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**Congress of the United States**  
**House of Representatives**  
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Statement of the Honorable  
Luis G. Fortuño  
House Subcommittee on Federal Workforce, Postal Service, and the District of  
Columbia

I would like to thank Chairman Davis and Ranking Member Marchant for the opportunity to present this testimony for the record on the subject of locality pay. I represent over 10,000 federal employees residing in Puerto Rico who currently participate in the COLA program. There are at present various proposals under consideration that would phase out the non-foreign cost-of-living allowances and phase-in locality pay for federal employees in my District, as well as the U.S. Virgin Islands, Alaska, Hawaii, Guam, and the other territories and U.S. possessions.

As you know, the Office of Personnel Management submitted a legislative proposal on May 30, 2007, entitled the "Locality Pay Extension Act of 2007." Recently, Senators Akaka, Stevens, Inouye, and Murkowski introduced S. 3013, the "Non-Foreign Area Retirement Equity Assurance Act of 2008." Both proposals, although significantly different in some respects, would extend locality pay to white collar Federal Employees in the non-foreign areas, including Puerto Rico, while reducing cost-of-living allowances.

I have received many calls and letters from federal employees in my district expressing concerns about the impact the phase-out may have on the Island and seeking additional information about the proposal. In order to answer their questions I invited OPM to Puerto

Rico last June to participate in a town hall style meeting at which OPM representatives were able to explain the Administration's proposal and answer many questions.

The most salient concern of my constituents regards the impact, if any, that the phase-out may have on their take-home pay. COLA, unlike locality pay, is non-taxable and is considered non-taxable income by the Puerto Rican government. I understand that S.3013, as drafted, would minimize if not eliminate altogether, any impact on take-home pay during the three year phase-out period. In light of the severe economic crisis that currently affects Puerto Rico and the difficulties the federal government has experienced in hiring and retaining employees, I believe it is critical that take home pay not be adversely affected.

Many of my constituents have also expressed concern about the different impact that the phase-out might have on federal employees under the Civil Service retirement systems and those under the newer FERS (Federal Employees Retirement System) that includes a mandatory Thrift Savings Plan. OPM has provided some examples with numbers as to how the proposed legislation would affect an average Puerto Rican federal employee. However, these examples do not take into consideration that many federal employees in Puerto Rico are under the new retirement system, FERS, and that FICA taxes are deducted from their salaries. I would welcome an opportunity to discuss my constituents' concerns and to gain a better understanding of whether the conversion to locality pay will have a different impact on those employees in my district who are covered under the Civil Service retirement systems, and the federal employees under FERS.

Thank you.