Statement of
Kathrene Hansen, Executive Director
Greater Los Angeles Area Federal Executive Board

Before the
House Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, Postal Service and the District of Columbia

On:

"In Search of Equity: An Examination of Locality Pay"

June 26, 2008

Good morning Chairman Davis and Members of the Subcommittee. I thank you for the opportunity to appear before you today to discuss the White Paper titled ***"Imperfect Storm: The Looming Human Capital Crisis in California's High-Cost Cities"*** which was prepared in July 2006 by the Greater Los Angeles (GLA) and San Francisco Bay (SFB) Area Federal Executive Boards (FEBs). The views in this testimony are my own and do not represent the views of the Administration, the Department of Homeland Security, or the Federal Executive Boards.

I am Kathrene Hansen, the Executive Director of the Greater Los Angeles FEB. Although she is not testifying today, I would like to acknowledge Dianna Louie, my counterpart with the San Francisco Bay Area FEB. We work collaboratively together to resolve state wide issues because between our two FEBs, we represent over **80,000** Civilian employees who work for more than 300 regional, district and area Federal agencies and Department of Defense commands (Postal and active duty military employees which accounts for an additional 86,000 employees in our jurisdiction). The State of California has more Federal employees than any community outside of the District of Columbia. Although our focus was on Los Angeles and San Francisco localities, we can only conclude that the rest of the Federal workforce in our state is impacted by many of the issues raised today.

Why the Federal Executive Boards are Involved in this Issue:

FEBs were created by President Kennedy in 1961. The purpose of the Board is to provide a vehicle for Federal agencies in the field to work together on common issues, identify common problems and concerns that cannot be solved from the local level and to bring them when appropriate, to the national level. We were created for this very purpose which is to highlight and provide insight into issues that may potentially become of national significance. FEBs have a rich history of supporting Federal agencies in the field especially in the areas of disaster preparedness and human capital development. Specifics about the FEBs' origin, regulatory and administrative authority to participate in the dialogue on issues such as locality pay can be found in Appendix A.

In 1988, the **FEBs in New York City and Los Angeles published reports on the recruitment and retention crisis experienced in those high-cost cities.** These reports captured the attention of policymakers in Washington, D.C., and the result was the passage of the **Federal Employee**

Pay Comparability Act of 1990 (FEPCA). The creation of locality pay was a major breakthrough, but it did not solve the problems identified 20 years ago.

For many years it has been increasingly difficult for Federal departments and agencies located in California to hire and retain qualified personnel. By early 2001, it was evident that staffing problems were approaching crisis proportions. The Greater Los Angeles Area FEB published a report that year titled: *The Federal Employee Recruitment and Retention Crisis: The Failure of the Federal Employee Pay Comparability Act of 1990* which **highlighted the need to include cost-of-living in the locality pay formula.** On September 11th of that year the attack on America and the global war on terrorism rightly became an all-consuming concern within the Federal sector; therefore, Federal staffing problems seemed of less importance temporarily.

With recent skyrocketing increases in the cost of living, the issue has indeed become critical for some Federal agencies. Stories we hear often in California's high-cost cities are not the reality for the Federal worker in most parts of the country. It is surprising that Federal employees at the GS 13 and GS 11/12 level and below qualify for HUD's Section 8 rental assistance program in SFB and GLA respectively. We hear about employees who sleep in their cars while they save up to get into an apartment, employees who get their dental work done in Mexico, employees who share an apartment based on their shift assignment. With the gas price hike we are seeing an increase of employees who are staying on a co-workers sofa or sleeping in a camper in a near-by park during the week because they can't afford rent and the gas to drive to work each day. They do all this so they can stay in California because of family obligations or to keep their jobs while they desperately await a transfer to a lower cost city. The key here is that they do their jobs well while they quietly struggle to survive – that is dedication!

Federal Locality Pay Methodology

The reports published by the FEBs in 1988 called for a restructuring of Federal pay based on **cost of living.** And although these reports are credited as the genesis of the FEPCA, the call for locality pay to be based on cost of living was not heard. Instead the formula is based upon the cost of labor. The failure of the current locality pay formula to consider cost of living and extremely high housing costs has resulted in tremendous variations in the quality of life for the Federal worker.

