

REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

*ANNUAL REPORT
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THE PRESIDENT'S PAY AGENT
2004*



December 2004

The President's Pay Agent

Washington, DC

December 21, 2004

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Annual Report on Locality-Based Comparability Payments for the General Schedule

The law requires the President's Pay Agent to submit a report each year showing the locality-based comparability payments we would recommend for General Schedule employees in the following fiscal year if the adjustments were to be made in accordance with section 5304 of title 5, United States Code. In keeping with this statutory requirement, this report shows the adjustments we would recommend for January 2006 *if the methodology and rates required by current law were to be implemented*. Given the current national emergency, however, we believe it would be unwise to allow the locality pay increases shown in this report to take effect in January 2006. You do not need to make a decision on the 2006 rates at this time.

Our plans for locality pay area boundaries in 2006 and our decisions on the methodology for comparing Federal and non-Federal rates of pay also are contained in this report. The development of these recommendations has been greatly facilitated by the thoughtful work of the Federal Salary Council. We continue to follow the Council's recommendation to phase in the use of salary survey data collected under the National Compensation Survey program, and we have approved the Council's recommendations to merge three existing locality pay areas with the Rest of U.S. locality pay area and create three new locality pay areas in 2006. The Office of Personnel Management will publish a notice in the *Federal Register* in 2005 to explain the proposed changes and solicit public comments before these changes are implemented in January 2006.

Although we support the proposed changes in locality pay areas, we believe these changes will be useful only as an interim measure, pending fundamental reforms in the Federal white-collar pay system. The Pay Agent continues to have serious concerns about the utility of a process that requires a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups or the performance of individual employees. We believe it is imperative to consider alternative approaches to the compensation of Federal employees that will lead to a Government that is citizen-centered, results-oriented, and market-based.

The President's Pay Agent:

Elaine L. Chao
Secretary of Labor

Joshua B. Bolten
Director, Office of
Management and Budget

Kay Coles James
Director, Office of
Personnel Management

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INTRODUCTION

The Federal Employees Pay Comparability Act of 1990 (FEPCA) replaced the nationwide General Schedule (GS) with a method for setting pay for white-collar employees that uses a combination of across-the-board and locality pay adjustments. The policy for setting General Schedule pay contained in 5 U.S.C. 5301 is that—

- (1) there be equal pay for substantially equal work within each local pay area;
- (2) within each local pay area, pay distinctions be maintained in keeping with work and performance distinctions;
- (3) Federal pay rates be comparable with non-Federal pay rates for the same levels of work within the same local pay area; and
- (4) any existing pay disparities between Federal and non-Federal employees should be completely eliminated.

The across-the-board pay adjustment provides the same percentage increase to the statutory pay systems (as defined in 5 U.S.C. 5302(1)) in all locations. This adjustment is linked to changes in the wage and salary component, private industry workers, of the Employment Cost Index (ECI), minus 0.5 percentage points. Locality-based comparability payments for GS employees, which are in addition to the across-the-board increase, are mandated for each locality having a pay disparity between Federal and non-Federal pay of greater than 5 percent.

As part of the annual locality pay adjustment process, the Pay Agent prepares and submits a report to the President which—

- (1) compares rates of pay under the General Schedule with rates of pay for non-Federal workers for the same levels of work within each locality pay area, based on surveys conducted by the Bureau of Labor Statistics;
- (2) identifies each locality in which a pay disparity exists and specifies the size of each pay disparity;
- (3) recommends appropriate comparability payments; and
- (4) includes the views and recommendations of the Federal Salary Council (FSC), individual members of the FSC, and employee organizations.

The President's Pay Agent consists of the Secretary of Labor and the Directors of the Office of Management and Budget and the Office of Personnel Management. This report fulfills the Agent's responsibility under 5 U.S.C. 5304(d), as amended. It recommends locality pay adjustments for 2006 if they were made under 5 U.S.C. 5304.

ACROSS-THE-BOARD AND LOCALITY ADJUSTMENTS

Under FEPCA, General Schedule salary adjustments, beginning in January 1994, consist of two components: (1) a general increase linked to the Employment Cost Index and applicable to the General Schedule, Foreign Service pay schedules, and pay schedules established under title 38, United States Code, for Veterans Health Administration employees; and (2) a General Schedule locality adjustment that applies only to specific areas of the continental United States where non-Federal pay exceeds Federal pay by more than 5 percent.

The formula for the general increase (defined in section 5303 of title 5, United States Code) provides that the pay rates for each statutory pay system be increased by a percentage equal to the 12-month percentage increase in the ECI, minus one-half of one percentage point. The 12-month reference period ends with the September preceding the effective date of the adjustment by 15 months.

The ECI reference period for the January 2006 increase is the 12-month period ending on September 30, 2004. During that period, the ECI increased by 2.6 percent. Therefore, the January 2006 general increase, if granted, would be 2.1 percent (2.6 percent minus 0.5 percentage points).

The locality component of the pay adjustment under FEPCA was to be phased in over a 9-year period. In 1994, the minimum comparability increase was two-tenths of the “target” pay disparity (i.e., the amount needed to reduce the pay disparity to 5 percent *according to the methodology required by current law*). For each successive year, the comparability increase was scheduled to be at least an additional one-tenth of the “target” pay disparity. For 2002 and thereafter, the law authorized the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent. However, the schedule under FEPCA has not been followed. In 2004, for example, only 53.7 percent of the “target” disparity was closed, on average, due to separate legislation or the President’s alternative plan.

LOCALITY PAY SURVEYS

In the past, the Bureau of Labor Statistics (BLS) conducted a survey of non-Federal pay each year in each locality pay area using survey methods approved by the Pay Agent. Commencing with the 1996/97 surveys, BLS implemented a new survey design for its salary surveys. The new survey program, called the National Compensation Survey (NCS) program, was used in all BLS salary surveys started after September 1996.

After reviewing test data and several years of production surveys, the Pay Agent agreed with the Federal Salary Council's conclusion that the NCS program, as originally configured, should not be used for the locality pay program. However, the Pay Agent did not ask BLS to reinstate the previous methodology. The Pay Agent concluded that the NCS program has several advantages over the previous salary survey program, the Occupational Compensation Survey Program (OCSP). These include offering greater occupational coverage, being less costly, and being less burdensome on respondents.

