December 4, 2023

Honorable Steven Mackey, Policy Analyst
OMB Office of Federal Financial Management
Office of Management and Budget
Executive Office of the President
725 17th St., NW
Washington, DC 20503

Re: Guidance for Grants and Agreements (Docket Number 2023-21078)

Dear Director Young,

The Americans for Financial Reform Education Fund (AFREF), the Institute for Policy Studies, Jobs to Move America, Communications Workers of America, United for Respect, and Take on Wall Street appreciate the opportunity to comment on the proposal by the Office of Federal Financial Management, Office of Management and Budget (OMB) to revise sections of OMB Guidance for Grants and Agreements.

Our organizations are signatories to the comment letter submitted by the Local Opportunities Coalition, and strongly support the proposed rule's provisions and the letter's recommendations for strengthening the final rule. Specifically, we strongly support the provisions explicitly allowing recipients to evaluate companies in relation to workforce practices, community benefits, racial and gender equity, and environmental sustainability. We write to recommend it be made explicit – in guidance accompanying the final rule – that local and state officials may also take responsible action to consider stock buyback expenditures, exorbitant CEO pay, and private equity-driven leveraged buyouts and drastic cost-cutting when awarding federal funds. Discouraging these practices will help ensure that corporate recipients of public funds provide high-quality services with broadly shared benefits.

Public Companies: Stock Buybacks and Exorbitant CEO Pay

In the context of public companies, overspending on stock buybacks and exorbitant CEO pay tied to short-term stock market indicators can undermine investments in the workforce, community benefits, racial and gender equity, and environmental sustainability. Studies have shown that stock buybacks are associated with wage stagnation[1] and layoffs, investment slowdowns, and reduced innovation.[2] Stock buybacks are intimately tied to CEO pay, as most of

[1] Lenore Palladino, "Financialization at work: Shareholder primacy and stagnant wages in the United States," Competition and Change, Jun. 22, 2020, *available at* https://journals.sagepub.com/doi/abs/10.1177/1024529420934641.
[2] William Lazonick, "Stock buybacks: From retain-and-reinvest to downsize-and-distribute," Brookings Institute Center for Effective Public Management, Apr. 17, 2015, *available at* https://www.brookings.edu/research/stock-buybacks-from-retain-and-reinvest-to-downsize-and-distribute/.

it is equity-based. Significant research finds that exorbitant CEO pay reduces productivity by undermining employee morale and boosting turnover rates.[3]

There have been recent, notable examples that have crystalised the devastating effects that can result from overinvestment in stock buybacks. Norfolk Southern, the company responsible for the train derailment in Ohio that will have incalculable costs for local residents and the environment, spent $6.5 billion in the past two years on stock buybacks. Earlier this year, they announced plans to spend another $7.5 billion on stock buybacks.[4] This is money that could have been spent on safety investments, paid leave for employees, and other measures to protect public and environmental health. As another example, Abbott authorized $8 billion in stock buybacks in 2019-2021. Meanwhile, the company let one of its baby formula plants deteriorate to the point that the FDA shut it down in 2022 after several infants who consumed formula made at the plant fell ill from bacterial infections. This public safety disaster then contributed to a national baby formula shortage.[5]

The Department of Commerce recognized the inverse relationship between productivity-boosting investments that put taxpayer money to good use and the squandering of money on stock buybacks in its guidance for disbursement of CHIPS subsidies. In its fact sheet on the topic of protecting U.S. taxpayers, it said "[a]pplicants will be assessed based on their commitments to . . . [m]ake investments in the U.S. semiconductor industry, with corresponding commitments to stock buybacks." It further noted that "[t]he CHIPS Program Office will evaluate applications based on the extent of the applicant's commitments to refrain from stock buybacks."[6] The OMB should make clear that these considerations need not be confined to how the federal government considers distributing public funds, and can also be applied by states and localities distributing public funds.

The recent UAW strike at the three largest automaker companies made the connection between overinvestments in CEO pay and stock buybacks and underinvestment in the workforce and environmental sustainability. It did so by pointing to exorbitant CEO pay at these companies, tying their wage increase demands to the rise in pay of the CEOs, highlighting the fact that the

---

[3] Academic Resources and Research About CEO-Worker Pay Gaps, CEO-Worker Pay Resource Guide, Inequality. Org, *available at* https://inequality.org/action/corporate-pay-equity/#academic-research.

[4] Chris Isidore, "Norfolk Southern is paying $6.5 million to derailment victims. Meanwhile, it's shelling out $7.5 billion for shareholders," CNN, February 22, 2023, *available at* https://www.cnn.com/2023/02/22/investing/norfolk-southern-share-repurchases/index.html.

