AFGE
Congressional
Testimony

STATEMENT BY

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BEFORE

THE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE AND THE DISTRICT OF COLUMBIA

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

ON

IN SEARCH OF EQUITY: AN EXAMINATION OF LOCALITY PAY

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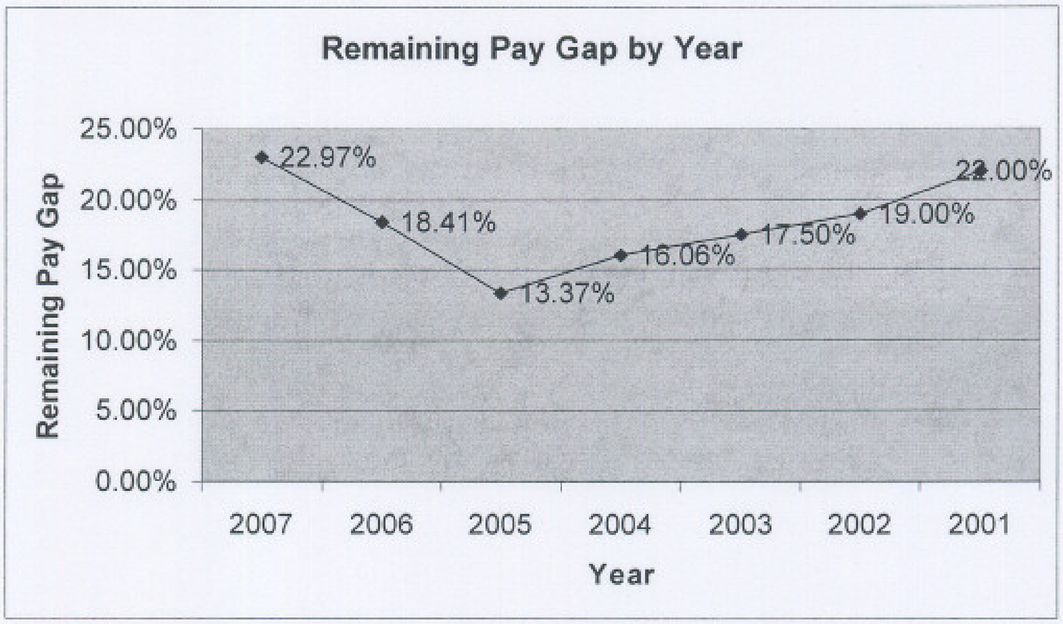
Mr. Chairman and Members of the Subcommittee, my name is Jacqueline Simon, and I am the Public Policy Director of the American Federation of Government Employees, AFL-CIO (AFGE). On behalf of the more than 600,000 federal employees our union represents, including thousands who live and work in numerous federal agencies and programs located in the non-foreign COLA areas, and in high-cost cities throughout the nation, I thank you for the opportunity to testify today on the subject of locality pay.

AFGE is a strong supporter of the market-based locality pay system created in 1990 through the enactment of the Federal Employees Pay Comparability Act (FEPCA). FEPCA promised to take the politics out of federal pay, and base federal salaries and annual salary adjustments on both national and regional labor market data collected and analyzed by the Department of Labor's Bureau of Labor Statistics (BLS). The law was passed specifically to address the enormous gaps between the salaries of federal employees and their counterparts in the private sector. We believe that comparability with the private sector, measured objectively by the BLS, is the best standard for federal pay. The federal government cannot pay below market salaries and expect to be anything other than an employer of last resort, and we believe that market comparability is not only the best way to ensure recruitment and retention of a high quality federal workforce, it is also the fairest way to set federal pay.