In many parts of the country, the Federal worker is adequately compensated; however, in high-cost cities that is not the case. I am not an economist or a statistician so I cannot tell you why or exactly how the current locality pay formula creates these inequities. I can only testify that it does.

I am a proud Federal employee based in Los Angeles, daily I witness the Federal agencies - against all odds – heroically perform their missions. I am also a compassionate person who sees the adverse impact of this formula and the struggles of the Federal employees in California's high-cost cities as they try to put a roof over their heads, food on their tables and gas in their cars. The workforce is stretched to their limit, employees face extreme challenges, yet they do their jobs well and keep us safe. California employees are often required to work more than one job to make ends meet. Employees are also doing more than their share of the workload to compensate for prolonged high vacancy and turnover rates. This also requires that they work a disproportionate amount of overtime and many drive 75 miles to and from work because they had to move that far out to find "affordable housing."

Based on the input received from Federal managers, there are five aspects of the current locality pay system that prevents equity:

(1) The creation of the Rest of U.S. Category
(2) Not including Cost-of-Living in the formula (to include housing)
(3) Composition of Locality Pay Areas
(4) Not Closing the Pay Gap
(5) Not Including the State Tax Rate

The Creation of the "Rest of U.S. Category" raised the base pay for all Federal employees in the Continental United States (CONUS) and diluted the financial relief so desperately needed in high-cost areas. The difference in pay between high and lower-cost areas hasn't been enough to draw employees and retain employees in the high-cost areas.

To illustrate this point: when reviewing the Locality Pay Charts it appears that Federal employees in San Francisco are receiving 32.53% more than employees in low-cost locales and Los Angeles employees are receiving 25.26% more; however, since all Federal employees in the CONUS receive 13.18% locality pay, the net increase for SFB and GLA respectively is 19.35% and 12.08% (*A chart showing this calculation for all locality pay areas is included as Attachment B)*

Not Including Cost of Living in the Formula - Although the current locality pay formula does not factor in the cost-of-living, employees certainly do when they consider where they can afford to live. Locality pay rates that are out of sync with the cost-of-living result in Federal employees being able to sustain a significantly higher standard of living in some parts of the country. **For example, a Federal employee could move from Los Angeles to Houston and make 44% less and still maintain the same lifestyle. The anomaly is that this Federal employee making the transfer would also see a 2.13% increase in their Federal salary and pay no state income tax (compared to the current 9% paid in California) and pay 72 cents less per galloon of gas.** This occurs because cost of living is not considered in establishing locality pay rates.

Composition of Locality Pay Areas – There is great variation in the size of locality pay areas. The Los Angeles Area locality pay area is 36,000 square miles - almost the size of the State of Maine – the largest in the Nation. Throughout this massive area, there are six different counties with significantly different economies and demographics. Representatives from the Los Angeles FEB have made two presentations to the Federal Salary Council to request that the geographic boundaries for our locality pay area to be changed so that the "cost of labor" surveys conducted would more accurately reflect the reality of the different communities that are now part of the same pool. Ironically one of the highest labor markets (Santa Barbara County) is not surveyed as part of the Department of Labor process, yet one of the lowest labor markets in the United States (San Bernardino County) is included. Our request was denied by the Council.

Not Closing the Pay Gap - In 1990 a stop-gap "emergency" measure was implemented to ease the staffing crisis in New York City, San Francisco and Los Angeles; Federal employees in those locations were given an immediate Interim Geographic Allowance of 8%. Despite the President's Pay Agent reporting that the pay gap in these locations has continued to increase in these intervening 18 years, the net increase in salary for that period to these employees is only 3.18% in New York City, 4.08% in Los Angeles; and 11.35% in San Francisco.

Not Including the State Tax Rate – Obviously working in a state where there is no state tax income is more affordable then the 9% we pay in California. Also, states differ in taxing retirements. I mention this because there are a lot of military retirees who take civil service jobs and since California does tax those individuals they are another recruitment pool not available to us because they avoid living here because of the high-cost of living and lack of a tax incentive.

Top Four Reasons We Published the Report in 2006:

1. Managers and employees voiced concerns to the FEBs
2. Assist with future succession planning
3. Disclose research findings
4. Identify potential solutions

Every year when the new pay schedules are published, employees would contact the FEBs with questions about pay compression, not enough pay and the belief that the way locality pay is calculated is not adequate. The Federal managers who are members of the California FEBs asked that we do a survey to capture legitimate pay issues in both localities.