The Pay Agent also concluded that certain major aspects of the NCS program, including some of those raised by the Council, would have to be improved before it would be prudent to use NCS data for making pay comparisons under the locality pay program. In 2002, Pay Agent and BLS staff implemented three of the five planned improvements in the NCS program, and the Federal Salary Council recommended that we begin to phase-in the use of NCS data to set locality pay. The same three improvements are incorporated into surveys reviewed this year:

- 1) The linkage of Federal and non-Federal jobs by developing an improved crosswalk between General Schedule occupations and the Standard Occupational Classification (SOC) System to permit weighting data by Federal employment.
- 2) The development of methods to identify and exclude survey jobs that would be graded above GS-15 in the Federal Government.
- 3) The development of an econometric model based on survey data to estimate salaries for jobs not found in the probability samples.

The remaining two improvements, which are now being phased in, are the following:

- 1) The development and implementation of a four-factor job grading system with job family guides to improve grade leveling under the NCS program.
- 2) The development and implementation of better methods for grading supervisory jobs selected by probability sampling.

In 2002, the Council recommended and we agreed to begin using NCS data by averaging the OCSP and NCS results (on a 50-50 basis). In 2003, the Council recommended and we agreed to continue the phase-in by weighting NCS results 75 percent and OCSP results 25 percent. In 2004, the Council recommended that we continue to phase in NCS results by applying a 90 percent weight to NCS results and a 10 percent weight to OCSP results. It is not uncommon to use a phase-in methodology such as the Council's recommended approach when implementing a major change in methodology in order to lessen the impact of the methodology change. We approve the Council's recommended approach.

Since both OCSP and NCS data have been used in this report, the report explains both methods and summarizes where they differ. OCSP methods are covered in more detail in the 2001 Pay Agent's report, which is available at <http://www.opm.gov/oca/payagent/index.asp>.

Industrial and Establishment Size Coverage

As required by FEPCA, BLS salary surveys (both OCSP and NCS) used for the locality pay program include the collection of salary data from private industry and State and local governments, which have large numbers of workers, especially in certain occupations that are unique to government functions. Before 1991, BLS surveys for the pay comparability process covered only private sector goods-producing and service-producing industries.

BLS surveyed a total of 17,349 establishments for the data submitted for the locality pay program. In the 28 continuing separate metropolitan locality pay areas, BLS surveyed 9,027 establishments. The Rest of U.S. (RUS) locality pay survey covered 51 additional metropolitan areas and 70 non-metropolitan counties. A total of 8,322 establishments were surveyed in RUS, including establishments in Kansas City, Orlando, and St. Louis, which the Pay Agent plans to merge with RUS in 2006, and establishments in Buffalo, Phoenix, and Raleigh, which the Pay Agent plans to make separate locality pay areas in 2006.

The industry scope of the surveys includes mining, construction, and manufacturing industries; service-producing industries, including transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; services industries; and State and local governments. Households, agriculture, and the self-employed were excluded. The surveys covered establishments with 50 or more workers. In the future, BLS plans to extend the NCS program to cover all establishment sizes. The Pay Agent will review the data and consider the recommendations of the Federal Salary Council before expanding the scope of data used in the locality pay program.

Occupational Coverage

In the OCSP surveys, BLS surveyed 115 work levels distributed over 26 occupations, as shown in Table 1, below. These 26 occupations were selected to be "representative" of all GS occupations, but only about 30 percent of the GS workforce were actually in jobs covered by the surveys.

Under the NCS program, BLS uses random sampling techniques to select occupations for survey within an establishment. The occupations are selected and weighted to represent all non-Federal occupations in the location and, based on the crosswalk published in **Appendix VII** of the 2002 Pay Agent's report, also represent virtually all GS employees. OPM provided the crosswalk between GS occupational series and the Standard Occupational Classification (SOC) system used by BLS to group non-Federal survey jobs. OPM also provided March 2003 GS employment counts for use in weighting up survey job data to higher aggregates. (BLS completed delivery of the most recent NCS surveys in August 2004, before March 2004 GS employment counts became available.)

Table 1. Full Job List for OCSP Locality Surveys

Occupation by Category	Work Level by General Schedule (GS) Grade Equivalent														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Professional															
Accountant					I		II		III		IV	V	VI		
Accountant, Public							I		II		III	IV			
Attorney									I		II	III	IV	V	VI
Engineer					I		II		III		IV	V	VI	VII	VIII
Buyer/Contracting Specialist ¹					I		II		III		IV				
Scientist					I		II		III		IV	V	VI	VII	VIII
Administrative															
Budget Analyst					I		II		III		IV				
Computer Programmer					I		II		III		IV	V			
Computer Systems Analyst									I		II	III	IV	V	
Computer Sys Analyst Supv/Mgr												I	II	III	IV
Personnel Specialist					I		II		III		IV	V	VI		
Personnel Supervisor/Mgr											I	II	III	IV	V
Tax Collector					I		II		III						
Technical															
Computer Operator				I	II	III	IV	V							
Drafter			I	II	III		IV								
Engineering Technician			I	II	III		IV		V		VI				
Engineering Technician, Civil			I	II	III		IV		V		VI				

¹ Levels I and II cover Federal employees in both professional and technical categories.

Table 1. Full Job List for OCSP Locality Surveys (continued)

Occupation by Category	Work Level by General Schedule (GS) Grade Equivalent														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
GS-															
Clerical															
Clerk, Accounting ²		I	II	III	IV										
Clerk, General	I	II	III	IV											
Key Entry Operator		I	II												
Personnel Assistant ³			I	II	III	IV									
Secretary				I	II	III	IV	V							
Word Processor ⁴			I	II	III										
Officers, Protective															
Corrections Officer							I								
Firefighter					I										
Police Officers, Uniformed					I	II									

² Levels III and IV cover Federal employees in both clerical and technical categories.

³ Level IV covers Federal employees in the technical category.

⁴ Level III covers Federal employees in both clerical and technical categories.

Matching Level of Work

Under the former OCSP surveys, BLS field economists used a set list of survey job descriptions, each of which summarized work in a specific occupation at a single GS grade level. In the NCS surveys, BLS field economists cannot use a set list of survey job descriptions because BLS uses a random sampling method and any non-Federal job can be selected in an establishment for leveling (i.e., grading). In addition, it is not feasible for BLS field economists to consult and use the entire GS position classification system to level surveyed jobs because it would simply take too long to gather all the information needed to level surveyed jobs. This would also place an undue burden on survey participants. Therefore, in its original NCS methodology, BLS adopted the primary standard of the GS Factor Evaluation System (FES) for use in leveling jobs that are selected randomly in the survey. The primary standard is a framework that guides OPM when developing detailed standards for occupations under the FES. However, when the FES was designed and tested in the 1970s, OPM's predecessor, the Civil Service Commission, found a high error rate when only the primary standard was used in leveling jobs. The Federal Salary Council and OPM staff concluded that tests of the NCS program methods revealed similar problems.

