those NPAs most affected by the policy change.

The workers most likely to be affected by the elimination of Section 14(c) are those with the lowest productivity; these workers stand to gain the most in wages if they remain employed, but they are also the most likely to lose their jobs. If NPAs wanted to maintain the same wage bill, the number of workers could go down by 2,983, a reduction of 16 percent of the current commensurately paid labor force, or 7 percent of the total AbilityOne labor force. These factors imply that eliminating Section 14(c) disproportionately impacts workers deemed to be least productive, who may have the most severe disabilities, and who stand to gain the most from AbilityOne employment.

### Finding 1. NPAs are likely to narrow the scope of their businesses, leading employment and hours worked by people with disabilities to decrease.

NPA staff who responded to our survey anticipated that eliminating Section 14(c) would lead them to reduce the scope of their business and participation in AbilityOne. A summary of all respondents' answers is provided in Table II.6 (Appendix Tables A.1 – A.6, C.1 – C.6, and F.1 – F.6 show how responses differ by NPA size and contract type).

### Table II.6. Anticipated impacts of eliminating Section 14(c) on NPA business practices

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 35.1 | 60.4 | 4.5 |
| Scope of business (percentage) | 56.0 | 32.1 | 11.9 |
| Service provision to workers with disabilities (percentage) | 50.7 | 34.3 | 14.9 |
| Other NPAs' participation in AbilityOne (percentage) | 65.7 | 9.0 | 0.7 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 134 NPAs that have a 14(c) certificate and were thus asked questions about the potential effects of eliminating Section 14(c). Entries in the row "Other NPAs participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator.

Approximately one-third of NPAs reported that they would either reduce or stop participation in AbilityOne if Section 14(c) were eliminated. A higher share—close to half—of NPAs that primarily sell products reported they would reduce or stop participation in AbilityOne. This is consistent with our finding from SourceAmerica program data that product-producing NPAs are more likely to be affected by changes to Section 14(c). Many NPAs thought that other NPAs are likely to be more affected by changes to Section 14(c) than they are themselves; close to two-thirds of NPAs anticipated that other NPAs would reduce participation in AbilityOne. NPAs also indicated that they would substantially reduce the scope of their businesses, mainly through reduced contracting and eliminating lines of business.

The federal government may also be affected if agencies produce fewer goods or exit the AbilityOne program. About 8 percent of NPAs said they would no longer participate in AbilityOne. At an extreme, some products or services would have to be removed from the AbilityOne procurement list and government agencies would need to find alternative sources to meet their contracting demands. Alternative contractors may be more or less expensive, but importantly, the federal government would not be fulfilling its role of providing the public good of encouraging employment of workers with disabilities.

The magnitude of this impact would be driven by the potential increases in wages. To simulate the potential impacts of eliminating Section 14(c) on individual NPAs, we used worker level data from SourceAmerica's ERS. However, as discussed earlier and shown in Table I.5, not all NPAs provide ERS data. To extrapolate results from the sample of NPAs in ERS to the universe of NPAs, we used a method called raking, which reweighted ERS case data to make them representative of the full universe of SourceAmerica NPAs based on NPAs' size, contract type, average AbilityOne salary, total AbilityOne contracting, and AbilityOne labor ratio. For example, smaller NPAs in the ERS received a higher weight because smaller NPAs are underrepresented in the ERS. Although this process does not ensure that the estimates are perfectly representative of all NPAs, it produced the most representative estimate feasible.

Using ERS data and raking, we calculated an upper bound for how much NPAs' wage bills would increase if Section 14(c) were eliminated. This estimate is an upper bound because it assumed that NPAs would continue to employ the same number and mix of workers but pay them the full prevailing wage. Most NPAs expected they would in fact reduce the number of workers or select to hire workers with higher levels of productivity; the simulations indicate the size of their incentives to do so.

Total AbilityOne wages paid could increase by about $30 million if NPAs keep their employment of workers with disabilities constant (Table II.7), an increase of 5.7 percent above the current total wages paid on AbilityOne contracts. The potential impact on wage bills is substantial for some NPAs and much smaller for others. Almost 75 percent of the total wage increase is concentrated at more-affected NPAs. Among these, the increase in total wage bills is closer to 60 percent. Among less-affected NPAs, the increase in total wage bills is just 3 percent.

### Table II.7. Maximum wage increase if Section 14(c) eliminated, by estimated impact of eliminating Section 14(c)

| | Total | More affected | Less affected |
|---|---|---|---|
| Current total AbilityOne wages paid (thousands) | $526,813 | $36,911 | $271,371 |
| Increase in wages if paying to full prevailing wage (thousands) | $30,016 | $21,965 | $8,051 |
| Percentage change | 5.7 | 59.5 | 3.0 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum increase in wage bill is calculated using NPAs' current number of workers and hours, with NPAs paying all workers the full 100 percent productivity implied prevailing wage.

In theory SourceAmerica could subsidize its NPAs to cover some or all the wage increases associated with paying workers the prevailing wage. Without any subsidy, wage increases would likely be paired with worker decreases so that the true increase in wages paid by NPAs would not be as large. However, some workers with disabilities would see reduced employment or lose their jobs entirely.

Most NPAs anticipated that they would significantly reduce the employment of workers with disabilities (Table II.8). Among survey respondents, 82 percent said they would decrease employment of workers with disabilities, 57 percent of whom said employment would decrease greatly; only 25 percent said it would decrease slightly. Anticipated reductions in employment of workers with disabilities were greatest at NPAs that primarily sell products, where 95 percent said they would reduce employment (Appendix Table C.1). In contrast, 75 percent of NPAs that primarily sell services indicated that they would reduce employment of workers with disabilities if Section 14(c) were eliminated, perhaps because some of these NPAs have already been forced to make changes to employee wages as a result of President Obama's executive order governing minimum wages on federal service contracts (Appendix Table C.2).

### Table II.8. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 82.1 | 14.9 | 3.0 |
| Hours worked by workers with disabilities (percentage) | 76.9 | 18.7 | 4.5 |
| Share of workforce that has disabilities (percentage) | 73.9 | 22.4 | 3.7 |
| Workers with disabilities seeking employment (percentage) | 44.8 | 30.6 | 24.6 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 134 NPAs that have a 14(c) certificate and were thus asked questions about the potential effects of eliminating Section 14(c).

A majority of NPA respondents also indicated that there would be reductions in the hours worked by typical workers with disabilities (77 percent) and in the share of workers with disabilities (74 percent). Responses were more divided on how the number of workers with disabilities seeking employment would change, with 45 percent saying that number would diminish, 31 percent saying it would stay the same, and 25 percent saying it would increase.

Some workers who are displaced might be discouraged to attempt to seek work elsewhere, whereas others may attempt to find alternative means of employment.

Most NPA respondents understood that the overall goal of eliminating Section 14(c) is to help workers with disabilities, both by protecting them from being unfairly paid and by providing them with a greater sense of achievement and higher incomes through higher wages. Many expressed concerns, however, that there would be unintended consequences harming workers with disabilities, particularly those with the lowest level of productivity. For example, one NPA interviewee said, “I do not know how we would be able to continue [this work] if we lost Section 14(c). …The majority of it would have to go away because there is no way we would be able to generate enough income to pay full wage to people that we are currently employing.” Though the goal to provide community-integrated employment for all is appreciated, several respondents believed that particularly for workers with the most severe intellectual and developmental disabilities that goal is not a realistic option.

Interviewees expressed concerns that the adverse consequences of eliminating Section 14(c) were more than just lost employment. Several described that a sense of purpose and pride would be lost if workers with disabilities could no longer work because of the elimination of Section 14(c). For example, one said, “People are proud of the work they do. [Eliminating Section 14(c)] would take that away as well. That sense of purpose, that pride, is important to people. …They know that they’ve earned a paycheck; that is also a source of pride that would go away.” There was also concern that replacing work services with social and non-work activities would lead people with disabilities to suffer and potentially experience increased behavioral issues.

We used similar administrative data provided on employees at select NPAs to model how the elimination of Section 14(c) might affect workers. In considering the impacts on NPAs, we estimated how much the labor bill would increase if all workers were retained and paid full prevailing wages. This estimate provided an upper bound for how much the total wages paid at an NPA would increase.

The scenario where all workers are paid at the full prevailing wage similarly provides a lower bound for the decrease in employment and hours of workers with disabilities—specifically, that there would be no change in the number of workers employed or the hours that they work. In contrast, the upper bound for the reduction would be how much employment or hours would need to be reduced to maintain the same total labor bill. Using the same extrapolation procedure as we did in estimating the impact of the potential total change in wage bill, we estimated that at most there would be a reduction of 2,983 workers, or 7 percent of the current total number of workers with disabilities employed across SourceAmerica NPAs (Table II.9). Most of this potential reduction in workers, approximately 2,479 of the 2,983 total change, would occur at more-affected NPAs. At more-affected NPAs, this reduction represents a decrease of 30 percent of workers paid under Section 14(c) or 27 percent of the total number of workers. More-affected NPAs tend to employ workers with intellectual and developmental disabilities, and these are the workers that likely would no longer be employed. Similarly, total hours at most would decrease by 2.1 million, a reduction of 4 percent over the current total hours worked at SourceAmerica NPAs (Table II.10).

**Table II.9. Maximum change in workers if Section 14(c) eliminated, by estimated impact of eliminating Section 14(c)**

| | Total | More affected | Less affected |
|---|---|---|---|
| Current total AbilityOne workers | 42,936 | 9,273 | 18,434 |
| Current Section 14(c) eligible AbilityOne workers | 19,176 | 8,174 | 8,216 |
| Change in number of workers if paying to full prevailing wage | -2,983 | -2,479 | -505 |
| Percentage change relative to Section 14(c) eligible workers | -15.6 | -30.3 | -6.1 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum change in number of workers is calculated as the reduction required for NPAs to maintain current wage bill, while paying remaining workers the full 100 percent productivity implied prevailing wage.