Each FEB conducted surveys of Federal agencies to gauge the extent of the staffing problem, assess the potential implications of the problem from a National and public safety perspective, and identify best-practices and lessons-learned that could be transported to other agencies to remedy the problem.

After the results were analyzed we convened an intergovernmental task force in both Los Angeles and San Francisco to review the findings. We did not know where our findings would lead us. What we found is that the current pay schedules adversely impact employees in ways we never imagined. The next step was to propose possible solutions to these macro/micro problems.

What has Changed since the Report was Published?

Although many human resource flexibilities were in place when we prepared this study; in the last few years, the Office of Personnel Management (OPM) has worked diligently to develop even more to assist the Federal agencies with recruitment and retention problems. Based on their response to our report, we know that OPM believes that if Federal agencies would fully implement these flexibilities that the recruitment and retention problems would be eliminated. However, that does not appear to be the reality in the field.

OPM's menu of human resource flexibilities includes a number of non-compensation options such as telework, flexible work hours, etc. Even these are difficult to implement for many of the agencies in high-cost cities who are experiencing record vacancy rates and significantly high turnover. In addition, many of the occupations that are experiencing the most serious recruitment and retention challenges do not lend themselves to these alternative work options.

In anticipation of today's hearing, Dianna and I conducted a quick e-mail survey of our member agencies to assess what had changed in the two years since we conducted our last survey. We again specifically asked the agencies if they are using the flexibilities available to them and what level of success they have had with them. The majority of agencies who responded stated that their agency either would not authorize the flexibilities or that there was no funding to support the flexibilities; so, they were not being used. Only forty percent of those who responded have used the flexibilities and only one-third of those found the flexibilities to be successful.

In addition to the lack of funding to implement the human resource flexibilities, there were four additional concerns raised about relying on these flexibilities as the means to resolve our recruitment and retention challenges:

1. An **inconsistent application of the flexibilities** within the commuting area would result in simply transferring the vacancies between agencies
2. The **remedies** that affect pay are mostly **time-limited** and won't solve the permanent problem of the cost of living being significantly higher than the pay collected
3. The salary enhancements only **exacerbate the pay compression** situation.
4. In the **Los Angeles Area** due to a lack of usable mass transit, the **transportation subsidy** available to many Federal employees Nationwide is **not an option** for workers in the L.A. Basin

A few agencies have migrated into new pay-for-performance systems since our 2006 report was published. As we reported, financial hardships not only take a personal toll on Federal employees, but they have a serious negative impact on job performance. When people don't have the basics of life (food, shelter and safety) it is impossible for them to perform at high levels. Pay for performance maybe an excellent pay formula, but only if employees nationwide have parity regarding these basic needs. A disproportionate number of employees in high-cost cities are consumed with simply acquiring the basics of life; therefore, these pay systems further discriminate against Federal employees in high-cost cities.

In addition, one long-term consequence of employees struggling to meet their monthly bills is that a considerable number of Federal employees in high-cost cities are currently **not participating** fully in the **Thrift Savings Plan (TSP)**. I applaud Congress's recent proposal to require employees to contribute a minimum amount to the TSP unless they "opt-out", however in California most employees do not have sufficient discretionary income after they pay their rent or mortgage and fill their cars with gasoline to allow them to participate in this very important benefit.

The California High-Cost Cities Recruitment and Retention Problem:

The results of **this month's survey** showed that most agencies continue to experience the same recruitment and retention challenges, and in many cases the situation has worsened. In 2006, Federal agencies reported that recruitment and retention of talent were their number one priority and number one challenge.

- 64 percent reported having significant problems recruiting qualified staff, especially in the GS-5 to GS-9 grade range.
- 37 percent of agency vacancies take more than six months to fill in large part due to an inability to attract applicants from outside California.
- Low salaries in relation to our high-cost areas were reported as the primary obstacle to recruitment and retention.
- Federal jobs in the Los Angeles and San Francisco areas were reported as being the training grounds for employees who stay with the Federal Government but then they quickly leave for lower cost areas.

Turnover costs are estimated to be 150% of an employee's annual salary. When this is multiplied times the reported turnover rates experienced in our locales, failure to retain Federal employees is costing the Federal government a significant amount of money.