To improve grade leveling under the NCS program, OPM developed a simplified 4-factor grade leveling system with 20 job family guides. These guides were designed to provide occupational-specific leveling instructions for the BLS field economists. The four factors were derived and validated by combining the nine factors under the existing FES. The factors were validated against a wide variety of GS positions and proved to replicate current grade levels.

The 20 job family guides cover the complete spectrum of white-collar work found in the Government. BLS and OPM have completed work on the guides, and BLS is now using the guides in its ongoing surveys. It will take 5 years to fully implement the conversion to the new leveling system because of BLS' data collection cycle. See **Appendix IV** of the 2002 Pay Agent's report for a summary of the BLS data collection cycle. **Appendix VI** of the 2002 Pay Agent's report contains the 20 job family leveling guides.

Jobs above GS-15

Under the former OCSP program, the occupationally-specific survey job descriptions also included instructions for excluding non-Federal jobs that, if classified under the Government's position classification system, would be graded above GS-15. For the NCS program, it was necessary to develop generic instructions for identifying white-collar jobs in the random surveys that would be graded above GS-15 if they existed in the Federal Government so that the data could be excluded from pay gap measurements. BLS developed and tested the guidance with assistance from OPM. **Appendix V** to the 2002 Pay Agent's report explains the process for identifying these jobs in the NCS program.

Grading Supervisory Positions

The former OCSP survey job descriptions also included instructions on how to grade or whether to exclude non-Federal supervisory jobs. This presented another problem for the NCS program because the Government does not use the same FES approach to grade supervisory jobs. BLS' original NCS methodology included an experimental approach in which BLS first applied the FES to sampled supervisory positions and then added additional factor points for the level of supervision. OPM classifiers believed this experimental approach would not yield the correct grade level and suggested a new approach based on the highest level of work supervised. Under the new approach, BLS would grade the work supervised using the appropriate four-factor leveling guide, not the supervisory job itself, and then add one grade for a first-level supervisor, two grades for a second-level supervisor, and three grades for a third-level supervisor. BLS and OPM have completed work on developing this procedure, and BLS is now using the new procedures in its ongoing surveys. However, the data available for this report were not processed using the new approach.

As in 2002 and 2003, BLS excluded second- and third-level supervisors entirely from the NCS data this year. BLS graded first-level supervisors by using existing NCS grade leveling procedures. The Pay Agent issued these instructions to BLS because the grades of second- and third-level supervisors are more likely affected by their supervisory duties, while first-level supervisors are more likely graded based on other factors, such as technical expertise. This modification allowed us to use some of the data from supervisory positions.⁵

Missing Data

While BLS surveys all white-collar jobs under the NCS program, it does not find all jobs at all work levels in each survey area. This is a serious problem with the NCS program and was also a serious problem with OCSP surveys because survey results and pay disparity measures can vary considerably based on which jobs are included. Pay Agent staff developed a model to estimate missing OCSP jobs, and the Pay Agent instructed BLS to develop an econometric model to provide estimates for jobs not found in NCS. The models are described later in this report and in **Appendices II and III**.

Differences in Results

In 2002, NCS pay gaps were about 4 points below those using the OCSP results, on average. In 2003, the results were about 2.6 points apart, and this year, the averages are within 1.71 points. However, the results vary significantly for a number of locality pay areas. As noted in 2002 and 2003, many factors could cause pay measures under the NCS program to be different from those under OCSP. OPM staff identified a number of possible reasons for this outcome, including the following:

⁵ Approximately 12 percent of the jobs sampled by BLS are supervisory, with 10 percent 1st level supervisors and 2 percent 2nd or 3rd level supervisors.

- OCSF data are out of date, and the nationwide rate of change measures used to age the data (i.e., the Employment Cost Index) probably overestimate or underestimate pay on a locality or occupational basis.⁶
- OCSF used a fixed job list that may have been biased toward higher-paying jobs.⁷
- Certain key OCSF results are based on small samples and may overstate pay levels.⁸
- The FSC and OPM staff believe test surveys indicated problems in assigning grades under the NCS program.
- NCS random samples may miss key high-paying jobs that are not common in non-Federal establishments, and modeled values may not fully compensate.
- Between 33 and 84 percent of the GS weighted data in the NCS program are modeled (71 percent modeled, on average). A review of the BLS model in 2002 indicated that it tends to underestimate pay for high-paying jobs. (The OCSF model also tended to underestimate pay for certain jobs.) We had actual survey data for about 70 percent of the OCSF jobs and modeled about 30 percent of that data, but OCSF survey jobs directly represented only about 30 percent of the Federal workforce, so actual data under OCSF represented only about 21 percent of the Federal workforce—a little less than the 29 percent of jobs represented by actual data under the NCS program.
- Job definitions under OCSF were written to match specific Federal jobs, while the SOC crosswalk used in the NCS program has some more generic matches.

We also note that the pay gaps measured with NCS data increased by more than 3 percentage points in three locality pay areas and changed by more than 2 points (up or down) in nine locality pay areas (including the three). These changes could reflect sizable increases in non-Federal pay over the last year or could be due to changes in Federal employment weights, but are most likely due to small samples, BLS sample rotation, or applying large Federal employment weights to small BLS samples. BLS replaced one-fifth of the establishments sampled in several of these areas. If sample rotation does affect the results to this magnitude, a significant increase in survey sample size may be desirable to achieve more stable results.

⁶ If non-Federal pay, on average, increased by 3 percent each year since 1996, a location where pay increased by only 2 percent each year would be overestimated by about 9.5 percent in 2004.

⁷ Under OCSF, the Technical category was represented by Computer Operator, Drafter, and Engineering Technician, while under the NCS program, all Technical jobs are surveyed, including Nursing Assistants and Licensed Practical Nurses. These jobs were lost from OCSF when the BLS Hospital survey was cancelled.

⁸ The Accountant level VI job in the last OCSF survey of Detroit represented only 50 non-Federal workers. Likewise, Attorney I represented 63 workers, Budget Analyst I represented 14 workers, Personnel Supervisor II represented 55 workers, and Civil Engineering Technician I represented 35 workers.