In recent years, the market-based pay system has come under harsh attack by proponents of pay-for-performance. Fortunately, these advocates have had to resort to falsehoods and exaggerations to make the case for abandonment of the FEPCA system, and as such, have not made much progress toward eliminating market comparability as the standard for federal pay setting. Bowing to President Bush and then-Defense Secretary Rumsfeld in the months after September 11th and "mission accomplished" in Iraq, Congress gave the Departments of Homeland Security and Defense authority to jettison the General Schedule (GS) locality pay system and replace it with highly subjective and highly controversial "pay for performance" schemes. But the sobering realities of those Departments' massive difficulties in implementing new systems that do not fun afoul of the Merit System, and do not result in thousands of lawsuits, has made everyone wary of expanding the Rumsfeld pay plan to other agencies.

The case against the locality pay system advanced by proponents of pay for performance centers on the charge that the locality pay system is old and needs to become more "contemporary." Sometimes it's called a centenarian, other times it's referred to as a relic of the 1940's. In fact, the Employment Cost Index (ECI) and locality pay combination has only been around since 1994. They also like to claim that it is inflexible, when in fact the current system provides for numerous flexibilities such as special rates, incentive payments, elimination of time-in-grade, bonuses of up to 100% of salary for recruitment, retention, and relocation; student loan repayment, changes in locality boundaries, and many others. However, even though OPM is often the loudest voice decrying the current pay system's inflexibility, it also publishes periodic reports to Congress describing the frequency with which the broad array of flexibilities are used. OPM's findings in these reports are that flexibilities are rarely used because of budget restraints. Thus, one cannot say truthfully that the system itself is either inflexible or antiquated. It is just underfunded.

Underfunding is also responsible for the fact that locality pay has failed to meet FEPCA's promise of closing the federal-non-federal pay gap by 2002. As the chart below illustrates, the "remaining gaps" continue to be substantial long after 2002, when the target of 95% of comparability was supposed to have been met. In fact, the size of the remaining gap has actually grown in the past two years, as the data have been improved to provide a more accurate measure of the gap between federal and non-federal pay. These improvements consist of changes to the data that take into consideration the composition of the federal workforce, and thus include larger numbers of supervisory positions than previous years' data did.



The remaining gaps in some localities are strikingly large. The Los Angeles Area Federal Executive Board has approached both the Federal Salary Council and the Congress seeking relief from both high living costs and difficulties in recruitment and retention in Southern California. Yet the Lost Angeles-Long Beach-Riverside, California pay locality, which includes the Lost Angeles-Long Beach-Riverside Combined Statistical Area as well as the Santa Barbara-Santa Maria-Goleta Metropolitan Statistical area and all of Edwards Air Force Base, has a smaller remaining pay gap than twelve of the current 32 localities. They have proposed splitting their localities between coastal and inland counties. The Federal Salary Council carefully considered the impact of this proposal in 2006. Its findings were as follows:

> Based on the information from BLS that it is not feasible to split the survey sample, an indicator that the effect on the locality pay rate would be modest, demographic information that is inconclusive, high levels of commuting to and from coastal and inland Los Angeles, no representation...from the inland counties, the potential effect on other pay areas, that most of the development in the inland counties is on the western side, closer to Los Angeles, and turnover rates that indicate employees leave the inland counties faster than the coastal counties, the council recommends that the Pay Agent not adopt the proposal to split the Lost Angeles locality pay area.[1]

This is not to suggest that the 21.82% remaining gap is not a problem that needs to be addressed immediately. The facts presented by the Los Angeles Federal Executive Board are compelling. Federal salaries remain behind those in the private sector by huge amounts in many high cost U.S. cities, including 36.3% in Washington /Baltimore, 26.67% in New York City, 28.62% in San Francisco, 25.35% in Boston, and 23.06% in Chicago – to name just a few. Employees in all these cities have difficulty maintaining a decent standard of living and buying even a median-priced home. That pay gaps have persisted almost seven years after the law's schedule for gradual closure should have been met is extremely frustrating. The obvious answer is full funding for FEPCA.