Since the Federal Law Enforcement Officers Association is participating in this hearing, I will not elaborate on the unique challenges facing law enforcement in these high cost areas, but I will explain that most California Federal Law Enforcement Offices report that the only way they are able to staff their offices is by using their mandatory transfer authority. A useful, albeit unpopular, staffing tool that is not available to other civilian agencies.

This committee has heard a great deal about the impending retirement "tsunami," so I will not repeat those numbers; however, California will be hit particularly hard because of our current vacancy levels. Vacancy levels are in great part due to a large number of Federal employees at all grade levels leaving the state because of our high-cost of living and non-competitive salaries.

California's Economy:

Given the regional complexity, national economic significance and large population, California is critical to the security and economic health of the nation. Many of the Nation's most critical infrastructures exist in California's high-cost cities. To protect them and the millions of residents in these mega-cities, the full complement of Federal agencies is needed to keep them safe and secure. However **there is no incentive within the existing Federal pay system for employees to serve in these high-cost cities.**

A consequence of the recruitment and retention problems in California's high-cost cities is that many Federal jobs have left the state. One agency filled a human resource director position at the GS-15 level; three times only to have each candidate decline the job after their house-hunting trip. So, ultimately the office was relocated out of state. In our 2001 report, we highlighted the Harvard study which reported on funds paid by residents into the U.S. Treasury versus Federal domestic spending returned to the state. In 2001 it was reported that **Californians' paid in $23 Billion more than came back into the state** by way of Federal dollars, jobs and programs.

Some may think that the downturn in the economy may be a boom for Federal agencies to recruit. Although the growth in our economy has slowed, we are not seeing the major downturns experienced in other parts of the country. According to the Los Angeles Economic Development Corporation's February 2008 forecast the current business situation for the state and region is a two-track economy, rolling backwards are housing and its related industries and financial services on one track. Other segments of the local economy are seeing slow and steady growth. It is projected that in 2008-2009 the region's tourism industry should see positive growth trends due to the declining U.S. dollar and agreements allowing more leisure travel from China. Professional, scientific and technical services will also see decent growth. The legal profession can expect an onslaught of lawsuits over the next few years from the sub-prime loan debacle. The forecast also looks for a light pickup in international trade with a 2.8% increase in containers handled at the LA/Long Beach Port.

Gas prices have always been higher in California than in other parts of the country. But now Federal employees have been dealt a "double whammy." In pursuit of more affordable housing, employees are living farther out from the metropolitan areas where they work and now have to pay a minimum of two times as much for gasoline than in 2005.

Just this week we found the lowest prices for regular gas also varies dramatically by location. Ironically the same community that has a very high locality pay rate also has one of the lowest gas prices in the country.

City	**Lowest Gas Price Available** as of June 18, 2008 Source: www.californiagasprices.com
National Average	$4.08
Houston, TX	**$3.69**
Los Angeles, CA	$4.41
San Francisco, CA	$4.89
Washington, D.C.	$4.05

Another anomaly in California is that for most occupations, local governments pay more. The methodology used by local governments to calculate salaries includes Consumer Price Index (including housing costs) and the Employee Cost Index, which was the methodology recommended in the LA FEB's 1988 report. That same report stated that local government when surveyed about the mechanism used to set their salaries confirmed: "The Federal Government is not taken into consideration by any of the state and local government branches which were surveyed because Federal salaries are considered totally unrealistic for the Los Angeles labor market." Twenty years later, this is still an accurate statement.

The Root Cause – The Cost of Housing

Even with the recent decline in housing values, the single biggest factor affecting the cost-of-living in California is housing costs (owning or renting), which are and will remain among the highest in the nation.

If the locality pay formula were changed to consider cost-of-living since that would include the cost of housing, it would negate the need to explore other options to ease the financial strain on the Federal workforce in high-cost cities. In the event this wholesale formula change cannot be made, our report highlighted an alternative.

Our survey analysis concluded that the root cause of the recruitment and retention crisis in California's high-cost cities is the formula currently used in establishing locality pay – it doesn't provide equitable compensation for employees. The formula is based on cost-of-labor instead of cost-of-living. Normally, the former is a direct reflection of the latter, but this isn't the case for many high-cost areas where the difference between cost-of-labor and cost-of-living is **extreme.**

In California, many Federal salaries are considered "low-income" and "very low-income" and would qualify for Section 8 (rent subsidies) of the Public Housing Program under the Department of Housing and Urban Development (HUD). HUD sets the income limits for eligibility for these programs based on the median household income, in high-cost areas; they also factor in rental costs for the community. Examples of HUD income requirements for selected communities are listed below. The eligibility begins with GS-1 and up to GS-13 in San Francisco. Income limits are based upon a four person household.