COMPARING GENERAL SCHEDULE AND NON-FEDERAL PAY

How Local Pay Disparities Are Measured

Locality-based comparability payments are a function of local disparities between Federal and non-Federal pay. Pay disparities are measured for each locality pay area by comparing the annual scheduled rates of basic pay⁹ of workers paid under the General Schedule (GS) pay plan in an area to the annual rates generally paid to non-Federal workers for the same levels of work in the same area. Under OCSP, non-Federal pay is represented by a survey of 115 jobs distributed over 26 occupations (as listed in Table 1). Each of the 115 surveyed jobs has been equated to a GS occupational definition and grade level and classified among five broad “PATCO” categories—professional (P), administrative (A), technical (T), clerical (C), and protective officer (O). Under the NCS program, BLS surveys or models salaries for all non-Federal jobs deemed to match GS positions, as shown in the crosswalk in **Appendix VII** to the 2002 Pay Agent’s report.

Non-Federal rates are estimated on a sample basis by BLS area surveys under both survey programs. The rate for each non-Federal job is an estimate of the mean straight-time earnings of full-time non-Federal workers in the job, based on the BLS survey sample. GS rates are determined from Federal personnel records for the relevant populations of GS workers. Each GS rate is the mean scheduled annual rate of pay of all full-time permanent year-round GS workers in the relevant group.

The reference dates of the BLS surveys vary over the cycle of non-Federal salary surveys conducted for the GS locality pay program under both OCSP and NCS. To ensure that local pay disparities are measured as of one common date, it is necessary to “age” the BLS survey data to a common reference date before comparing it to GS pay data of the same date. March 2004 is the common reference and comparison date used in this report. The Employment Cost Index (ECI) based on wages and salaries for white-collar civilian workers, excluding those in sales, was used to age the BLS data.¹⁰

Because 5 U.S.C. 5302(6) requires that each local pay disparity be expressed as a single percentage, the comparison of GS and non-Federal rates of pay in a locality requires that the two sets of rates be reduced to one pair of rates, a GS average and a non-Federal average. An important principle in averaging each set of rates is that the rates of individual survey jobs and job categories are weighted by Federal GS employment in equivalent classifications. Weighting by Federal employment ensures that the influence of each non-Federal survey job on the overall non-Federal average is proportionate to the frequency of that job in the Federal sector.

⁹ The annual scheduled rate of basic pay is the General Schedule rate of basic pay for the employee’s grade and step (or relative position in the rate range), inclusive of special rates under section 403 of FEPCA, but exclusive of special rates under 5 U.S.C. 5305 and locality rates under subpart F of 5 CFR part 531.

¹⁰ OCSP surveys are now 8 to 10 years old and had to be aged over an extended period. NCS surveys used in this report had reference dates between December 2002 and February 2004. See **Appendix IV**.

Table 2.
Number of OCSP Survey Jobs by GS Grade and PATCO Category

Grade	P	A	T	C	O	Total
GS-1				1		1
GS-2				3		3
GS-3			3	5		8
GS-4			4	5		9
GS-5	4	4	4	4	2	18
GS-6			2	1	1	4
GS-7	5	4	4	1	1	15
GS-8			1	1		2
GS-9	6	5	2			13
GS-11	6	5	2			13
GS-12	5	5				10
GS-13	4	4				8
GS-14	3	3				6
GS-15	3	2				5
Totals	36	32	22	21	4	115

Table 2, above, summarizes the distribution of OCSP survey jobs by PATCO category and grade. The 115 OCSP jobs are distributed among 35 category levels, which are in turn distributed among 14 grade levels (there is no OCSP survey job at grade 10). For example, under OCSP, grade GS-1 is represented by only one job in the clerical category (General Clerk I). By contrast, grade GS-5 is represented by 18 jobs distributed among all 5 categories, including 4 in the professional category (Accountant I, Engineer I, Scientist I, and Contracting Specialist I), 4 in the administrative category (Budget Analyst I, Computer Programmer I, Personnel Specialist I, and Tax Collector I), etc. Under the NCS program, all PATCO grade cells with Federal incumbents are represented.

Because of variations in local industry mix, labor force size, and other factors, BLS was not able to publish rates for all 115 OCSP jobs in any area surveyed. On average, an area survey resulted in published pay data for about 59 percent of the 115 jobs, ranging from a low of 39 jobs in the Richmond survey to a high of 94 in the Rest of U.S. survey. Salary data for unpublished jobs was substituted from alternative sources, as explained below in the section on “Publishability and Substitute Data.”

Under OCSP, the non-Federal rates from the BLS data are averaged in three stages. In the first stage, job rates are averaged within PATCO category by grade level. The jobs surveyed at each

grade represent directly the Federal workers in equivalent job classifications (e.g., engineers) and indirectly other Federal workers in the same PATCO category (e.g., other professionals) at that grade. At grade 5, for example, the four job rates in the professional category are averaged to one rate for the GS-5 professional category. In the same manner, job rates are averaged within the administrative, technical, clerical, and protective officer categories at grade 5. For averaging within category, each job rate is weighted by the CONUS¹¹ full-time permanent year-round employment in GS positions that match the job.¹² The reason for CONUS weighting in the first stage is explained below.

Under the NCS program, BLS averages survey estimates (actual or modeled) for each non-Federal job within PATCO categories and grades using CONUS GS employment weights provided by OPM. This weighting is the same as under OCSP, except that the GS employment data are from March 2003 instead of March 2004 to afford time for BLS to do the calculations and deliver the results. The NCS program covers virtually all GS jobs, not just the 26 occupations at 115 work levels included in OCSP.

When the first stage averages are complete under OCSP, grade 5 is represented by 5 category rates in lieu of its original 18 job rates. Similarly, grades 1 and 2 are each represented by one category rate, grades 3 and 4 each by two category rates, grade 6 by three category rates, and so on. Under the NCS program, all PATCO/grade categories with Federal incumbents are represented.

In the second stage, the category rates are averaged by grade level to one grade level rate for each grade represented. Thus, at grade 5 the five category rates in OCSP are averaged to one GS-5 rate. For averaging by grade, each category rate is weighted by the local full-time permanent year-round GS employment in the category at the grade. This procedure is exactly the same under the NCS program, except that all PATCO categories are represented.

In the third stage under OCSP, the 14 grade rates are weighted by the corresponding local full-time permanent year-round GS grade level employment and averaged to a single overall non-Federal rate for the locality. This overall non-Federal average salary is the non-Federal rate to which the overall average GS rate is compared. Under the NCS program, all 15 GS grades are represented.