**Table II.10. Maximum change in hours if Section 14(c) eliminated, by estimated impact of eliminating Section 14(c)**

| | Total | More affected | Less affected |
|---|---|---|---|
| Current total AbilityOne hours (thousands) | 51,359 | 5,420 | 24,746 |
| Change in hours if paying to full prevailing wage (thousands) | -2,071 | -1,559 | -512 |
| Percentage change | -4.0 | -28.8 | -2.1 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum change in hours is calculated as the reduction required for NPAs to maintain current wage bill, while paying all workers the full 100 percent productivity implied prevailing wage.

These estimated reductions are bounds for the biggest response that could be expected. The actual response is likely to fall somewhere between nothing, the lower bound, and this upper bound. NPAs would need to balance reducing employment while maintaining enough workers to fulfill their contracts and meet their required DLR. The burden of the increased wage rate is likely to be shared across all workers with disabilities and NPAs. However, workers with disabilities who were previously paid under Section 14(c) and maintain employment would fare better because they will be paid higher wages.

The anticipated impacts are consistent with economic theory and literature. Requiring workers be paid above the value of their production hinders the economic viability of NPAs. This leads to anticipated changes both for the size of the NPAs' businesses and in the employment of workers with disabilities. Papers on the minimum wage similarly tend to find that increases in the minimum wage reduce profitability and can lead to unemployment (for example, Neumark and Wascher 1992; Burkhauser et al. 2000; Draca et al. 2006).

One NPA survey respondent summarized the overall effect of the elimination of Section 14(c) on both workers and the NPA itself as follows:

> "We would dramatically downsize our center based work programs, especially the work programs for the most significantly disabled who have very low productivity. We would expand day services/community-based connecting programs, attempt to get as many people community employment as possible and then run some profitable business ventures to support the mission. These profitable business ventures would likely have a small percentage of people with disabilities employed, but they would need to have a higher level of productivity if we were paying them minimum wage or higher."

However, responses were not unanimous as per the adverse effects of eliminating Section 14(c) on workers and NPAs. One interviewee indicated the NPA would expand AbilityOne contracting if Section 14(c) were eliminated and would increase its employment of workers with disabilities. The interviewee explained that the NPA's "philosophical belief in moving more and more into the community" would lead to expanded services and employment opportunities. The interviewee's NPA would rely on continued financial support of SourceAmerica and AbilityOne to achieve this goal. She believed that by focusing on the individual, and his or her needs and skills, that community integrated employment could be successful. The interviewee acknowledged that employment might not necessarily be full time, but by "cobbling together services" her NPA could keep a client safe with some time at work and some at the NPA facility. This NPA has moved from a sheltered workshop model and now bundles supported employment, community, and training hours.

### Finding 2. Workers with the lowest productivity are most likely to lose their jobs if Section 14(c) is eliminated.

The elimination of Section 14(c) would positively affect workers who maintain their employment because their wages would increase. Workers with the lowest productivity would have the biggest potential wage impacts: a worker with 50 percent productivity would receive double the wages if paid the full prevailing wage. However, workers with lower productivity are most likely to lose employment if Section 14(c) is eliminated. Employing workers with higher productivity means that there is less of an implied subsidy paid between the value of the workers' marginal product and their compensation.

NPA survey responses indicated that the types of workers with disabilities that they employ would change (Table II.11). Seventy-two percent responded that they would change the types of workers with disabilities, with more than 90 percent of those saying they would try to find workers to employ with higher productivity and almost 60 percent saying they would try to employ workers with different types of disabilities. When given the opportunity to provide insights about additional impacts of the elimination of Section 14(c), many NPAs focused on the need to transition away from employing the least productive workers. One respondent said, "Workers with lower productivity and lacking the ability to be competitively employed would no longer have access to earning a paycheck and would need to stay home or try a day program."

**Table II.11. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed**

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 71.6 | 28.4 |
| Subset that would change productivity (percentage) | 90.6 | 9.4 |
| Subset that would change type of disability (percentage) | 58.3 | 41.7 |
| Subset that would change something else (percentage) | 8.3 | 91.7 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 134 NPAs that have a 14(c) certificate and were thus asked questions about the potential effects of eliminating Section 14(c).

Transitioning away from employing the least productive workers is a way to mitigate the cost increases associated with the elimination of Section 14(c). Though this helps NPAs absorb some changes, it hurts those workers who likely have the most severe disabilities and who are most challenged in the competitive labor market. NPAs responded in the survey that they would try to provide services to some of these displaced workers, mostly by providing VR referrals or placement into day programs. One respondent noted that "the individuals we serve would enter into day programs. We only utilize [a] 14(c) certificate after we have exhausted all attempts at obtaining competitive, integrated employment."

The main themes of interviews with NPAs were that most NPAs would need to make changes in the type of workers with disabilities they employ and that workers with the lowest levels of functioning and productivity would be most hurt by the policy. Changes could include imposing a productivity threshold below which they do not hire workers, and hiring workers with higher productivity to help offset the higher wages for workers with the lowest productivity. One interviewee explicitly mentioned that it would no longer be able to hire workers below 50 percent productivity.

We simulated how shifting to employing workers with higher productivity would alleviate some of the increases in wages that would occur if Section 14(c) were eliminated. We estimated how NPA wages would increase if they were to let go all workers below a certain level of productivity while redistributing their hours and output across all of the remaining workers at the NPA.[5] The results of this simulation exercise are shown in Table II.12. The value of $13,089 for the row marked "50 percent" implies that if NPAs let go all workers with less than 50 percent productivity, total wages would increase by $13.1 million. This is lower than the $30.0 million increase in wages estimated if NPAs made no change in the number or productivity level of workers employed. The smaller increase in wages resulting from letting go workers with particularly low productivity is driven by employing workers who can produce the same goods and services more efficiently, with some savings stemming from consolidating the fringe

[5] We assumed that the work needed to be replaced would be evenly distributed across all workers who would remain employed at the NPA. In practice, the impact on wages would depend on how the hours were redistributed. Some NPAs may reallocate the work in a different way, which would affect our calculations. Additionally, because the work being replaced would be done in fewer hours than it previously was, NPAs would need to be mindful to select an allocation to remain compliant with the required DLR. This could lead the actual impact on total wages to be higher than we estimated.

benefits paid to multiple workers. The overall goal of many of these NPAs is not to maximize profits but rather to provide services for workers with disabilities; if these NPAs were profit maximizers, they would change the types of workers they currently employ to produce the same amount of goods at a lower cost.

**Table II.12. Simulated wage increase if workers below productivity thresholds are let go, by estimated impact of eliminating Section 14(c)**

| Variable | Total | More affected | Less affected |
|---|---|---|---|
| Wages paid at NPA (thousands) | $526,813 | $36,911 | $271,371 |
| Potential increase in wages if 14c eliminated (thousands) | $30,016 | $21,965 | $8,051 |
| Increase in wages if let go of workers below productivity threshold (thousands) | | | |
| 10 percent | $26,375 | $18,833 | $7,552 |
| 20 percent | $23,009 | $15,917 | $7,101 |
| 30 percent | $19,446 | $12,757 | $6,699 |
| 40 percent | $16,495 | $10,452 | $6,052 |
| 50 percent | $13,089 | $7,925 | $5,173 |
| 60 percent | $8,193 | $3,809 | $4,393 |
| Observations | 207 | 55 | 55 |

Note: Potential wages are calculated assuming that the NPA does not change the number of workers or hours worked by each worker, but rather pays the full 100 percent productivity implied prevailing wage to all workers at their current workload, as in Table II.7. To calculate the increase in wages if let go workers below a particular productivity threshold, we first assumed that all workers below that level of productivity would be let go, and that their lost production is replaced evenly by increasing the hours of workers who remain. The wages for the remaining workers were correspondingly increased to the full 100 percent productivity implied prevailing wage. We do not report estimates above 60 percent because many NPAs—more than 10 percent of those that are more affected—only employ workers below 60 percent productivity and thus could not actually redistribute the work as required.

More-affected NPAs would experience smaller potential wage increases if they terminate the employment of workers below certain productivity levels. If NPAs made no changes, almost 75 percent of the total wage increase would be concentrated at more-affected NPAs. If NPAs let go all workers below 50 percent productivity, only 60 percent of the total wage increase would be at more-affected NPAs. Letting go workers with lower productivity has a bigger potential impact in mitigating wages for more-affected NPAs because more-affected NPAs employ more workers with lower productivities.

NPAs letting go workers with lower productivity while hiring workers with higher productivity is consistent with theoretical predictions. Workers with lower productivity would have the biggest wedge between the value of the goods they produce and their wage. The Hicks-Marshall laws of labor demand also suggest that a firm's demand for workers with low productivity is likely to be very sensitive to wages. Demand for workers likely responds to wages because prices of AbilityOne contracts tend to be fixed and it is easy to substitute other workers to do the same tasks.

### Finding 3. The impact of eliminating Section 14(c) could be mitigated somewhat by how the change is implemented.

There are two primary ways that the impact of eliminating Section 14(c) on NPAs and employment of workers with disabilities could be mitigated. First, rather than mandating that all workers be paid at or above the prevailing wage, legislative changes could mandate only that workers be paid at least the minimum wage. Second, the federal government could raise prices of goods and services on the procurement list, allowing the increases in wages to be passed through to federal customers.

The estimated total increase in the labor bill, or the estimated subsidy SourceAmerica would need to provide to maintain the same level of employment, is lower if NPAs could pay workers a wage as low as the state minimum wage rather than the prevailing wage. The increase in total wages would be $9.2 million under such a scenario, a reduction of $21 million compared to paying the full prevailing wage (Table II.13). Such a policy would be similar to the executive order establishing a $10.10 minimum wage for federal contractors under the Service Contract Act signed by President Obama in 2014; workers with disabilities could no longer be paid subminimum wages, though they could still be paid commensurately as long as their wage remained above the state minimum wage. If workers only needed to be paid the federal minimum wage of $7.25, the estimated increase in the total labor bill if the current level of employment were maintained drops to $6.9 million. This change would reduce the magnitude of impacts, although the direction of changes discussed thus far would remain the same. Similarly, if workers only needed to be paid either state or federal minimum wages, the reduction in number of workers or hours worked required to maintain the same current wage bill would be lower than if workers needed to be paid prevailing wages.