City	**Median Rents 1st Quarter 2008** *Source: HUD*	**Section (8) Housing Eligibility Income** *Source: HUD*	**GS-Level** *(Compared to OPM 2008 Locality Pay Charts by locale)*
National Average	$895	Nationally the eligibility rate is based on the median housed income by County; rental rates are only factored into the eligibility equation ion high-cost locations	N/A
Houston	$802	$48,900	GS-8/Step 3
Los Angeles County	$1,794	$60,650	GS-11/Step2
Orange County *(LA Area)*	$1,858	$74,400	GS-12/Step 6
San Francisco	$1,990	$90,500	GS-13/Step 1
Washington, D.C.	$1,302	$61,500	GS-11/Step 3

In California's high-cost cities, we see Federal managers relocating to accept a promotion and suddenly find that they must dramatically alter their living standards in order to survive. One manager who relocated to Los Angeles to accept a promotion and reported that he went from living on a country club with his wife not having to work, to living in a duplex and a second income now being required to pay the bills.

As the housing market skyrocketed, we heard stories of senior managers taking on interest-only loans. We also heard about two GS-13 employees whose combined income could not qualify them to purchase a modest home. Many Federal employees in California's high-cost cities who were desperate to achieve the American dream of homeownership have now fallen victim to the creative financing prevailing in the news today.

The "new housing market" which has resulted in lower prices nationwide doesn't mean that housing in California is now affordable to a typical Federal employee. Everything is relative and California's home prices are still the highest in the nation. In addition, the credit crunch that has resulted from the past practices in the mortgage industry has made it even more difficult to purchase a home on a Federal salary. Even with the volatile housing market, housing is still not affordable for many Federal employees at all grade levels. In Los Angeles, a single income household at the GS-13 level cannot qualify to purchase even a modest condo and in San Francisco, our Federal managers at the GS-15 level often don't qualify either.

In 2006 the average Federal employee nationwide was a GS-9, Step 3. We used this salary (adjusted by locality pay area) to illustrate how out of reach home ownership is for Federal employees living in high-cost areas. Financial planners advise that a household should not spend more than 30% of gross annual salary on mortgage or rent. As this chart shows, the "Rest of U.S." Locality Pay Area is right where it should be - 23% of gross salary is required to pay for a median-priced home. **In Los Angeles and San Francisco, it takes 67% and 85% of salary, respectively, to afford a median-priced home.**

LOCALITY AREA COMPARISON					
	Los Angeles	**San Francisco**	**Houston**	**Wash. D.C.**	**National Average**
Median Housing Prices	**$528,650***	**$701,700**	**$148,400**	**$317,800**	**$196,300**
Fed. Pay. GS-9/3	**$53,172**	**$56,258**	**$54,076**	**$51,317**	**$48,044**
Locality Pay %	**25.26%**	**32.53%**	**27.39%**	**20.89%**	**13.18%**
% of gross income required for a mortgage*	**67%**	**85%**	**17%**	**38%**	**23%**

(Source National Association of REALTORS, 2008)
* - Loan assumptions – 20% down 6.5% Interest Rate for conforming loan ($417,000 or less); 7.6% for jumbo loans for Los Angeles and San Francisco.
** - LA area housing rate includes LA County $459,400 and Orange County $597,900.

<u>Proposed Solution – Variable Housing Allowance (VHA)</u>:

The Department of Defense **(DOD) has a proven model** that they have used for years for their active duty personnel. In addition to their base pay, active duty personnel are given a **Basic Allowance for Housing** (BAH) commensurate with their rank based on the housing costs of their assigned city. I know first hand the effectiveness of this recruitment and retention tool; I was raised in an Air Force family – my Father retired as a Technical Sergeant (E-6) with six children. Because the military has an effective tool to assist their employees by offering a housing allowance, although we moved a great deal and lived in both low and high-cost areas, our standard of living didn't change.