[5] U.S. Senate Finance Committee, "Wyden Launches Investigation Of Abbot Tax, Stock Buyback Practices," May 18, 2022, *available at* https://www.finance.senate.gov/chairmans-news/wyden-launches-investigation-of-abbott-tax-stock-buyback-practices.

[6] National Institute of Standards and Technology, U.S. Department of Commerce, "Funding Opportunity – Commercial Fabrication Facilities FACT SHEET: Protecting U.S. Taxpayers," February 28, 2023, *available at* https://www.nist.gov/system/files/documents/2023/02/28/CHIPS_NOFO-1_Protecting_US_Taxpayers_Fact_Sheet_0.pdf.

companies' spending on stock buybacks had risen 1,500% over the last four years, and winning just transition demands.[7] The OMB should make clear that a company's spending on stock buybacks and CEO pay can be considered in the procurement process, as these practices can be tied to a company's ability and willingness to invest in its workforce, community benefits, racial and gender equity, and environmental sustainability.

Private Companies: Private Equity Leveraged Buyouts and Cost-Cutting

The business model of many private equity firms – loading companies with debt and cutting costs – can result in cuts to investments in the workforce, community benefits, racial and gender equity, and environmental sustainability. Two recent books expose[8] – and many years of research document – that when private equity takes over a company, it is more likely to go into bankruptcy[9] and employees are more likely to lose their jobs or benefits.[10] Indeed, private equity-driven job losses – especially when companies go bankrupt – have precipitated calls for states to pass laws mandating guaranteed severance pay to employees facing mass layoffs.[11] Research on private equity in the health sector has found that patients are more likely to see their healthcare costs increase[12] and residents of nursing homes are more likely to die faster.[13] On the environmental sustainability front, a growing body of research is exposing private equity's greenwashing and climate-destructive practices.[14]

Because of these important connections between underinvestments in the workforce, community benefits, and environmental sustainability on the one hand and stock buybacks, exorbitant CEO pay, and private equity-driven leveraged buyouts and cost-cutting on the other, the OMB should make it explicit in guidance accompanying the final rule that states and localities receiving

---

[7] The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), "New UAW Video Exposes Extreme CEO Pay at Big Three Compared to Rival Automakers, Shows Companies Can Easily Afford UAW Demands," Oct. 11, 2023, *available at* https://uaw.org/new-uaw-video-exposes-extreme-ceo-pay-big-three-compared-rival-automakers-shows-companies-can-easily-afford-uaw-demands/.
[8] Gretchen Morgenson & Joshua Rosner, These Are the Plunderers: How Private Equity Runs—and Wrecks—America, Simon & Schuster, Apr. 25, 2023; Brendan Ballou, Plunder: Private Equity's Plan to Pillage America, PublicAffairs, May 2, 2023.
[9] Brian Ayash & Mahdi Rastad, "Leveraged Buyouts and Financial Distress," Finance Research Letters, Jan 2021, *available at* https://www.sciencedirect.com/science/article/abs/pii/S1544612320301549.
[10] Steven J. Davis, John Haltiwanger, Kyle Handley, Ben Lipsius, Josh Lerner, and Javier Miranda, "The (Heterogenous) Economic Effects of Private Equity Buyouts," Becker Friedman Institute for Economics at UChicago, Jul. 8, 2021, *available at* https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_2019122.pdf.
[11] "Guaranteed Severance Pay: A Safety Net for Essential Workers," United for Respect, *available at* https://united4respect.org/campaigns/wall-street/guaranteed-severance/.
[12] Steve Maas, "How Patients Fare When Private Equity Funds Acquire Nursing Homes," National Bureau of Economic Research, Apr. 2021, *available at* https://www.nber.org/digest/202104/how-patients-fare-when-private-equity-funds-acquire-nursing-homes.
[13] Americans for Financial Reform Education Fund, "The Deadly Combination of Private Equity and Nursing Homes During a Pandemic," Aug. 2020, *available at* https://ourfinancialsecurity.org/wp-content/uploads/2020/08/AFREF-NJ-Private-Equity-Nursing-Homes-Covid.pdf.
[14] *See* Private Equity Climate Risks, *available at* https://www.peclimaterisks.org/.

federal funds are allowed to take into account these practices in their procurement process. While the proposed rule would not preclude states and localities from considering these practices, we believe making it explicit would be valuable for ensuring that is clear to recipients.

We thank the Office of Federal Financial Management for engaging in this important process to revise sections of OMB Guidance for Grants and Agreements. We appreciate your consideration of our recommendations. For further discussion, please contact Natalia Renta at natalia@ourfinancialsecurity.org and Sarah Anderson at sarah@ips-dc.org.

Sincerely,

Americans for Financial Reform Education Fund
Communications Workers of America
Institute for Policy Studies, Global Economy Project
Jobs to Move America
Take on Wall Street
United for Respect