Since GS rates by grade are not based on a sample, but rather on a census of the relevant GS populations, the first two stages of the above process are omitted in deriving the GS average rate. For each grade level represented by a non-Federal average derived in stage two, we average the scheduled rates of all full-time permanent year-round GS employees at the grade in the area.

11 Continental United States, comprising the 48 contiguous States plus the District of Columbia.

12 Five of the OCSP survey jobs match Federal series in two PATCO categories. Buyer I and II each match a Federal technical as well as a professional classification. Accounting Clerk III and IV and Word Processor III each match a technical and a clerical classification. Each of the five job rates is averaged under both categories in the first stage averaging, with appropriate weighting.

The overall GS average rate is the weighted average of these GS grade level rates, using the same weights as those used to average the non-Federal grade level rates.

The pay disparity, finally, is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate under either survey program.¹³

As indicated above, at the first stage of averaging the non-Federal data, the weights represent national or CONUS GS employment, while local GS employment is used to weight the second and third stage averages. GS employment weights are meant to ensure that the effect of each non-Federal pay rate on the overall non-Federal average reflects the relative frequency of Federal employment in matching Federal job classifications.

The methodology employed by the Pay Agent under OCSF to measure local pay disparities does not use local weights in the first (job level) stage of averaging because this would have an undesirable effect. A published survey job whose Federal counterpart has no local GS incumbents will “drop out” in stage one and have no effect on the overall average. This might be appropriate if the survey job represented only those GS workers in the Federal counterpart job; but in the second stage of averaging, each survey job represents part or all of a broader PATCO category level, and in the third stage each PATCO category level represents part or all of a broader grade level. If a job is allowed to drop out due to zero local GS employment, some GS incumbents of other classifications in the same PATCO category level—not represented by a specific survey job—will be unrepresented. For this reason, national or CONUS weights are used in the first stage of averaging OCSF data. CONUS weights are used only where retention of each published OCSF survey observation is most important—at the job level or stage one. Local weights are used at all other stages.

For the introduction of NCS data in 2002, we left the weighting system essentially unchanged, although the first stage is now done by BLS to permit use of all job data, both published and unpublished. Under the NCS program, PATCO and grade weights would not be necessary, since all white-collar jobs at all grades are represented and weighted by CONUS GS employment separately. However, the Pay Agent concluded that continued use of PATCO and grade weighting is desirable to add the local Federal employment distribution to the calculations and to permit BLS to deliver data by PATCO category/grade so that published and unpublished data can be combined before delivery to the Pay Agent.

Publishability and Substitute Data

Under OCSF, BLS was never able to publish data for all survey jobs. The fact that the set of published jobs varies from area to area was a concern because the disparity between Federal and non-Federal pay varies by job as well as by area. If area pay disparities are not based on the

¹³ An equivalent procedure for computing the pay disparity compares aggregate pay rather than average pay, where aggregate pay is defined as the sum across grades of the grade level rate times the grade level GS employment. In fact, the law defines a pay disparity in terms of a comparison of pay aggregates rather than pay averages (5 U.S.C. 5302(6)). Algebraically, however, the percentage difference between sector aggregates (as defined) is exactly the same as the percentage difference between sector averages.

same set of jobs in each area, the differences between those disparities are caused not only by differences in the pay of Federal and non-Federal workers for the same jobs (as intended), but also by differences in the set of jobs for which pay data are published.

For OCSP, the Council and the Pay Agent agreed to use data from an earlier survey to fill in missing values where available, but also developed estimates of non-Federal pay produced by a multiple regression model to estimate salaries for jobs not published by BLS. OPM staff developed the model to estimate local non-Federal pay differentials for the survey jobs. The model produced estimates of the pay of unpublished jobs based on multiple regression analysis of the pay of published jobs. The model assumed that pay varies with three factors—geographic area, occupation, and work level—and it accounted for about 96 percent¹⁴ of the variation in the pay rates published by BLS. The use of the model was endorsed by the Federal Salary Council. A technical report on the OPM model was provided in **Appendix II** to the 1994 Report, and a summary of subsequent years' models appeared in **Appendices II or III** to later reports.

BLS staff developed and implemented a similar model using NCS data to produce pay estimates for missing non-Federal jobs in NCS. Both the NCS and the OCSP model predict pay as a function of location, occupation, and grade level.¹⁵ The NCS model accounts for about 82 percent of the variations in pay, which is very good for models of this type.

Use of modeling is a generally accepted practice, and we have used modeled data in the locality pay program since 1994. The models used in both survey programs are similar in concept and form. They are also similar to the curve fitting process used in the pay comparability process prior to FEPCA. All jobs included on the crosswalk shown in **Appendix VII** to the 2002 Pay Agent's report were included in developing the model, with the exception of a handful of jobs for which BLS had no data.

The Federal Salary Council has expressed concern about the amount of data modeled under the NCS program. Based on GS employment weights used to combine the data at the job level, an average of about 71 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 84 percent modeled in Indianapolis to a low of 33 percent modeled in the Rest of U.S. locality pay area. The amount of modeled data also varies considerably by grade level and ranges from an average of 35 percent modeled at GS-4 to an average of 99 percent modeled at GS-15. The Pay Agent shares the Council's concerns about the amount of modeled data.

14 The OCSP model used survey averages by area to model missing values. Much of the variability in non-Federal pay was masked because averages were used. The NCS model developed by BLS uses all the individual survey estimates. Hence, the R squared values between the two models cannot be readily compared.

15 Both models use a transformed grade level variable, where grades 12 through 15 are treated as 13, 15, 17, and 19 for modeling purposes. This transformation was developed in the 1970s as part of the curve-fitting process used in the pre-FEPCA methodology to reflect the two-grade interval aspect of the GS position classification system.

LOCALITY PAY AREAS

Under 5 U.S.C. 5304(e)(2)(A), the Federal Salary Council made a recommendation to the Pay Agent on the composition of locality pay areas for 2006. This recommendation was transmitted to the Pay Agent in a memorandum dated October 21, 2004. (See **Appendix I**.)