The following chart shows how BAH works. This chart was developed in 2006 so although the actual dollar amounts have changed, the concept remains the same. We used a 1st Lieutenant with three years experience as our active duty equivalent to the GS 9, Step 3 civilian employee salary with current locality pay rates. We also assumed the active duty officer and Federal civilian both have a dependent.

LOCATION		Salary	BAH	Total monthly	Annual
San Francisco	Military (1st Lieutenant)	3,541.20	3,135.00	$ 6,676.20	$ 80,114.40
	Fed. Civilian (GS-9/3)	4,200.58		$ 4,200.58	$ 50,407.00
Los Angeles	Military (1st Lieutenant)	3,541.20	2,010.00	$ 5,551.20	$ 66,614.40
	Fed. Civilian (GS-9/3)	4,043.00		$ 4,043.00	$ 48,516.00
San Diego	Military (1st Lieutenant)	3,541.20	1,990.00	$ 5,531.20	$ 66,374.40
	Fed. Civilian (GS-9/3)	3,872.83		$ 3,872.83	$ 46,474.00
Houston	Military (1st Lieutenant)	3,541.20	1,683.00	$5,224.20	$ 62,690.40
	Fed. Civilian (GS-9/3)	4,146.75		$ 4,146.75	$ 49,761.00
Washington, DC	Military (1st Lieutenant)	3,541.20	1,250.00	4,791.20	$ 57,494.40
	Fed. Civilian (GS-9/3)	3,854.58		$ 3,854.58	$ 46,255.00
Rest of U.S.	Military (1st Lieutenant)	3,541.20	666.00	4,207.20	$ 50,486.40
	Fed. Civilian (GS-9/3)	3,713.00		$ 3,713.00	$ 44,556.00

The yellow lines are the GS salaries for these six locations. Although the active duty officer's base pay is less than the GS's, when the BAH is added in, the monthly income is considerably higher. DOD implemented this system to reduce the impact of personnel transfers to high-cost areas.

These charts demonstrate dramatically the inequality of Federal compensation when compared to actual costs incurred by the employee in the community where they work. The BAH is adjusted annually based on changes in costs by location. This allowance is not taxable and does not count toward retirement or the salary cap.

In our report we suggested that the Rest of U.S. (RUS) Locality Pay Rate be made the new CONUS pay rate, and the current Locality Pay Rates for non-RUS areas be replaced with a VHA which would be similar to the DOD's BAH. Like the DOD model, the VHA would not be taxed and would not count toward the pay cap. This would create some room for performance pay without having to raise the pay cap.

The bulk of the cost could be off set in several ways:

(1) **Not all areas in the country would be eligible for a VHA**. Compensation would be shifted from areas not needing the additional pay to those that do.

(2) A true housing allowance would be a more accurate indicator of local costs than the current flawed system of locality pay, so overpayments would be avoided.
(3) Improving recruitment and retention in high-cost cities would result in significant cost savings in hiring, training, transferring, temporary reassignments of employees on per diem to fill vacancies, long commutes in government vehicles, etc.
(4) Current costs associated with the data collection and management of an ineffective locality pay system could be saved by using DOD's paid contractor who collects the data to set the BAH each year.

The Pay Cap – A Contributing Factor

Another factor that creates recruitment and retention problems at the other end of the pay chart is salary compression. By law, General Schedule salaries cannot rise higher than the salary for **Executive Level IV** personnel (5 U.S.C. § 5304(g)(1)). Most new personnel systems use this same cap. Currently, this amount is **$149,000**. Unfortunately, Executive Level salaries rise each year only by the general cost of living increment; they are not augmented by any locality pay component. Accordingly, as the **GS-15 salaries** in high-rate geographic areas reach the Executive Level IV cap, the locality pay increment of the annual compensation increase is no longer fully paid. This phenomenon, often referred to as "**compression**," is the reality in our region. Indeed, "compression" has persistently eroded salaries for the last several years. This unfortunate situation is exacerbated each year as the lower steps on the GS-15 ladder rise to hit the Executive Level IV cap and beginning at the GS-13 level for many Federal Law Enforcement Officers who receive Law Enforcement Availability Pay.