### Table II.13. Changes in impacts of Section 14(c) elimination, by required new wage level

| | Wages (thousands) | Workers | Hours (thousands) |
|---|---|---|---|
| Current total | $526,813 | 42,936 | 51,359 |
| Change if paying to | | | |
| Full prevailing wage | $30,016 | -2,983 | -2,071 |
| State minimum wage | $9,155 | -1,578 | -1,100 |
| Federal minimum wage | $6,880 | -1,395 | -938 |

Source: 2015 Q4 QER and ERS data.

Note: All variables reported are on AbilityOne contracts only, similar to tables II.7, II.9, II.10. Each change is calculated assuming Section 14(c) is eliminated and the other two columns are held constant. For example, changes in workers reflect how much total workers would decrease if wages and hours were fixed.

Another way NPAs could adjust to higher mandated wages is to try to increase prices charged on their contracts. Price increases would pass on some of the cost associated with the elimination of Section 14(c) to federal government clients. We estimated that contract revenues would need to increase by $29 million, holding goods and services delivered constant, to perfectly offset the growth in wages. This again provides an upper bound of how much total AbilityOne revenues could increase; in reality, both the clients and the NPA itself would share some of the burden of higher wages.[6] In percentage terms, Table II.14 shows that the contract revenues at more-affected NPAs would have to increase by 9 percent, whereas they would only need to increase by less than 1 percent at less-affected NPAs to offset the higher wages. The percentage by which contract revenues would increase was smaller than the percentage by which wage bills would increase because total wage bills are much smaller than total contract sales.

**Table II.14. Required increase in contract revenues to cover wage increase, by estimated impact of eliminating 14(c)**

| | Total | More affected | Less affected |
|---|---|---|---|
| Current total AbilityOne contract revenues (thousands) | $2,437,613 | $233,502 | $1,171,407 |
| Required increase in revenues if paying to full prevailing wage (thousands) | $29,086 | $21,285 | $7,801 |
| Percentage change | 1.2 | 9.1 | 0.7 |

Source: 2015 Q4 QER and ERS data.

Note: Required increase in contract revenues is calculated by a three step process: (1) calculate the potential wage increase as in Table II.7, (2) calculate wages as a percentage of revenues (using QER data), and (3) calculate the increase in revenues required to cover the total increase in wages.

NPA survey responses also indicated that NPAs would try to pass on some of the increased wage costs to federal customers. About two-thirds of agencies said they would try to increase prices if Section 14(c) were eliminated. Among those who would increase prices, about one-third of NPAs said they would try to increase prices by 0 to 20 percent, one-third by 20 to 40 percent, and one-third by more than 40 percent.

The actual increase in prices is likely to be smaller than this. NPAs are likely to hire workers with higher productivities to offset some of the potential increase in total wages, as indicated by NPAs' survey responses and the simulated changes in the wage bill associated with letting go workers below certain productivities. Changing the mix of workers to those with higher productivity would lead to a lower increase in prices even if the full wage increases were passed on to the government via higher prices. However, wage increases would not be fully passed on to the government; rather, the burden would be shared between NPAs, the producers of goods, and the government, the consumer of goods. Providing a specific estimate as to the total increase in prices would be purely speculative, so we maintain that the increase would be less than $29 million.

These findings are generally consistent with the literature. Studies show that increases in the minimum wage are partially passed on to consumers through higher prices (Card and Krueger 1995, Aaronson 2001). A key difference in this market is that prices tend to be fixed for the goods on the procurement list for AbilityOne. There would thus need to be negotiation and government intervention for prices to actually increase.

[6] In dollar terms, the upper bound for the needed increase in contract revenue should be exactly the same as the potential increase in wages. The process of raking and extrapolating the values to the complete universe of SourceAmerica NPAs means that numbers do not match up perfectly.

## Finding 4. Eligibility for disability benefits is unlikely to change, though aggregate benefit payments could increase slightly.

The federal government provides cash benefits and health insurance to people with disabilities through the Social Security Disability Insurance (SSDI) program and the Supplemental Security Income (SSI) program. SSDI provides benefits to people with a sufficient work history who are no longer able to work because of a disability. SSI provides benefits to people who are also not able to work because of a disability but have low income and may not have a sufficient work history to be covered adequately by SSDI. It is possible to qualify for concurrent benefits and receive payments through both programs at the same time. Our survey indicated that approximately 50 percent of AbilityOne eligible workers currently qualify for disability benefits. Benefit receipt could decrease if workers earn higher wages as a result of the elimination of Section 14(c) or increase if workers lose their jobs and their earnings. On net, we estimated that the elimination of Section 14(c) would have a fairly small impact on disability benefit receipt, with the potential for slight increases in SSI benefit amounts.

To initially qualify for benefits, a person must be characterized as having a disability that prevents him or her from engaging in "substantial gainful activity because of a medically determinable physical or mental impairment that is expected to result in death, or has lasted or is expected to last for a continuous period of at least 12 months." The definition of disability is the same for both programs. A non-blind person engages in substantial gainful activity (SGA) if he or she earns above $1,090 per month, or $3,270 in a quarter, in 2015, the year for which we have data. We used the administrative ERS data to determine if a worker earns less than the SGA level and could thus potentially be eligible for disability payments.[7]

Benefit amounts differ across the two programs. SSDI pays a fixed benefit amount that is a function of a person's prior work history, similar to old-age and retirement benefits. The person gets this fixed payment as long as his or her earnings do not go above the SGA earnings threshold. If earnings do go above this threshold, the person gets no benefit payments. SSI pays benefits on a scale, with every $2 in earnings leading to a $1 benefit reduction. For workers on SSI, each dollar of earnings faces a marginal tax rate of 50 cents. The maximum income threshold is fairly complex to calculate because it is a function of earnings, assets, and family structure. For simplicity, we focus on potential eligibility for SSDI because this is more straightforward.

The survey asked NPAs to estimate the share of their total workers who qualify for either SSDI or SSI benefits. The mean of NPA responses (assigning the value to the midpoint of the

[7] SSI and SSDI benefits are initially awarded after the Social Security Administration determines that the applicant has a qualifying disability, is unable to engage in SGA (per the statutory requirement), and has met non-medical eligibility requirements, which are different for the two programs. After initial award, various program provisions called "work incentives" allow beneficiaries to engage in SGA without necessarily losing their eligibility immediately, provided that they have not recovered medically. These are different for SSDI and SSI. Most notably, for SSDI all beneficiaries can earn above SGA for as long as 12 months (a 9-month Trial Work Period and 3-month grace period) before benefits are suspended and eventually (after another 36 months) terminated. For SSI, Section 1619 allows beneficiaries to maintain eligibility for SSI and Medicaid indefinitely when earnings are above the SGA amount as long as there have been no medical improvements; SSI benefits are reduced by $1 for every $2 of earnings above a disregard that is often as low as $85, and even if benefits are reduced to $0, eligibility for SSI and Medicaid can continue under Section 1619(b).

quintile bucket they chose) implies that exactly half of workers receive benefits. This is very similar to values reported by Rater and Esterrich (2000) and used by Honeycutt et al. (2013). However, simply taking the mean across all NPAs does not account for the number of workers at each NPA and the NPAs that did not respond.

Approximately 70 percent of all workers eligible for Section 14(c) have income low enough to be eligible for SSDI because of earnings below the Social Security Administration's SGA level (Table II.15). Including workers who are not paid under Section 14(c), 52 percent of workers have earnings below SGA and therefore could be eligible for disability benefits. This estimated share is exactly in line with survey responses.

## Table II.15. Impacts of eliminating Section 14(c) on workers' eligibility for Social Security Disability Insurance (SSDI)

| Variable | All commensurately paid workers | Productivity: Decile 1 | Decile 2 | Decile 3 | Decile 4 | Decile 5 | Decile 6 | Decile 7 | Decile 8 | Decile 9 | Decile 10 | Productivity equals 100 percent |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total wages in quarter (mean) | $2,156 | $31 | $92 | $219 | $332 | $528 | $994 | $1,529 | $2,096 | $2,760 | $3,431 | $3,976 |
| Total hours paid in quarter (mean) | 196.7 | 25.2 | 32.7 | 57.3 | 74.2 | 84.1 | 144.4 | 177.6 | 214.8 | 253.5 | 294.8 | 315.0 |
| SSDI income eligible (percentage)[a] | 70.1 | 100.0 | 99.4 | 98.9 | 99.2 | 96.1 | 92.8 | 83.1 | 73.5 | 61.9 | 47.6 | 41.4 |
| SSDI potential income[b] eligible (percentage)a | 64.5 | 97.1 | 96.8 | 92.3 | 88.4 | 86.0 | 75.0 | 68.6 | 60.8 | 54.1 | 44.2 | 41.4 |
| Potential income[b] newly above SGA level (percentage) | 5.6 | 2.9 | 2.6 | 6.6 | 10.8 | 10.1 | 17.7 | 14.5 | 12.7 | 7.8 | 3.4 | 0.0 |
| Percentage increase in wages if no 14c (mean) | 108.4 | 2758.3 | 565.6 | 297.0 | 185.0 | 119.6 | 80.7 | 52.6 | 32.2 | 17.1 | 5.6 | 0.0 |
| Percentage increase in wages if no 14c (median) | 3.1 | 1566.7 | 529.9 | 288.0 | 185.7 | 117.4 | 78.6 | 51.5 | 31.6 | 17.1 | 5.3 | 0.0 |
| Hours reduction to reach SGA (mean, among those newly above) | 75.1 | 62.2 | 75.5 | 107.2 | 91.1 | 99.1 | 84.2 | 76.8 | 45.2 | 29.2 | 6.8 | -- |
| Hours reduction to reach SGA (median, among those newly above) | 65.4 | 37.9 | 48.0 | 76.8 | 73.7 | 96.6 | 80.0 | 77.3 | 42.5 | 27.8 | 6.5 | -- |
| Number of workers | 10,786 | 482 | 856 | 910 | 747 | 750 | 609 | 634 | 656 | 632 | 561 | 3,949 |

Source: 2015 Q4 ERS data.

Note: Productivity decile 1 refers to workers with productivity less than or equal to 10 percent; productivity decile 10 refers to workers with productivity from 91 to 99 percent.