While full funding of FEPCA remains a top AFGE priority, we are aware that it is likely to continue to be sacrificed to other government priorities. But ignoring the problem while it grows is especially dangerous as the federal government struggles to recruit the next generation of federal employees as the baby boom generation prepares to retire. As such, it makes sense to consider what the government might do to provide relief for federal employees who work in areas with particularly high housing costs.

To assist federal employees and their families who live in particularly high cost cities with large remaining pay gaps, AFGE recommends that the federal government begin to provide a variety of housing assistance programs, under well-defined circumstances. We propose pilot programs that would address the particularly acute problems faced by federal employees and agencies in counties with median house prices that are at least 25% above the median house price within a locality. Agencies could experiment with a variety of approaches to provide relief from high housing costs, including programs modeled after the federal Teacher Next Door program that allows public school teachers to purchase owned by the Housing and Urban Development (HUD) at "half price", and California's Extra Credit Teacher Home Purchase Program that makes low interest mortgages and reduced down payments available to teachers. In

[1] Memorandum for the President's Pay Agent from the Federal Salary Council, October 27, 2006, page 9.

addition to programs that make buying a home more affordable, agencies should be able to provide lump sum housing allowances equivalent to those provided to the military.

It is important to note that our proposal for pilot programs to ease housing costs for federal employees in certain cities with prohibitive real estate prices is not a proposal to replace locality pay with housing allowances. AFGE strongly opposes efforts to eliminate the FEPCA guarantee of locality pay for federal employees working in localities with pay gaps that exceed FEPCA targets. We view experiments with various approaches, including housing allowances, reduced prices on HUD-owned homes, and home purchase incentives involving discounted interest rates and reduced down payments are necessary supplements to annual salary adjustments based upon both ECI and National Compensation Survey (NCS) locality data.

Previous calls for the extension of the military's basic housing allowance to federal employees proposed using it to replace locality pay and varying the size of the allowance according to "rank."[2] These proposals were put forward prior to the recent decline in housing prices, and were based upon the confounding observation that locality pay was higher in Houston than in San Francisco, but median housing prices in Houston were only about a fifth of those in San Francisco. While AFGE supports all serious efforts to improve the living standards of federal employees, we reiterate our opposition to any proposal that would replace any component of the current pay adjustment formula.

Shifting from Non-Foreign COLAs to Locality Pay

AFGE strongly supports S. 3013, the Non-Foreign Area Retirement Equity Assurance Act of 2008, introduced by Senator Akaka (D-Hawaii), Senator Stevens (R-Alaska), Senator Inouye (D-Hawaii), and Senator Murkowski (R-Alaska). In all respects, it is superior to the legislation proposed by the Bush Administration in the President's FY 2008 Budget which also sought to shift federal employees in non-foreign COLA areas to locality pay.

The Senate's bill phases in locality pay over a relatively brief three-year period. This schedule for replacing COLAs with locality pay allows employees to obtain the benefits of locality pay rapidly, and pay back the federal retirement system in an affordable way. The Administration's proposal, in contrast, draws out the phase in period over seven long years. The stated reason for this lengthy phase in is the fear that a faster transition would exacerbate federal agencies' retention problems by encouraging a rush to retirement. Delaying the implementation of locality pay in order to hold federal employees "hostage" to OPM's preferred schedule of retirement for those eligible to retirement is neither

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[2] "Housing Allowance for Feds? Some Execs Say Yes", by Amy Curl, www FederalTimes.com, July 7, 2006

fair nor respectful of federal employees. Although other localities that have been found to have pay gaps in excess of the five percent threshold have received the entire locality pay immediately upon the establishment of a new locality, we believe the transition from COLA to locality justifies a short phase in period. As such, we support the three year schedule provided in the Senate's legislation.