The amounts at issue are not trivial. For each of the past several years, senior GS-15 employees in San Francisco and Los Angeles were prevented from receiving locality pay worth several thousands of dollars. What is more disturbing is that, if this situation is not addressed, employees at the cap will never receive any future locality pay increments, which could result in **all GS-15s making the same pay eventually**. This, of course, produces an anomaly whereby mid-level employees, and even employees at the lower rungs of the GS-15 ladder, receive the full locality pay differential, but the most seasoned Federal employees in our area receive no or partial locality pay.

In California's high-cost areas, the salaries of Federal managers and senior staff do not come close to matching the compensation of their peers in the non-Federal sectors. On July 31, 2007, Curtis W. Copeland, Specialist in American National Government for the Congressional Research Service, testified before this subcommittee and stated that reviews by top compensation experts in academia and elsewhere have found consistently that Federal pay lags behind the private sector by as much as 50% in some locations.

One suggestion proposed by a California Federal manager is the possibility of participating in a **pilot program that un-links GS salary from the Executive Level pay cap**. The following chart demonstrates the number of GS-15 employees in six different locations, who are currently experiencing pay compression.

Locality Pay Area	GS 15 Employees Steps Impacted by Compression**	FY 2008 Number of Employees Affected*
Los Angeles	**9-10**	**41**
San Francisco	**7-10**	**172**
Chicago	9-10	89
Boston	9-10	52
New York	8-10	154
Houston	8-10	221
TOTAL		**729**
* - Source: Office of Personnel Management, September 2007 – at that time 2007 numbers and 2008 projections were provided; this chart added both since we are now in FY 2008. Number of employees covered by GS pay schedule; actual number higher if include civilian employees in alternate pay systems ** - Does not include Federal Law Enforcement who also receive Law Enforcement Availability Pay (LEAP) with that additional pay differential, they are affected at a lower grade and lower steps.		

Pay compression presents a formidable challenge to those agencies which must recruit for senior professional staff positions. Copeland further testified that there has been a call for Congress to examine the Executive Level pay system to avert even more pay compression problems in the future.

Conclusion:

In most parts of the United States, the Federal employee is well compensated and able to live the lifestyle of a typical middle-class family. It is heart-wrenching to see the financial and quality of life sacrifices that Federal employees in California's high-cost cities must make to survive because they have chosen to work for an employer who by statute is unable to compensate them fairly and equitably in comparison to their out-of-state peers. In essence, they are penalized for serving in California.

We didn't know where this report would take us. The picture I have painted is of stark contrasts and mass hardship for Federal employees in California. Much of our current workforce is composed of employees that have family obligations in the state or are tied to their employment based on the Civil Service Retirement Plan. We can also recruit at the entry level (in most cases) because in your 20s, it maybe okay to share an apartment with three or four roommates, but as soon as that employee reaches the age when he or she starts thinking about the future, which may include marriage and having a family, which is also about the same time they become a highly trained contributor to the workforce, they either move to the private sector or they flee to lower-cost areas.

As our survey has clearly confirmed, when a current or prospective employee is trying to decide whether to move to or stay in California, I guarantee **they don't look at cost-of labor - they look at cost-of-living and associated quality of life factors**. If we cannot change FEPCA, can we at least implement it the way it was **originally intended**? All the bypasses and band-aids have created this hybrid system with unforeseen consequences.

I truly believe that we are all here today to help ensure that the U.S. public receives the quality service it deserves from the Federal Government. This includes some of the most vital government functions – protecting our ports, borders, air travel, and food supply. The public deserves a well-trained, highly competent, and dedicated Federal workforce to serve them. This demands a fairly compensated Federal workforce.

The title for this hearing is "In search of Equity – an Examination of Locality Pay". I applaud the committee for looking into this matter, because I can assure you that the current locality system is far from equitable.

Appendix A – FEB's History, Regulatory and Administrative Authority

The Executive Memorandum which created FEBs signed by President John F. Kennedy in 1961 he expressed his desire that Federal agencies in the Field work together – he stated:

> "Although each Executive agency and its field organization have a special mission, there are many matters on which the work of the departments converge. Among them are management and budgetary procedures, personnel policies, recruitment efforts, office space uses, procurement activities, public information duties, and similar matters. There are opportunities to pool experience and resources, and to accomplish savings. In substantive programs, there are also opportunities for a more closely coordinated approach in many activities, as on economic problems, natural resources development, protection of equal rights, and urban development efforts."