[a] Income eligibility is determined by having total quarterly wages below the SGA level of $3,270.

[b] Potential income is calculated as the income that a worker would get if continuing to work the same number of hours but paid at the full 100 percent productivity implied prevailing wage. SGA = substantial gainful activity.

It is unlikely that elimination of Section 14(c) would substantially alter the eligibility of AbilityOne workers for SSDI and SSI benefits. Current eligibility rates vary depending on productivity; almost 100 percent of workers in the lowest productivity decile are income eligible, whereas only about 39 percent in the highest productivity decile are eligible.

Although wages for workers who remain employed following the elimination of Section 14(c) could increase from below SGA to above SGA, leading them to lose benefit eligibility, this is unlikely to happen for many workers. At most, 9 percent of workers who currently have income below SGA would have their wages increase above SGA if all workers maintained the same level of employment and were paid prevailing wages. This number varies by productivity; about 20 percent of workers in the lowest productivity decile would no longer be income eligible, whereas only half a percent of workers in the highest productivity decile would lose income eligibility.

The increase in benefit eligibility is not likely to be this high for two primary reasons. First, workers who remain employed can "park" their hours so as to maintain earnings below SGA. Second, workers who would have their earnings increase by enough to lose their income eligibility are precisely those who are most likely to lose their jobs.

Workers may manipulate their hours to ensure that their earnings do not increase enough to make them ineligible. Though wages would go up if they worked the same number of hours, workers could theoretically park their hours below SGA to ensure that they can maintain benefit receipt. There is evidence that this happens to at least a limited degree currently (Schimmel et al. 2011); several interviewees indicated that they help workers plan and manage hours to make sure that they remain below SGA. We calculated by how many hours a worker would need to reduce his or her employment to maintain income eligibility for those who become newly income ineligible as a result of higher hourly wage rates. On average, a worker who became newly income ineligible would need to decrease employment by about 6.5 hours per week to maintain income eligibility, or about one-third of current average hours worked. For workers at the lowest end of the productivity distribution, it would be nearly impossible to reduce hours enough to maintain eligibility, whereas for workers at the highest end of the productivity distribution, newly ineligible workers would only need to reduce hours worked by less than one hour per week.

Workers who are displaced from their jobs may lose income, in which case SSDI benefit receipt could increase if workers' new earnings dropped below SGA. People with lower incomes could become more reliant on disability benefits. Our previous analysis indicated that workers with the lowest productivity are likely to lose their jobs if Section 14(c) were eliminated. These workers are the ones most likely to qualify for benefits already because more than 95 percent of workers with productivity less than 50 percent are already income eligible. It is therefore unlikely that benefit eligibility would change for these workers even if they lose their jobs.

The monetary value of benefits could increase because, if earnings are low enough for the worker to receive an SSI benefit, benefit amounts increase by $1 for every $2 earnings reduction, until earnings fall to as low as $85 per month. Many low-productivity workers already have earnings that are below $85 per month, so further reductions in their earnings would not increase benefits; the average monthly wage for all workers below 50 percent productivity is only $83.

We calculated the implied maximum increase in benefits for each worker using this income offset formula and summed the total potential increase in benefits if all workers below a given threshold for productivity were let go (Table II.16). If all workers with productivity below 50 percent were let go, the maximum annual increase in SSI benefits would be about $2.3 million. The upper bound for the increase in SSI benefits is about one-half of the total earnings reduction. The actual increase in SSI would likely be less because all workers who lose their jobs or experience earnings reductions may not be eligible for benefits.

**Table II.16. Potential increase in Supplemental Security Income (SSI) benefits**

| Maximum annual increase in SSI benefits if let go of workers below productivity threshold | |
|---|---|
| 10 percent | $14,362 |
| 20 percent | $152,736 |
| 30 percent | $605,126 |
| 40 percent | $1,234,018 |
| 50 percent | $2,292,500 |
| 60 percent | $4,172,086 |
| 70 percent | $7,173,848 |
| 80 percent | $11,281,330 |
| 90 percent | $16,228,404 |

Note: Calculated the potential annual increase in SSI benefits for each worker paid under Section 14(c) as half the decrease in wages, including that the first $85 of monthly earnings are deducted. The monthly benefit is capped at $733 per month. Each row summed up the potential increase in SSI benefits for workers below each productivity threshold.

Disability benefit receipt would not change much as a result of the elimination of Section 14(c). Increases in income would not substantially reduce workers' eligibility for disability benefits because the ones who would potentially lose eligibility are workers with low productivity and are therefore likely to lose their jobs. Most of these workers already are eligible for benefits based on having earnings below SGA level, so losing work would not change their benefit eligibility. Benefit amounts could increase for SSI given the earnings offset, though the upper bound of this benefit increase is fairly small; by comparison, the total SSI benefits paid annually to adults of working age are close to $36 billion (Social Security Administration 2016).[8]

### Finding 5. NPAs would likely reduce services offered to people with disabilities.

NPA survey responses indicated that NPAs would offer fewer services to workers with disabilities (Table 11.6). This could include eliminating or reducing pre-vocational training and downsizing employment programs for workers with severe disabilities.

[8] See Table 7.A1, https://www.ssa.gov/policy/docs/statcomps/supplement/2015/7a.pdf. Accessed February 24, 2017.

Interviewees discussed the challenges that higher mandated wages would bring and the different ways they could accommodate them. Some expected they would lose AbilityOne contracts because they would not be competitive. Reduced contract revenues would hurt not only the overall business but also the NPA's ability to provide day services for workers with disabilities. NPA's that have access to alternative funds would be able to transition people with disabilities from work services to social and nonwork activities. However, several NPAs mentioned that they would reduce the provision of services for workers with disabilities.

These responses are consistent with the theoretical predictions that NPAs would need to adapt services offered to workers with disabilities so that they can maintain their economic viability. Cost increases must be offset in some way, and reducing services is one such mechanism to absorb some of the increases from higher wages.

### Finding 6. NPAs that already eliminated Section 14(c) experienced less adverse impacts than is anticipated by NPAs currently using Section 14(c).

Some SourceAmerica NPAs have already chosen to stop using Section 14(c) to pay their workers. Although these NPAs may inherently be different from the NPAs that do still use Section 14(c), their experiences in transitioning from Section 14(c) can help inform the potential impact of eliminating Section 14(c) for all NPAs.

NPAs that no longer used Section 14(c) reported that they did not experience significant changes in their businesses. At least two-thirds of respondents said that their participation in AbilityOne, the scope of their business, and the services they provide to people with disabilities did not change (Table II.17). We conducted in-depth interviews with four NPAs that stopped using Section 14(c). None of these NPAs experienced substantial changes in their scope of business or service provision. Several acknowledged that the availability of additional funding sources allowed them to maintain their business and services; without the funding, it would have been very difficult to make the transition to paying workers full prevailing wages.

### Table II.17. Impacts of no longer using Section 14(c) on NPA business practices

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 0.0 | 82.8 | 17.2 |
| Scope of business (percentage) | 6.9 | 69.0 | 24.1 |
| Service provision to workers with disabilities (percentage) | 6.9 | 62.1 | 31.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 29 NPAs that previously had a 14(c) certificate but no longer do, and were thus asked questions about the effects of no longer using Section 14(c).

A majority of the NPAs that no longer used Section 14(c) reported in the survey that they did not reduce the number of workers with disabilities or hours worked. Twenty-one percent increased the employment of workers with disabilities, 24 percent decreased it, and approximately half had no change (Table II.18). About one-fourth of NPAs responded that hours decreased. This reduction is substantially smaller than the 77 percent of NPAs using Section

14(c) who anticipated hours worked by workers with disabilities would decrease if Section 14(c) were eliminated.

### Table II.18. Impacts of no longer using Section 14(c) on employment of workers with disabilities

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 24.1 | 55.2 | 20.7 |
| Hours worked by workers with disabilities (percentage) | 24.1 | 69.0 | 6.9 |
| Share of workforce that has disabilities (percentage) | 17.2 | 58.6 | 24.1 |
| Workers with disabilities seeking employment (percentage) | 6.9 | 72.4 | 20.7 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 29 NPAs that previously had a 14(c) certificate but no longer do, and were thus asked questions about the effects of no longer using Section 14(c).

Approximately one-third of NPAs that no longer used Section 14(c) said that they made changes to the types of workers with disabilities that they employ (Table II.19). This is substantially lower than the 72 percent of NPAs that were using Section 14(c) and expected to change the types of workers they employ if Section 14(c) were eliminated. Among NPAs who did change the types of workers they employ, about 90 percent did so along the productivity margin, presumably to hire workers with higher productivity, and about 78 percent did so along the disability margin. These numbers were more consistent with changes anticipated by other NPAs if Section 14(c) were eliminated.

### Table II.19. Impacts of no longer using Section 14(c) on types of workers with disabilities employed

| | Yes | No |
|---|---|---|
| Changed types of workers with disabilities employed | 31.0 | 69.0 |
| Subset that changed productivity | 88.9 | 11.1 |
| Subset that changed type of disability | 77.8 | 22.2 |
| Subset that changed something else | 0.0 | 100.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 29 NPAs that previously had a 14(c) certificate but no longer do, and were thus asked questions about the effects of no longer using Section 14(c).

The NPAs interviewed did not substantially change their employment of workers with disabilities, though they acknowledged the importance of productivity. One interviewee said that it was primarily because they served clients with higher productivities that it was able to make a smooth transition away from using Section 14(c). This NPA anticipated that other NPAs that employ workers with lower productivities would not be as successful in maintaining the same level of employment if they could not pay workers using Section 14(c). Another interviewee said that it had to change the population base it served, from originally employing workers with developmental disabilities with productivities around 20 to 30 percent to employing workers with psychiatric diagnoses and higher levels of productivity.

One interviewee noted that it has also been trying different strategies to improve the productivity level of the workers currently employed. Strategies include training and monitoring as well as what they described as “gamification,” like setting a goal and competing with a neighbor to try to increase productivity and motivation to do their best. Another interviewee noted that using person-centered planning was essential to its success; working to try to find a one-size-fits-all solution for the NPA would have been impossible, but by focusing on how each worker could uniquely contribute, the NPA was able to maintain a successful business.