The legislation's formula for the gradual replacement of COLAs with locality pay is also far superior to that found in the President's proposal. The Administration would have offset each dollar of locality with a reduction of $.85 from COLA; S.3013 has a formula that is designed to ensure that employees' take home pay is not adversely affected during the transition. The $.65 offset per dollar of locality is strongly preferable, and AFGE endorses this approach. In addition to speeding the transition to locality pay, this formula also ensures that no employee's paycheck will actually decline during the transition, an important standard that AFGE members both need and appreciate, especially in light of the recent upsurge in gasoline prices and general inflation.

The Senate legislation also has the important virtue of making the transition to locality pay voluntary for current employees. Under the legislation, employees who choose to forego locality pay will be permitted to "lock in" the 2008 COLA rate. We strongly support making the transition to locality pay voluntary. However, there are already-approved increases in COLA rates awaiting the lengthy rulemaking process in the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) that might not be finalized in time to meet the deadline described in the legislation. We request that language be added to allow a "lock in" to include amounts provided in pending increases in non-foreign COLAs. In that way, federal employees in Puerto Rico, who are scheduled to receive an increase in their COLAs from 13 percent to 14 percent by next year at the latest, will be able to obtain the higher amount if they choose to remain in the COLA system.

Finally, the Senate bill provides an opportunity for both regular employees, and employees subject to mandatory retirement ages who become eligible for retirement during the transition period to pay into the Civil Service Retirement and Disability Retirement Fund amounts, plus interest, that they would have paid if they had been covered by locality pay, so that their annuities will not be adversely affected. We strongly support this provision, which is absent from the Administration's proposal. Federal employees consider many factors when deciding the date on which to retire. In fact, the majority who already receive locality pay do not retire on the day they reach eligibility. There is no reason to deprive federal employees in non-foreign areas, who have long sought locality pay, the ability to neutralize the financial impact on their annuities of their long wait. They deserve the ability to pay into the retirement system to make themselves whole, and AFGE strongly supports the provisions of S.3013 that allow them to do so.

We are working with the Senate Committee to provide two additional protections to the bill. The first is a guarantee that no federal employee in any non-foreign area who chooses to participate will ever receive locality pay that is less than the amount provided to the "Rest of US" or "RUS." Second, we ask that explicit language be added that two new localities be added to the current 32 Federal Employees Pay Comparability Act (FEPCA) localities that cover the entire states of Hawaii and Alaska. Since the dawn of the locality pay program in 1992, funding at the Department of Labor has been cited by the President's Pay Agent as an excuse for severely limiting the number of pay localities. In 2006, the cities of Orlando, Kansas City, and St. Louis all had to be dropped in order to make room for cities with larger pay gaps relative to RUS due mainly to the budget rule that only 32 cities would be surveyed, no more. It would be wrong to "rob Peter to pay Paul" and eliminate two existing localities to facilitate the addition of Hawaii and Alaska. Likewise, it would be wrong to force federal employees in Hawaii and Alaska to remain part of RUS when preliminary data show that their pay gaps are far in excess of those in RUS.

The reports of the Federal Salary Council's Workgroup meetings, as well as the official reports of the Federal Salary Council since 2003 make reference to decisions to drop some localities and add others. http://www.opm.gov/oca/fsc/index.asp) In these reports, the budget constraints that have been discussed explicitly are implicitly referred to in statements that urge the Bureau of Labor Statistics (BLS) to utilize resources that had been devoted to one set of localities to a new set. The fact that the total number of localities has not been increased since 1998 is also evidence of the fact that BLS budget constraints have limited the number of cities and regions that could become separate localities.[3] For these reasons, we support the inclusion of explicit language to direct the BLS to conduct surveys of Hawaii and Alaska for purposes of establishing both states as new localities under FEPCA that would not displace any existing locality.

This concludes my statement. I would be happy to answer any questions.

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[3] When locality pay began, there were 28 localities. In 1995, four cities were added and five were dropped to bring the total down to 27. In 1997, three were added; in 1998 an additional two cities were added to bring the total up the current number of 32. In 2006, three cities were dropped and three were added. The total remains 32.