The regulation that directs FEBs is Title 5; Part 960 dated September 28, 1984 and revised January 1, 2007. Under Authorized Activities, it states:

Sec 960.107 (a) …Each Federal Executive Board shall consider common management and program problems and develop cooperative arrangements that will promote the general objectives of the Government and of the several Executive agencies in the metropolitan area…

Sec 960.107 (b) Each Federal Executive Board shall:

(1) Provide a forum for the exchange of information between Washington and the field and among field elements in the metropolitan area about programs and management methods and problems;
(2) Develop local coordinated approaches to the development and operation of programs that have common characteristics;
(3) Communicate management initiatives and other concerns from Washington to the field to achieve mutual understanding and support; and
(4) Refer problems that cannot be solved locally to the national level.

Since 1982, the Office of Personnel Management has provided oversight of Federal Executive Boards. In OPM's Federal Executive Board Strategic and Operational Plan 2008-2012 it states:

> **"The Board's role as a conduit of information and a meeting point for a variety of agencies – each with a different mission – is critical to a more effective government."**

As part of this plan, the FEBs were assigned two lines of business and a foundation function. Under the line of business #2: Human Capital Readiness, each FEB is required to **"Respond to member agency requests for recruitment and retention assistance."**

Attachment B – Actual Locality Pay Rates

Table prepared by the Greater Los Angeles Federal Executive Board
Source: www.opm.gov

Locality Pay Area January 1, 2008	% Reported	% Increase from 2007	% Actual >Rest of US
* - Locality Pay Area Moved to Rest of U.S Locality Pay Area in 2006; ** Locality Pay Area Created in 2006			
San Francisco-Oakland-San Jose, CA	32.53%	4.23%	9.35%
Houston-Galveston-Brazoria, TX	27.39%	3.10%	14.21%
Los Angeles-Riverside-Orange County CA	25.26%	3.52%	12.08%
New York-Northern New Jersey-Long Island, NY-NJ-CT-PA	26.36%	3.97%	13.18%
Hartford, CT	23.97%	3.78%	10.79%
Chicago-Naperville-Michigan City, IL-IN-WI	23.16%	3.65%	9.98%
Detroit-Ann Arbor-Flint, MI	22.53%	3.34%	9.35%
Boston-Worcester-Lawrence, MA-NH-ME-CT-RI	22.51%	3.80%	9.33%
Denver-Boulder-Greeley, CO	21.03%	3.36%	7.85%
San Diego, CA	22.00%	3.91%	8.82%
Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD	20.14%	3.61%	6.96%
Seattle-Tacoma-Olympia, WA	19.75%	3.51%	6.57%
Sacramento-Arden-Arcade-Truckee, CA-NV	20.25%	3.59%	7.07%
Miami-Fort Lauderdale, FL	19.11%	3.20%	5.93%
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV	20.89%	4.49%	7.71%
Minneapolis-St. Paul-St. Cloud, MN-WI	19.43%	3.59%	6.25%
Portland-Vancouver-Beaverton, OR-WA	18.72%	3.45%	5.54%
Cincinnati-Middleton-Wilmington, OH-KY-IN	17.77%	2.84%	4.59%
Dallas-Fort Worth, TX	18.74%	3.72%	5.56%
Raleigh-Durham-Cary, NC	16.82%	3.06%**	3.64%
Cleveland-Akron-Elyria, OH	17.11%	3.52%	3.93%
Atlanta-Sandy Springs-Gainesville, GA-AL	17.30%	3.75%	4.12%
Columbus-Marion-Chillicothe, OH	15.80%	3.21%	2.62%
Milwaukee-Racine-Waukesha, WI	16.73%	3.56%	3.55%
Richmond, VA	15.40%	3.39%	2.22%
Dayton-Springfield-Greenville, OH	15.26%	3.39%	2.08%
Pittsburgh-New Castle, PA	14.93%	3.19%	1.75%
Kansas City, MO-KS	*	.99%	NA
Buffalo-Niagara-Cattaraugus, NY	15.37%	3.60%**	2.19%
Huntsville-Decatur, AL	14.23%	3.07%	1.05%
St. Louis, MO-IL	*	.43%	NA
Indianapolis-Anderson-Columbus, IN	13.51%	2.96%	3.3%
Orlando, FL	*	.77%	NA
Phoenix-Mesa-Scottsdale, AZ	14.74%	3.88**	13.18%
Rest of USA	13.18%	2.99%	0%