# III. EFFECTS OF REDUCING THE DIRECT LABOR RATIO REQUIREMENT

This chapter considers the impacts of reducing the required direct labor ratio (DLR) to be eligible for AbilityOne contracts. We first provide background on the current regulation. We then provide an overview of the relevant literature. Next, we report on key findings about potential changes in the required DLR, grounding our results in the theory and literature. In the absence of other changes, this policy change would likely help nonprofit agencies to expand the scope of their businesses while reducing the employment of workers with disabilities. Finally, we explore how reducing the required DLR in tandem with the elimination of Section 14(c) would likely make it easier for NPAs to adapt to policy changes.

## A. Overview of the direct labor ratio requirement

To be eligible for AbilityOne contracts, at least 75 percent of the direct labor hours worked at an agency must be by workers with significant disabilities or who are blind. This 75 percent labor ratio requirement applies to the whole agency, not AbilityOne contracts separately. An NPA must provide documentation demonstrating that each person counting toward the DLR hours meets the requirement of being blind or having a significant disability.

A person defined as having a significant disability is someone whose disability limits his or her functional capabilities to the extent that he or she is unable to engage in “normal competitive employment” for an extended period of time. This definition is provided in JWOD, which established the AbilityOne program. This definition of disability differs slightly from the definition associated with eligibility to be paid commensurate wages under Section 14(c). A person is shown not to be competitively employable through an evaluation to determine if he or she has the capability to engage in “normal competitive employment.” The definition of “normal competitive employment” is not carefully laid out but includes the provision that being paid commensurately under Section 14(c) makes one not competitively employable.

Workers in competitive, integrated employment can count toward the 75 percent requirement if one of several conditions signal they could not be employed in “normal competitive employment.” For example, if the worker is paid commensurately, requires a job coach, or would not have been able to find the job on his or her own, the worker’s hours can count toward the 75 percent requirement.

In addition to documentation that a worker counts as having a significant disability, NPAs must provide quarterly documentation to SourceAmerica to ensure that at least 75 percent of the total hours worked across the agency are worked by workers with significant disabilities. This quarterly data reporting maintained by SourceAmerica is the QER, which we have used to analyze the impacts of eliminating Section 14(c) in this report.

JWOD requires that federal agencies must buy certain goods and services from NPAs that are eligible for AbilityOne, with eligibility determined partially by the 75 percent labor ratio. The requirement to buy certain goods and services listed on the procurement list provides preferential treatment to eligible agencies. The 75 percent DLR requirement exists to ensure that the preferential treatment received through procurement is targeted to NPAs that employ workers with significant disabilities.

The 75 percent DLR requirement serves as a barrier to entry into AbilityOne contracting. Agencies currently able to meet the required 75 percent DLR receive a competitive advantage since it is difficult for other agencies to develop the infrastructure to comply with this regulation. In the survey, NPAs were asked about some of the challenges of meeting the DLR requirement. About 40 percent of agencies said that they found it difficult to maintain the current ratio requirement. One of the most common reasons NPAs cited was finding enough people with significant disabilities who were willing and able to work on a contract. About 40 percent of agencies having difficulty meeting the ratio cited the inability to find enough workers as the primary reason.

The survey also asked NPAs what they think the ideal required DLR would be. The mean of these responses was 62 percent and the median response was 60 percent. Small NPAs believed that the ideal ratio is lower, at an average of 52 percent. There was no difference in the beliefs of NPAs by contract type. The modal response was 75 percent, the current required ratio, which about 30 percent of NPAs believed was the ideal ratio. Only 7 NPAs thought the ideal ratio was above the current 75 percent requirement.

The requirement that 75 percent of labor hours be worked by people with significant disabilities is a quota. In considering the effects of reducing this requirement, we will frame results using the economics literature on quotas. Analyzing the likely impacts of the potential policy change will also rely on responses to the surveys and the in-depth qualitative interviews. We cannot perform any modeling exercises using SourceAmerica administrative data because changes in this requirement do not easily translate to data simulations.

## B. Relevant theory and literature

Reducing the required DLR makes it easier for NPAs to meet contracting needs by allowing them to employ fewer workers with severe disabilities. It would ease some of the difficulties NPAs have in meeting the ratio and would allow them to utilize workers who may be more productive. Reductions in the required DLR should not hurt NPAs and their businesses. NPAs can continue to maintain their business exactly as it presently exists given that the required DLR is the minimum share of hours that must be worked by workers with disabilities. If an NPA currently has an 85 percent ratio and wants to maintain that, it could do so whether the minimum ratio is 75 percent or 50 percent.

There are two important caveats to this. First, the regulations associated with WIOA encourage more competitive integrated employment. If this pressures NPAs to work on projects that have workers with disabilities working more in tandem with workers without disabilities, it may mean that businesses cannot maintain their current ratio. One NPA expressed in an interview that it views the regulations from WIOA encouraging competitive integrated employment as being in direct conflict to the 75 percent DLR requirement, which requires lots of workers with disabilities to work together. Second, though an NPA need not make any changes in response to a lower DLR requirement, it may feel economic pressure to do so. One NPA interviewed noted that though it might not want to make any changes, it would be tempted to become more profitable by hiring more productive workers without disabilities.

The economics literature on quotas provides several useful examples of employment quotas in other countries. Quotas require all firms to have workers of a particular group make up a minimum share of their workforce. One example of a quota is a policy in Saudi Arabia that requires Saudi employers to hire a minimum number of Saudi nationals (Peck forthcoming). This policy succeeded in increasing the employment of Saudi nationals but also harmed businesses overall, leading some firms to exit and many to shrink their businesses. Prakash (2009) similarly finds that an employment quota policy in India requiring firms to employ disadvantaged minority groups led the targeted group to be more likely to find a salaried job. Though these studies offer some insight when considering changes in AbilityOne's DLR requirement, the smaller size of these quotas may limit the generalizability of findings.[9]

Several countries in Europe have quota policies specifically related to workers with disabilities. European quotas range from about 2 percent in Spain to about 7 percent in Italy. Evidence suggests that these policies lead to fairly small increases in employment of workers with disabilities (Fuchs 2014; Lalive et al. 2013). The effect of these quotas likely differs from the effects of the AbilityOne quota. First, the level of the quota is not comparable. The marginal impact of changing the quota when the baseline level is around 5 percent is likely to differ from the marginal impact of changing the quota when the baseline level is 75 percent. Second, the quota applies to all firms in Europe, whereas it only applies to certain types of firms in the United States, specifically nonprofits whose mission is to help workers with disabilities. Third, the penalties for not complying with the quota tend to be fairly small in Europe, whereas noncompliance for NPAs would mean they would no longer be eligible for AbilityOne contracting.

Affirmative action policies are essentially quotas, typically affecting hiring decisions or admissions decisions. Studies of affirmative action suggest a reduction in the required DLR would reduce employment of people with disabilities. For example, Chay (1998) found that black men experienced improvements in employment and earnings due to expanded civil rights protections in employment. In contrast, reducing the required labor ratio can be understood as a decrease in quotas. Hinrichs (2012) showed that bans on affirmative action at universities reduced the share of students at selective colleges who are underrepresented minorities. This study provided evidence that decreasing a quota has the opposite effect of increasing a quota, which is important to verify in the context of the required DLR. These papers also suggest that employment of workers with disabilities would decrease in response to a reduction in the required DLR.

Although studies showing that quotas increase hiring suggest a reduction in the required DLR would lead to decreased employment of workers with disabilities, it is also possible that

[9] There is presumably a required DLR above which increases would lead to decreases in the employment of workers with disabilities. In the extreme, a DLR of 100 percent likely would not maximize the employment of workers with disabilities, perhaps because some of the goods and services procured rely on some workers without disabilities to fulfill the contract. If the ratio of 100 percent would not maximize employment of workers with disabilities, there must therefore be a ratio below 100 percent that does maximize employment of workers with disabilities, above which increasing the required DLR would reduce employment of workers with disabilities. However, we think that this ratio is higher than 75 percent for several reasons. First, the average NPA expects to reduce the number of workers with disabilities it employs if the ratio were lowered. Second, many NPAs say that they think 75 percent is the ideal ratio. Third, many NPAs already operate at levels well above the 75 percent minimum. Because we assume that the ratio is not yet above the point that maximizes the employment of workers with disabilities, the lessons from the studies discussed apply to this setting.

total employment of workers with disabilities could increase. Although a reduction in the required DLR may result in a lower share of workers with disabilities at any one NPA, if a sufficient number of new NPAs enter the market, the total number of workers employed under AbilityOne contracts could increase. Because a reduction in the required DLR decreases the fixed costs of joining AbilityOne, it is likely that new NPAs would enter the market. In order for total employment of workers with disabilities to grow, however, the government would need to increase total AbilityOne contracting, either by adding items to the procurement list or by general growth in the federal government.

NPA responses may differ from the predicted response of profit-maximizing firms. NPAs generally do not seek to minimize costs or maximize profits, which implies that responses to a change in the required DLR could be different than for a profit-maximizing firm (Hansmann 1987). As a result, NPAs might be willing to pay workers above the value of their marginal product and maintain employment of workers with disabilities even if Section 14(c) were eliminated—provided that they can make other adjustments to remain economically viable. NPAs may continue to employ similar numbers of workers with disabilities because they are mission driven and are by definition not for profit. Of course the NPA does need to remain economically viable, and fiscal constraints are likely to force it to respond like a profit-maximizing firm in the absence of other options.

## C. Key findings on impacts of reducing required direct labor ratio

Reducing the required DLR would lead NPAs to expand the scope of their businesses. Theoretically, expanding quotas tends to lead to businesses shrinking, so a reduction in the quota should help businesses grow. Consistent with this theoretical prediction, NPAs reported in the survey and interviews that they expect they would increase AbilityOne participation and the scope of business. Similarly, reducing the required DLR would likely reduce the employment of workers with disabilities. Though new NPAs are likely to enter the market, so more NPAs would employ workers with disabilities, the gains from this would likely not be large enough to counter the reductions at agencies that already exist, unless the market to which NPAs provide goods and services is substantially expanded in some other way, for example, by expanding the number and scope of federal contracts that provide a competitive advantage to qualified NPAs).