Pay Disparities Below the RUS Pay Disparity

Last year, the Council concluded that the Kansas City, Orlando, and St. Louis locality pay areas should be merged with the RUS locality pay area and the survey resources used elsewhere. The Pay Agent tentatively agreed to that recommendation, but subsequently decided to ask the Council to review the matter again this year. The Council has again recommended that we drop Kansas City, Orlando, and St. Louis as separate locality pay areas because the weighted average of the OCSP and NCS pay disparities for each of those locations continues to be below that for the RUS locality pay area. We regretfully conclude that these three areas should be dropped, since the disparities have been close to or below that for the RUS locality pay area under both surveys for each of the last 3 years, as shown below:

Table 3.
Locations with Pay Gaps below that for the Rest of U.S. Locality Pay Area

Location	Survey	2002	2003	2004
Kansas City	NCS	15.63	20.86	20.83
	OCSP	27.77	27.24	27.01
Orlando	NCS	16.62	15.39	17.10
	OCSP	29.00	25.76	24.97
St. Louis	NCS	19.85	17.30	19.50
	OCSP	29.65	29.17	29.02
RUS	NCS	22.45	22.78	22.39
	OCSP	28.71	28.69	28.70

The Council also recommended that BLS reallocate survey resources from these metropolitan areas to increase the sample size in several other metropolitan areas currently surveyed by BLS as part of the RUS locality pay area. The Council selected RUS metropolitan areas to be surveyed in rank order by GS employment, provided the area has at least 2,500 GS employees, at least 375,000 nonfarm workers, and non-Federal pay levels 5 percent or more higher than the RUS area based on the BLS model described in **Appendix II**. (The last criterion automatically excludes any area in RUS that is not currently surveyed by BLS.) The Pay Agent approved that recommendation of the Federal Salary Council and BLS has discontinued salary surveys in Kansas City, Orlando, and St. Louis for locality pay purposes as of 2005. BLS plans to begin redesigning its existing surveys in the following areas: the Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area (MSA), the Memphis, TN-MS-AR MSA, the Austin-Round Rock, TX MSA, the Louisville-Elizabethtown-Scottsburg, KY-IN Combined Statistical Area (CSA), the Buffalo-Niagara-Cattaraugus, NY CSA, and the Raleigh-Durham-Cary, NC CSA.

The Council also reviewed pay gaps for Austin, Buffalo, Louisville, Memphis, Phoenix, and Raleigh this year. These data are from small-scale surveys BLS conducts as part of its data collection for the RUS locality pay area. While we asked BLS to expand the sample in these areas, they have not yet been able to do so. Because these are small-scale RUS surveys, the sample size is generally smaller than would be the case if BLS had redesigned the surveys to the scope of a locality pay survey. Pay Agent staff asked BLS to include these areas in a separate model with the existing locality pay areas and produce model-filled data files for review.

The pay gaps for these areas using the small-scale NCS surveys with model fills for missing jobs (there are no OCSF surveys for these areas) are shown in the table below.

Table 4.
Pay Gaps in Six New Areas

Area	2004 Pay Gap (Percent)	Compared to RUS
Austin-Round Rock, TX MSA	21.21	-1.18
Buffalo-Niagara- Cattaraugus, NY CSA	27.33	4.94
Louisville-Elizabeth- Scottsburg, KY-IN CSA	21.86	-0.53
Memphis- TN MSA	23.22	0.83
Phoenix-Mesa- Scottsdale, AZ MSA	25.86	3.47
Raleigh-Durham-Cary, NC CSA	30.74	8.35

The Council concluded that we should make Buffalo, Phoenix, and Raleigh locality pay areas in 2006 based on the above results. The Council believes Memphis should not become a locality pay area in 2006 because the survey results are too close to the pay gap for RUS. Since Austin and Louisville pay gaps are below RUS, the Council recommended that those areas not become locality pay areas at this time. We agree with the Council's recommendation and plan to add Buffalo, Phoenix, and Raleigh as separate locality pay areas in 2006. We ask BLS to continue its plans to ensure an appropriate sample size for its salary surveys in all six areas so that the Council and the Pay Agent can review data from appropriate surveys in the future. We also note that BLS canceled its existing survey of Raleigh as part of its budget reduction in 2004, and that we will have to use the same data on Raleigh, appropriately updated, next year. BLS should endeavor to reinstate the Raleigh survey as soon as possible.

Please note that the RUS data used in this report include data from the six areas identified above, as specified by the Pay Agent in our 2003 Report. These surveys are included in the RUS data

because BLS and OPM did not know beforehand which, if any, to exclude, and because data from these areas represent other areas in BLS' RUS sampling scheme. We have adjusted the RUS pay gap in a cost neutral fashion to net out the recommended Buffalo, Phoenix, and Raleigh locality pay areas, as shown in Table 5 below.

Table 5.
Adjusting the RUS Pay Gap to Remove Separate Areas

	Base GS payroll	2004 OCSP Pay Gap (weighted 10 percent)	2004 NCS Pay Gap (weighted 90 percent)	90% NCS 10% OCSP Pay Gap
RUS	\$23,862,090,583	28.70%	22.39%	23.02%
Buffalo	- \$210,025,836	28.70	27.33	27.47 remove
Phoenix	- \$383,296,522	28.70	25.86	26.14 remove
Raleigh	- \$247,335,129	28.70	30.74	30.54 remove
Adjusted RUS	\$23,021,433,096			22.85

The RUS data BLS provided this year already included Kansas City, Orlando, and St. Louis, so there is no need to combine the pay gap data for these locations with RUS data.

Defining Locality Pay Areas

OPM published a proposed rule in the *Federal Register* on September 22, 2004, on behalf of the Pay Agent to implement changes in locality pay area boundaries recommended by the Federal Salary Council in 2003 (69 FR 56721). One of the Council's recommendations was that Metropolitan Statistical Areas and Combined Statistical Areas adjacent to locality pay areas should be included in the pay area if the MSA or CSA has 1,500 or more GS employees and an employment interchange measure of 7.5 percent or more. Since the Council's review in 2003, GS employment in the York-Hanover-Gettysburg, PA CSA, which is adjacent to the Washington-Baltimore locality pay area, has increased above the 1,500 GS employee threshold recommended by the Council. The York area already passed the Council's recommended 7.5 percent commuting criterion with an employment interchange measure of 10.73 percent.

While the York area was not included in the Council's 2003 recommendation for locality pay areas in 2005 and was not specifically identified in the proposed rule published in the *Federal Register*, the Council believes we should add the York CSA to the Washington-Baltimore locality pay area in January 2005. We plan to follow the Council's recommendation, and OPM will respond to this comment when it publishes a final rule on the 2005 locality pay areas.