### Finding 1. Reductions in the direct labor ratio would likely ease financial pressures on NPAs, allowing them to expand the scope of their businesses.

NPAs anticipated that reducing the required DLR would positively affect their businesses (Table III.1). About 40 percent of respondents said they would increase their AbilityOne contracting; only about 8 percent expected to reduce AbilityOne contracting. Almost half of NPAs would increase their scope of business, whereas only about 15 percent would narrow their scope. More than half of NPAs anticipated that reducing the required DLR would lead new agencies to join the AbilityOne program. Products NPAs were more likely to expect to increase the scope of their business and AbilityOne participation than services NPAs (Appendix Tables H.1 and H.2). The larger increases expected at products NPAs were primarily driven by fewer anticipating their business to stay the same as opposed to fewer anticipating reductions.

### Table III.1. Anticipated impacts of reducing required direct labor ratio on NPA business practices

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 8.3 | 52.2 | 39.4 |
| Scope of business (percentage) | 15.0 | 37.8 | 47.2 |
| Other NPAs participation in AbilityOne (percentage) | 14.4 | 12.8 | 48.9 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes all 180 survey respondents. Entries in the row “Other NPAs’ participation in AbilityOne” do not sum to 100 percent because NPA responses of “Do not know” are included in the denominator.

Interviewee views of the changes in the required DLR were consistent with survey responses and the economics literature. Several interviewees said that reducing the DLR requirement would not affect their business because they are driven by their mission to employ workers with disabilities. One acknowledged that even though it is a nonprofit, it would be enticing to become more “profitable” and use the extra resources in other places to help workers with disabilities.

NPA staff we interviewed and surveyed did not think that anticipated changes would differ much if the newly proposed ratio were 40, 50, or 60 percent. One interviewee said that the main difference is that lower ratios enable larger subsidies for other services for workers with disabilities. Another interviewee was concerned that decreasing the required DLR would threaten the existence of the AbilityOne program. He believed that changing the ratio undermines the stated purpose of AbilityOne to provide employment for workers with severe disabilities, potentially leading Congress to reconsider why AbilityOne agencies receive preferential treatment in contracting.

These results are consistent with the economics literature. Peck (2016) found that the introduction of a quota had an adverse effect on firms. The reduction in the quota studied here is expected to have the opposite effect, at least qualitatively; NPAs anticipated entry into the market and expansions in the scope of business.

### Finding 2. Some NPAs who are mission driven likely would not make any changes.

A substantial share of survey respondents indicated that their NPAs would not make changes to their business or employment of workers with disabilities in response to a reduction in the required DLR. Almost half said they would not change participation in AbilityOne and more than a third said the scope of business would remain the same (Table 24). Similar shares indicated that the hours of workers with disabilities and employment of workers with disabilities would not change (Table III.2).

**Table III.2. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities**

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 40.0 | 38.3 | 21.7 |
| Hours worked by workers with disabilities (percentage) | 32.2 | 55.0 | 12.8 |
| Direct labor ratio (percentage) | 76.7 | 21.7 | 1.7 |
| Workers with disabilities seeking employment (percentage) | 14.4 | 51.1 | 34.4 |

Source: Web survey of SourceAmerica NPAs.
Note: Includes all 180 survey respondents.

Several interviewees also confirmed that there would be no changes to the overall business because the overall mission of the NPA is to serve people with disabilities. Though reducing the required DLR would allow NPAs to employ a greater share of their workforce without disabilities, these NPAs did not think they would do so, often citing the mission-driven nature of their work. This was consistent with theoretical predictions.

Surprisingly, a small portion of survey respondents indicated that they would reduce the scope of their business or their participation in AbilityOne if the DLR requirement were decreased. DLR changes need not be implemented—NPAs could keep their high levels of employment of workers with disabilities—so an NPA could continue with business as usual. This counterintuitive survey response may reflect respondents' thinking about the overall competitive landscape; that is, if other NPAs with whom they compete for contracts can fulfill procurement more efficiently, the NPA may lose business if it does not similarly make changes to its mix of workers.

### Finding 3. Reducing the required DLR would likely have a negative effect on employment of workers with disabilities.

Survey respondents anticipated that reductions in the required DLR would reduce the employment of and hours worked by people with disabilities (Table III.2). About 40 percent said that they would decrease the number of workers with disabilities employed at their agency, but 20 percent said they would increase the level of employment. One-third of respondents expected the hours worked by a typical worker with a disability to decrease, whereas only one-eighth expected hours worked to increase. Most (almost three-quarters) also anticipated that they would in fact decrease the DLR at their agency.

Expectations about changes in employment, hours, and the DLR differ substantially by the type of NPA. A higher share of products NPAs than services NPAs expected to reduce the labor ratio (Appendix Tables J.1 and J.2). A higher share of large NPAs than small NPAs expected to reduce the level of employment for workers with disabilities, the typical hours worked, and their labor ratio (Appendix Tables J.4 and J.6). This may be because large NPAs have a harder time finding enough workers with disabilities to maintain the 75 percent ratio in the first place. It may also reflect that larger NPAs are more business oriented.

Most NPA staff we interviewed believed that reductions in the labor ratio would reduce employment opportunities for workers with disabilities. They thought that even if more NPAs joined the AbilityOne program because of the lower labor ratio, that increase still would not be enough to offset the reductions in employment at existing agencies. A potential advantage one interviewee noted was that reducing the required labor ratio would make it easier to spread workers around, and thus, might promote more competitive integrated employment.

The likely negative effect of reducing the required DLR on the employment of workers with significant disabilities could potentially be more than offset by a simultaneous increase in the types and number of contracts for which NPAs can compete. The decrease in employment of workers with disabilities at existing NPAs could be offset by increases in employment of workers with disabilities at NPAs that newly participate in AbilityOne. The current ratio implicitly imposes constraints on the types of work that NPAs can perform under AbilityOne contracts. Reducing the ratio could potentially allow existing or new NPAs to perform work that is outside of the scope of current AbilityOne contracts. It is possible that the combination of a significant reduction in the required DLR and a significant expansion of the scope of federal work reserved for AbilityOne NPAs could have a positive impact on employment of workers with significant disabilities. However, survey respondents did not anticipate that this would ultimately be possible.

The findings are consistent with the broader theoretical literature. The literature suggests that reducing a quota would decrease the employment of the population targeted by the quota. In this setting, reducing the required number of hours that need to be worked by workers with disabilities would likely lead NPAs to reduce their employment of workers with disabilities.

### Finding 4. Reducing the direct labor ratio requirement would make it easier for NPAs to adapt to the elimination of Section 14(c).

Reducing the required DLR makes it easier for NPAs to meet contracting needs by allowing them to employ more workers without disabilities. If the elimination of Section 14(c) were coupled with reductions in the DLR requirement, it is possible that employing more workers without disabilities could help to subsidize the increases in wages for workers with disabilities. This would mitigate some of the negative impacts on NPAs stemming from the elimination of Section 14(c). If the required DLR was reduced at the same time that Section 14(c) is eliminated, NPAs with the mission of employing workers with the lowest productivity might be able to retain more of them than if the required DLR was not reduced.

One interviewee said that a side benefit of a reduction in the required DLR, and the increases in flexibility it could provide, would be to help offset some of the negative potential consequences of the elimination of Section 14(c). This interviewee stated that the lower required DLR could mitigate reductions in employment for workers with developmental disabilities that it expects in response to the elimination of Section 14(c).

# IV. CONCLUSION

This study considers the potential impact on NPAs, workers, and the federal government of two policy changes. The first policy change would prevent NPAs from paying workers with disabilities commensurate wages according to their productivity. Though intended to help workers with disabilities and provide greater employment protection, this policy would likely hurt workers with the lowest productivity who may have the most severe disabilities. Increases in wages, especially for workers with very low productivity, would be too substantial for NPAs to maintain the employment of all their workers. Across SourceAmerica's NPAs, we estimated that total wages paid would increase by $30 million if agencies continue to pay all their workers for the same number of hours they currently work, an increase of 5.7 percent. This potential increase would lead NPAs to change the workers they employ, hiring workers with higher productivity while letting go workers with lower productivity. This change in the composition of workers would help to mitigate the impact of increases in wages.

The second policy change would reduce the 75 percent required DLR, allowing NPAs to employ fewer workers with disabilities and still qualify for AbilityOne contracts. Many NPA survey respondents expressed that they would likely employ fewer workers with disabilities, while others maintained that they would not reduce employment. This policy change would help NPAs broaden their businesses and encourage new agencies to join the AbilityOne program. However, it seems unlikely that hiring of workers with disabilities at potential new agencies would outweigh the decreases in employment at existing agencies.

The actual impact of any policy change will depend on the precise details of the policy and how it is implemented. For example, the adverse potential impact of eliminating Section 14(c) on NPAs and workers with lower levels of productivity could be mitigated if the federal government simultaneously raised prices on the procurement list. A reduction in the required DLR would also interact with the impact of eliminating Section 14(c). On the one hand, it would make it easier for NPAs to replace workers with lower productivities with workers without disabilities, potentially increasing the adverse impact of eliminating 14(c) on some workers. On the other hand, mission-driven NPAs could use the reduction in the required DLR to maintain employment of those with lower productivities by essentially subsidizing their productivity with that of workers without disabilities.

Our study finds that the impact of policy changes will vary greatly across NPAs and workers. Although the policy changes may be motivated by their potential to raise the incomes and well-being of individuals with disabilities, as a group, any consideration of policy changes must also consider the adverse impact these changes may have on what is likely the most vulnerable subset of the population.

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# APPENDIX A
# SUPPLEMENTAL TABLES, BY SIZE AND CONTRACT TYPE

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## Table A.1. Anticipated impacts of eliminating Section 14(c) on NPA business practices, products NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 47.4 | 52.6 | 0.0 |
| Scope of business (percentage) | 84.2 | 10.5 | 5.3 |
| Service provision to workers with disabilities (percentage) | 42.1 | 42.1 | 15.8 |
| Other NPAs' participation in AbilityOne (percentage) | 84.2 | 0.0 | 0.0 |

Source: Web survey of SourceAmerica NPAs.

Notes: Includes 19 products NPAs that have a 14(c) certificate. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to Table II.6 in the main text.

## Table A.2. Anticipated impacts of eliminating Section 14(c) on NPA business practices, services NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 28.9 | 67.1 | 3.9 |
| Scope of business (percentage) | 42.1 | 42.1 | 15.8 |
| Service provision to workers with disabilities (percentage) | 48.7 | 36.8 | 14.5 |
| Other NPAs' participation in AbilityOne (percentage) | 65.8 | 11.8 | 0.0 |

Source: Web survey of SourceAmerica NPAs.

Notes: Includes 76 services NPAs that have a 14(c) certificate. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to Table II.6 in the main text.

## Table A.3. Anticipated impacts of eliminating Section 14(c) on NPA business practices, mix NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 41.0 | 51.3 | 7.7 |
| Scope of business (percentage) | 69.2 | 23.1 | 7.7 |
| Service provision to workers with disabilities (percentage) | 59.0 | 25.6 | 15.4 |
| Other NPAs' participation in AbilityOne (percentage) | 56.4 | 7.7 | 2.6 |

Source: Web survey of SourceAmerica NPAs.

Notes: Includes 39 mix NPAs that have a 14(c) certificate. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to Table II.6 in the main text.

## Table A.4. Anticipated impacts of eliminating Section 14(c) on NPA business practices, small NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 20.0 | 80.0 | 0.0 |
| Scope of business (percentage) | 50.0 | 40.0 | 10.0 |
| Service provision to workers with disabilities (percentage) | 60.0 | 40.0 | 0.0 |
| Other NPAs' participation in AbilityOne (percentage) | 70.0 | 10.0 | 0.0 |

Source: Web survey of SourceAmerica NPAs.

Notes: Includes 10 small NPAs that have a 14(c) certificate. Small NPAs are those that employ 50 or fewer workers with disabilities. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to Table II.6 in the main text.

## Table A.5. Anticipated impacts of eliminating Section 14(c) on NPA business practices, medium NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 36.5 | 60.3 | 3.2 |
| Scope of business (percentage) | 60.3 | 23.8 | 15.9 |
| Service provision to workers with disabilities (percentage) | 41.3 | 42.9 | 15.9 |
| Other NPAs' participation in AbilityOne (percentage) | 68.3 | 6.3 | 0.0 |

Source: Web survey of SourceAmerica NPAs.

Notes: Includes 63 medium NPAs that have a 14(c) certificate. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to Table II.6 in the main text.

## Table A.6. Anticipated impacts of eliminating Section 14(c) on NPA business practices, large NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 36.1 | 57.4 | 6.6 |
| Scope of business (percentage) | 52.5 | 39.3 | 8.2 |
| Service provision to workers with disabilities (percentage) | 59.0 | 24.6 | 16.4 |
| Other NPAs' participation in AbilityOne (percentage) | 62.3 | 11.5 | 1.6 |

Source: Web survey of SourceAmerica NPAs.

Notes: Includes 61 large NPAs that have a 14(c) certificate. Large NPAs are those that employ more than 200 workers with disabilities. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to Table II.6 in the main text.

## Table B.1. Maximum wage increase if Section 14(c) eliminated, by size

| | Total | Large NPAs | Medium NPAs | Small NPAs |
|---|---|---|---|---|
| Current total AbilityOne wages paid (thousands) | $526,813 | $408,422 | $102,015 | $16,377 |
| Increase in wages if paying to full prevailing wage (thousands) | $30,016 | $17,461 | $11,794 | $761 |
| Percentage change | 5.7 | 4.3 | 11.6 | 4.6 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum increase in wage bill is calculated using NPAs' current number of workers and hours, with NPAs paying all workers the full 100 percent productivity implied prevailing wage. Large NPAs are those that employ more than 200 workers with disabilities. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to Table II.7 in the main text.

## Table B.2. Maximum wage increase if Section 14(c) eliminated, by contract type

| | Total | Products NPAs | Services NPAs | Mix NPAs |
|---|---|---|---|---|
| Current total AbilityOne wages paid (thousands) | $526,813 | $22,253 | $405,024 | $99,537 |
| Increase in wages if paying to full prevailing wage (thousands) | $30,016 | $4,677 | $14,620 | $10,719 |
| Percentage change | 5.7 | 21.0 | 3.6 | 10.8 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum increase in wage bill is calculated using NPAs current number of workers and hours, with NPAs paying all workers the full 100 percent productivity implied prevailing wage. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to Table II.7 in the main text.

**Table C.1. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities, products NPAs**

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 94.7 | 5.3 | 0.0 |
| Hours worked by workers with disabilities (percentage) | 73.7 | 21.1 | 5.3 |
| Share of workforce that has disabilities (percentage) | 89.5 | 10.5 | 0.0 |
| Workers with disabilities seeking employment (percentage) | 42.1 | 31.6 | 26.3 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 19 products NPAs that have a 14(c) certificate. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Similar to Table II.8 in the main text.

**Table C.2. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities, services NPAs**

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 75.0 | 21.1 | 3.9 |
| Hours worked by workers with disabilities (percentage) | 73.7 | 21.1 | 5.3 |
| Share of workforce that has disabilities (percentage) | 65.8 | 28.9 | 5.3 |
| Workers with disabilities seeking employment (percentage) | 40.8 | 31.6 | 27.6 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 76 services NPAs that have a 14(c) certificate. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Similar to Table II.8 in the main text.

**Table C.3. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities, mix NPAs**

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 89.7 | 7.7 | 2.6 |
| Hours worked by workers with disabilities (percentage) | 84.6 | 12.8 | 2.6 |
| Share of workforce that has disabilities (percentage) | 82.1 | 15.4 | 2.6 |
| Workers with disabilities seeking employment (percentage) | 53.8 | 28.2 | 17.9 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 39 mix NPAs that have a 14(c) certificate. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to Table II.8 in the main text.

## Table C.4. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities, small NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 80.0 | 20.0 | 0.0 |
| Hours worked by workers with disabilities (percentage) | 90.0 | 10.0 | 0.0 |
| Share of workforce that has disabilities (percentage) | 60.0 | 40.0 | 0.0 |
| Workers with disabilities seeking employment (percentage) | 30.0 | 50.0 | 20.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 10 small NPAs that have a 14(c) certificate. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to Table II.8 in the main text.

## Table C.5. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities, medium NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 76.2 | 20.6 | 3.2 |
| Hours worked by workers with disabilities (percentage) | 68.3 | 28.6 | 3.2 |
| Share of workforce that has disabilities (percentage) | 69.8 | 25.4 | 4.8 |
| Workers with disabilities seeking employment (percentage) | 34.9 | 39.7 | 25.4 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 63 medium NPAs that have a 14(c) certificate. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Similar to Table II.8 in the main text.

## Table C.6. Anticipated impacts of eliminating Section 14(c) on employment of workers with disabilities, large NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 88.5 | 8.2 | 3.3 |
| Hours worked by workers with disabilities (percentage) | 83.6 | 9.8 | 6.6 |
| Share of workforce that has disabilities (percentage) | 80.3 | 16.4 | 3.3 |
| Workers with disabilities seeking employment (percentage) | 57.4 | 18.0 | 24.6 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 61 large NPAs that have a 14(c) certificate. Large NPAs are those that employ more than 200 workers with disabilities. Similar to Table II.8 in the main text.

## Table D.1. Maximum change in workers if Section 14(c) eliminated, by size

| | Total | Large NPAs | Medium NPAs | Small NPAs |
|---|---|---|---|---|
| Current total AbilityOne workers | 42,936 | 31,317 | 10,098 | 1,521 |
| Current 14c eligible AbilityOne workers | 19,176 | 13,468 | 5,516 | 264 |
| Change in number of workers if paying to full prevailing wage | -2,983 | -1,337 | -1,587 | -60 |
| Percentage change relative to Section 14(c) eligible workers | -15.6 | -9.9 | -28.8 | -22.6 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum change in number of workers is calculated as the reduction required for NPAs to maintain current wage bill, while paying remaining workers the full 100 percent productivity implied prevailing wage. Large NPAs are those that employ more than 200 workers with disabilities. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to Table II.9 in the main text.

## Table D.2. Maximum change in workers if Section 14(c) eliminated, by contract type

| | Total | Products NPAs | Services NPAs | Mix NPAs |
|---|---|---|---|---|
| Current total AbilityOne workers | 42,936 | 3,868 | 28,649 | 10,419 |
| Current 14c eligible AbilityOne workers | 19,176 | 2,280 | 10,908 | 5,499 |
| Change in number of workers if paying to full prevailing wage | -2,983 | -746 | -964 | -1,274 |
| Percentage change relative to Section 14(c) eligible workers | -15.6 | -32.7 | -8.8 | -23.2 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum change in number of workers is calculated as the reduction required for NPAs to maintain current wage bill, while paying remaining workers the full 100 percent productivity implied prevailing wage. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to Table II.9 in the main text.

## Table E.1. Maximum change in hours if Section 14(c) eliminated, by size

| | Total | Large NPAs | Medium NPAs | Small NPAs |
|---|---|---|---|---|
| Current total AbilityOne hours (thousands) | 51,359 | 39,610 | 10,318 | 1,431 |
| Change in hours if paying to full prevailing wage (thousands) | -2,071 | -1,219 | -817 | -35 |
| Percentage change | -4.0 | -3.1 | -7.9 | -2.5 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum change in hours is calculated as the reduction required for NPAs to maintain current wage bill, while paying all workers the full 100 percent productivity implied prevailing wage. Large NPAs are those that employ more than 200 workers with disabilities. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to Table II.10 in the main text.

## Table E.2. Maximum change in hours if Section 14(c) eliminated, by contract type

| | Total | Products NPAs | Services NPAs | Mix NPAs |
|---|---|---|---|---|
| Current total AbilityOne hours (thousands) | 51,359 | 3,885 | 37,135 | 10,339 |
| Change in hours if paying to full prevailing wage (thousands) | -2,071 | -555 | -867 | -649 |
| Percentage change | -4.0 | -14.3 | -2.3 | -6.3 |

Source: 2015 Q4 QER and ERS data.