The Council has also recommended and we have agreed that Buffalo, Phoenix, and Raleigh should become new locality pay areas in January 2006. OPM will evaluate areas adjacent to these areas and include a report on its findings in the *Federal Register* notice that contains a proposed rule to establish these new locality pay areas.

Locality Pay Areas for 2006

The Pay Agent intends to provide for the following locality pay areas in 2006:

- 1) Atlanta-Sandy Springs-Gainesville, GA-AL Combined Statistical Area;
- 2) Boston-Worcester-Manchester, MA-NH Combined Statistical Area, plus the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area, Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME;
- 3) Buffalo-Niagara-Cattaraugus, NY Combined Statistical Area;
- 4) Chicago-Naperville-Michigan City, IL-IN-WI Combined Statistical Area;
- 5) Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area;
- 6) Cleveland-Akron-Elyria, OH Combined Statistical Area;
- 7) Columbus-Marion-Chillicothe, OH Combined Statistical Area;
- 8) Dallas-Fort Worth, TX Combined Statistical Area;
- 9) Dayton-Springfield-Greenville, OH Combined Statistical Area;
- 10) Denver-Aurora-Boulder, CO Combined Statistical Area, plus the Ft. Collins-Loveland, CO Metropolitan Statistical Area and Weld County, CO;
- 11) Detroit-Warren-Flint, MI Combined Statistical Area, plus Lenawee County, MI;
- 12) Hartford-West Hartford-Willimantic, CT Combined Statistical Area, plus the Springfield, MA Metropolitan Statistical Area and New London County, CT;
- 13) Houston-Baytown-Huntsville, TX Combined Statistical Area;
- 14) Huntsville-Decatur, AL Combined Statistical Area;
- 15) Indianapolis-Anderson-Columbus, IN Combined Statistical Area, plus Grant County, IN;
- 16) Los Angeles-Long Beach-Riverside, CA Combined Statistical Area, plus the Santa Barbara-Santa Maria-Goleta, CA Metropolitan Statistical Area and all of Edwards Air Force Base, CA;
- 17) Miami-Fort Lauderdale-Miami Beach, FL Metropolitan Statistical Area, plus Monroe County, FL;
- 18) Milwaukee-Racine-Waukesha, WI Combined Statistical Area;
- 19) Minneapolis-St. Paul-St. Cloud, MN-WI Combined Statistical Area;
- 20) New York-Newark-Bridgeport, NY-NJ-CT-PA Combined Statistical Area, plus Monroe County, PA, and Warren County, NJ;
- 21) Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area;
- 22) Philadelphia-Camden-Vineland, PA-NJ-DE-MD Combined Statistical Area, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
- 23) Pittsburgh-New Castle, PA Combined Statistical Area;
- 24) Portland-Vancouver-Beaverton, OR-WA Metropolitan Statistical Area, plus Marion County, OR, and Polk County, OR;
- 25) Raleigh-Durham-Cary, NC Combined Statistical Area;
- 26) Richmond, VA Metropolitan Statistical Area;
- 27) Sacramento--Arden-Arcade--Truckee, CA-NV Combined Statistical Area, plus Carson City, NV;
- 28) San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area;
- 29) San Jose-San Francisco-Oakland, CA Combined Statistical Area, plus the Salinas, CA Metropolitan Statistical Area and San Joaquin County, CA;

- 30) Seattle-Tacoma-Olympia, WA Combined Statistical Area;
- 31) Washington-Baltimore-Northern Virginia, DC-MD-VA-WV Combined Statistical Area, plus the Hagerstown-Martinsburg, MD-WV Metropolitan Statistical Area, the York-Hanover-Gettysburg, PA Combined Statistical Area, Culpeper County, VA, and King George County, VA; and
- 32) Rest of U.S.-consisting of those portions of the continental United States not located within another locality pay area.

Component counties of MSAs and CSAs are identified in lists 2 through 4 of OMB Bulletin 04-03, which is available on the Internet at <http://www.whitehouse.gov/omb/bulletins/fy04/b04-03.html>.

LOCAL PAY DISPARITIES AND COMPARABILITY PAYMENTS

Table 6, below, lists the pay disparity for each locality under OCSP and the NCS program and the weighted average of the two pay disparities (with NCS weighted 90 percent and OCSP weighted 10 percent). Table 6 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2006 based on the weighted average disparities, and it shows the disparities that would remain if the recommended payments were adopted.

Table 6 includes three new locality pay areas. BLS survey data from Buffalo, Phoenix, and Raleigh were originally collected as part of the survey conducted for the Rest of U.S. locality pay area. The Pay Agent has adopted the Federal Salary Council's recommendation to make these three areas separate locality pay areas and to adjust the RUS disparity to net out these three areas. The adjusted RUS pay disparity is the original RUS disparity adjusted to remove data from Buffalo, Phoenix, and Raleigh using the GS base payroll in each area for weights. The "RUS-adjusted disparity" column shows the adjusted RUS pay disparity.

Table 6 also includes three locations to be discontinued in 2006—Kansas City, Orlando, and St. Louis. There is no need to adjust the RUS pay disparity to include these three locations because BLS already included them in the RUS survey data it submitted to the Pay Agent.

The law requires comparability payments only in localities where the pay disparity exceeds 5 percent; the goal was to reduce local pay disparities to no more than 5 percent not later than the year 2002 (5 U.S.C. 5304(a)(3)(I)). The "Disparity to Close" shown in Table 6 represents the pay disparity to be closed in each area based on the 5 percent remaining disparity threshold. The "Locality Payment" shown in the table represents 100 percent of the disparity to close. (Note: Since FEPCA contemplated that the target pay disparity would be closed by 2002, the amounts shown in columns 5 and 6 are the same.) The last column shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Atlanta, the 32.70 percent NCS/OCSP pay disparity would be reduced to 5.00 percent if the locality rate were increased to 26.38 percent $(132.70/126.38-1) \times 100 = 5.00$ percent).

The actual remaining pay disparity as of January 2006 may differ from the calculations above for two reasons. First, Federal pay will have increased by the amount of the across-the-board increases that become effective in January 2005 and January 2006. Second, non-Federal pay will have increased by some amount from March 2004 to January 2006. For the purpose of this report, we assume that future changes in Federal and non-Federal pay will effectively cancel each other out and that the pay disparities will remain about the same.