Note: Maximum change in hours is calculated as the reduction required for NPAs to maintain current wage bill, while paying all workers the full 100 percent productivity implied prevailing wage. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to Table II.10 in the main text.

## Table F.1. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed, products NPAs

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 78.9 | 21.1 |
| Subset that would change productivity (percentage) | 80.0 | 20.0 |
| Subset that would change type of disability (percentage) | 53.3 | 46.7 |
| Subset that would change something else (percentage) | 13.3 | 86.7 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 19 products NPAs that have a 14(c) certificate. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Similar to II.11 in the main text.

## Table F.2. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed, services NPAs

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 68.4 | 31.6 |
| Subset that would change productivity (percentage) | 90.4 | 9.6 |
| Subset that would change type of disability (percentage) | 57.7 | 42.3 |
| Subset that would change something else (percentage) | 11.5 | 88.5 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 76 services NPAs that have a 14(c) certificate. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Similar to II.11 in the main text.

## Table F.3. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed, mix NPAs

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 74.4 | 25.6 |
| Subset that would change productivity (percentage) | 96.6 | 3.4 |
| Subset that would change type of disability (percentage) | 62.1 | 37.9 |
| Subset that would change something else (percentage) | 0.0 | 100.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 39 mix NPAs that have a 14(c) certificate. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to II.11 in the main text.

## Table F.4. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed, small NPAs

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 50.0 | 50.0 |
| Subset that would change productivity (percentage) | 100.0 | 0.0 |
| Subset that would change type of disability (percentage) | 0.0 | 100.0 |
| Subset that would change something else (percentage) | 0.0 | 100.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 10 small NPAs that have a 14(c) certificate. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to II.11 in the main text.

## Table F.5. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed, medium NPAs

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 65.1 | 34.9 |
| Subset that would change productivity (percentage) | 90.2 | 9.8 |
| Subset that would change type of disability (percentage) | 58.5 | 41.5 |
| Subset that would change something else (percentage) | 7.3 | 92.7 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 63 medium NPAs that have a 14(c) certificate. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Similar to II.11 in the main text.

## Table F.6. Anticipated impacts of eliminating Section 14(c) on types of workers with disabilities employed, large NPAs

| | Yes | No |
|---|---|---|
| Would change types of workers with disabilities employed (percentage) | 82.0 | 18.0 |
| Subset that would change productivity (percentage) | 90.0 | 10.0 |
| Subset that would change type of disability (percentage) | 64.0 | 36.0 |
| Subset that would change something else (percentage) | 10.0 | 90.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 61 large NPAs that have a 14(c) certificate. Large NPAs are those that employ more than 200 workers with disabilities. Similar to II.11 in the main text.

## Table G.1. Required increase in contract revenues to cover wage increase, by size

| | Total | Large NPAs | Medium NPAs | Small NPAs |
|---|---|---|---|---|
| Current total AbilityOne contract revenues (thousands) | $2,437,613 | $1,957,949 | $417,241 | $62,423 |
| Required increase in revenues if paying to full prevailing wage (thousands) | $29,086 | $16,919 | $11,429 | $737 |
| Percentage change | 1.2 | 0.9 | 2.7 | 1.2 |

Source: 2015 Q4 QER and ERS data.

Note: Required increase in contract revenues is calculated by a three step process: (1) calculate the potential wage increase as in Table II.7, (2) calculate wages as a percentage of revenues (using QER data), and (3) calculate the increase in revenues required to cover the total increase in wages. Large NPAs are those that employ more than 200 workers with disabilities. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to Table II.14 in the main text.

## Table G.2. Required increase in contract revenues to cover wage increase, by contract type

| | Total | Products NPAs | Services NPAs | Mix NPAs |
|---|---|---|---|---|
| Current total AbilityOne contract revenues (thousands) | $2,437,613 | $283,173 | $1,727,333 | $427,107 |
| Required increase in revenues if paying to full prevailing wage (thousands) | $29,086 | $4,532 | $14,166 | $10,387 |
| Percentage change | 1.2 | 1.6 | 0.8 | 2.4 |

Source: 2015 Q4 QER and ERS data.

Note: Required increase in contract revenues is calculated by a three step process: 1) calculate the potential wage increase as in Table II.7; 2) calculate wages as a percent of revenues (using QER data); 3) calculate the increase in revenues required to cover the total increase in wages. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to Table II.14 in the main text.

### Table H.1. Anticipated impacts of reducing required direct labor ratio on NPA business practices, products NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 8.3 | 45.8 | 45.8 |
| Scope of business (percentage) | 16.7 | 20.8 | 62.5 |
| Other NPAs' participation in AbilityOne (percentage) | 16.7 | 0.0 | 54.2 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 24 products NPAs. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to III.1 in the main text.

### Table H.2. Anticipated impacts of reducing required direct labor ratio on NPA business practices, services NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 9.0 | 55.0 | 36.0 |
| Scope of business (percentage) | 14.4 | 41.4 | 44.1 |
| Other NPAs' participation in AbilityOne (percentage) | 14.4 | 16.2 | 45.9 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 111 services NPAs. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to III.1 in the main text.

### Table H.3. Anticipated impacts of reducing required direct labor ratio on NPA business practices, mix NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 6.8 | 50.0 | 43.2 |
| Scope of business (percentage) | 15.9 | 38.6 | 45.5 |
| Other NPAs' participation in AbilityOne (percentage) | 13.6 | 11.4 | 52.3 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 44 mix NPAs. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to III.1 in the main text.

## Table H.4. Anticipated impacts of reducing required direct labor ratio on NPA business practices, small NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 0.0 | 55.0 | 45.0 |
| Scope of business (percentage) | 10.0 | 40.0 | 50.0 |
| Other NPAs' participation in AbilityOne (percentage) | 15.0 | 15.0 | 55.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 20 small NPAs. Small NPAs are those that employ 50 or fewer workers with disabilities. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to III.1 in the main text.

## Table H.5. Anticipated impacts of reducing required direct labor ratio on NPA business practices, medium NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 6.0 | 60.2 | 33.7 |
| Scope of business (percentage) | 16.9 | 47.0 | 36.1 |
| Other NPAs' participation in AbilityOne (percentage) | 13.3 | 12.0 | 47.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 83 medium NPAs. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to III.1 in the main text.

## Table H.6. Anticipated impacts of reducing required direct labor ratio on NPA business practices, large NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Participation in AbilityOne (percentage) | 13.0 | 42.9 | 44.2 |
| Scope of business (percentage) | 14.3 | 27.3 | 58.4 |
| Other NPAs' participation in AbilityOne (percentage) | 15.6 | 13.0 | 49.4 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 77 large NPAs. Large NPAs are those that employ more than 200 workers with disabilities. Entries in the row "Other NPAs' participation in AbilityOne" do not sum to 100 percent because NPA responses of "Do not know" are included in the denominator. Similar to III.1 in the main text.

### Table J.1. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities, products NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 41.7 | 25.0 | 33.3 |
| Hours worked by workers with disabilities (percentage) | 16.7 | 62.5 | 20.8 |
| Direct labor ratio (percentage) | 87.5 | 12.5 | 0.0 |
| Workers with disabilities seeking employment (percentage) | 16.7 | 33.3 | 50.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 24 products NPAs. Products NPAs are those with at least 90 percent of total contract revenues in products contracts. Similar to Table III.2 in the main text.

### Table J.2. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities, services NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 35.1 | 43.2 | 21.6 |
| Hours worked by workers with disabilities (percentage) | 31.5 | 56.8 | 11.7 |
| Direct labor ratio (percentage) | 75.7 | 21.6 | 2.7 |
| Workers with disabilities seeking employment (percentage) | 14.4 | 51.4 | 34.2 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 111 services NPAs. Services NPAs are those with at least 90 percent of total contract revenues in services contracts. Similar to Table III.2 in the main text.

### Table J.3. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities, mix NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 52.3 | 34.1 | 13.6 |
| Hours worked by workers with disabilities (percentage) | 43.2 | 45.5 | 11.4 |
| Direct labor ratio (percentage) | 72.7 | 27.3 | 0.0 |
| Workers with disabilities seeking employment (percentage) | 13.6 | 61.4 | 25.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 44 mix NPAs. Mix NPAs are those with at least 10 percent of total contract revenues in both products and services contracts. Similar to Table III.2 in the main text.

### Table J.4. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities, small NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 25.0 | 35.0 | 40.0 |
| Hours worked by workers with disabilities (percentage) | 20.0 | 60.0 | 20.0 |
| Direct labor ratio (percentage) | 60.0 | 35.0 | 5.0 |
| Workers with disabilities seeking employment (percentage) | 15.0 | 45.0 | 40.0 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 20 small NPAs. Small NPAs are those that employ 50 or fewer workers with disabilities. Similar to Table III.2 in the main text.

### Table J.5. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities, medium NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 33.7 | 44.6 | 21.7 |
| Hours worked by workers with disabilities (percentage) | 27.7 | 61.4 | 10.8 |
| Direct labor ratio (percentage) | 73.5 | 25.3 | 1.2 |
| Workers with disabilities seeking employment (percentage) | 13.3 | 56.6 | 30.1 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 83 medium NPAs. Medium NPAs are those that employ between 51 and 200 workers with disabilities. Similar to Table III.2 in the main text.

### Table J.6. Anticipated impacts of reducing required direct labor ratio on employment of workers with disabilities, large NPAs

| | Reduce | Stay the same | Increase |
|---|---|---|---|
| Employment of workers with disabilities (percentage) | 50.6 | 32.5 | 16.9 |
| Hours worked by workers with disabilities (percentage) | 40.3 | 46.8 | 13.0 |
| Direct labor ratio (percentage) | 84.4 | 14.3 | 1.3 |
| Workers with disabilities seeking employment (percentage) | 15.6 | 46.8 | 37.7 |

Source: Web survey of SourceAmerica NPAs.

Note: Includes 77 large NPAs. Large NPAs are those that employ more than 200 workers with disabilities. Similar to Table III.2 in the main text.

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