Table 6. Local Pay Disparities and 2006 Comparability Payments (NCS 90%/OCSP 10%)

Locality	-1-OCSP Disparity (percent)	-2-NCS Disparity (percent)	-3-Wtd. Avg. Pay Disparity(percent)	-4-RUS Adj. Disparity(percent)	-5-Disparity to Close(percent)	-6-Locality Payment(percent)	-7-Remaining Disparity (percent)
Atlanta	30.51	32.94	32.70	32.70	26.38	26.38	5.00
Boston	39.23	38.49	38.56	38.56	31.96	31.96	5.00
Buffalo	N/A	27.33	27.33	27.33	21.27	21.27	5.00
Chicago	42.24	37.09	37.61	37.61	31.06	31.06	5.00
Cincinnati	37.68	27.22	28.27	28.27	22.16	22.16	5.00
Cleveland	32.28	31.00	31.13	31.13	24.89	24.89	5.00
Columbus	30.94	23.71	24.43	24.43	18.50	18.50	5.00
Dallas	33.06	34.66	34.50	34.50	28.10	28.10	5.00
Dayton	31.25	26.31	26.80	26.80	20.76	20.76	5.00
Denver	39.24	36.85	37.09	37.09	30.56	30.56	5.00
Detroit	43.08	33.93	34.85	34.85	28.43	28.43	5.00
Hartford	40.76	44.39	44.93	44.93	38.03	38.03	5.00
Houston	49.79	39.88	40.87	40.87	34.16	34.16	5.00
Huntsville	26.15	25.72	25.76	25.76	19.77	19.77	5.00
Indianapolis	25.75	23.60	23.82	23.82	17.92	17.92	5.00
Kansas City*	27.01	20.83	21.45	22.85	17.00	17.00	5.00
Los Angeles	45.53	38.54	39.24	39.24	32.61	32.61	5.00
Miami	37.71	28.05	29.02	29.02	22.88	22.88	5.00
Milwaukee	32.94	29.85	30.16	30.16	23.96	23.96	5.00
Minneapolis	36.74	34.39	34.63	34.63	28.22	28.22	5.00
New York	42.20	50.19	49.39	49.39	42.28	42.28	5.00
Orlando*	24.97	17.10	17.89	22.85	17.00	17.00	5.00
Philadelphia	35.89	35.79	35.80	35.80	29.33	29.33	5.00
Phoenix	N/A	25.86	25.86	25.86	19.87	19.87	5.00
Pittsburgh	29.17	25.94	26.26	26.26	20.25	20.25	5.00
Portland	36.93	32.05	32.54	32.54	26.23	26.23	5.00
Raleigh	N/A	30.74	30.74	30.74	24.51	24.51	5.00
Richmond	31.60	26.85	27.33	27.33	21.27	21.27	5.00
Sacramento	36.54	36.39	36.41	36.41	29.91	29.91	5.00
St. Louis*	29.02	19.50	20.45	22.85	17.00	17.00	5.00
San Diego	38.07	38.92	38.84	38.84	32.23	32.23	5.00
San Francisco	54.26	56.70	56.46	56.46	49.01	49.01	5.00
Seattle	38.03	36.19	36.37	36.37	29.88	29.88	5.00
Washington, DC	34.57	39.69	39.18	39.18	32.55	32.55	5.00
Rest of U.S.	28.70	22.39	23.02	22.85	17.00	17.00	5.00

* Locations to be merged with RUS in 2006.

Average Locality Rate

The average locality comparability rate in 2006, using the basic GS payroll as of March 2004 with planned pay area definitions to weight the individual rates, would be 25.84 percent under the methodology used for this report. The average rate authorized in 2004 was 13.85 percent.

Overall Remaining Pay Disparities

The pay disparities contained in this report average 32.13 percent using the basic GS payroll and planned pay area definitions to weight the local pay disparities. However, this calculation excludes existing locality payments. When the existing locality payments (i.e., those paid in 2004) are included in the comparison, the overall remaining pay disparity as of March 2004 was $(132.13/113.85-1) \times 100$, or about 16.06 percent. Table 7, below, shows the overall remaining pay disparity in each of the 32 locality pay areas established by the Pay Agent as of March 2004.

Table 7.
Remaining Pay Disparities in 2004

Locality Pay Area	Remaining Disparity	Locality Pay Area	Remaining Disparity
Atlanta	17.84%	Milwaukee	15.55%
Boston	18.44%	Minneapolis	17.32%
Buffalo	14.82%	New York	25.23%
Chicago	16.36%	Philadelphia	17.76%
Cincinnati	11.47%	Phoenix	13.49%
Cleveland	15.90%	Pittsburgh	12.81%
Columbus	9.98%	Portland	15.56%
Dallas	18.14%	Raleigh	17.89%
Dayton	13.18%	Richmond	13.56%
Denver	17.51%	Sacramento	18.43%
Detroit	13.97%	San Diego	19.52%
Hartford	22.96%	San Francisco	25.96%
Houston	14.40%	Seattle	18.46%
Huntsville	12.80%	Washington, DC	21.42%
Indianapolis	11.44%	Rest of U.S.	10.78%
Los Angeles	15.99%		
Miami	11.67%	Average	16.06%

COST OF LOCALITY PAYMENTS

Estimated Cost of Locality Payments

The cost of locality payments is the sum of all individual locality payments during a calendar year, offset by special salary rates. This amount is estimated using OPM records of all Federal employees with duty stations within the continental United States (CONUS) as of March 2004 and covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 6. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in CONUS in 2006 will not differ from the number and distribution in March 2004. The estimate does not include increases in premium pay costs or Government contributions for retirement, life insurance, or other employee benefits that may be attributed to locality payments.

Cost estimates are derived as follows. First, both the “scheduled annual rate of pay,” as defined in 5 CFR 531.602, and the annual rate inclusive of special rates are determined for each employee. (These rates are adjusted to include an assumed 2.5 percent across-the-board increase in January 2005 and the 2.1 percent across-the-board increase that would become effective in January 2006 under current law.) Both annual rates are converted to expected annual earnings by multiplying each by an appropriate work schedule factor.¹⁶ The “gross locality payment” is computed for each employee by multiplying expected annual earnings from the scheduled annual rate by the locality payment percentage for the employee’s locality pay area. The sum of these gross locality payments is the cost of locality pay before offset by special rates.

Second, for each employee, the gross locality payment is compared to the amount by which expected annual earnings from the annual rate inclusive of special rates exceeds the expected annual earnings from the scheduled annual rate. This second amount is the “cost” of any special rate. If the gross locality payment is less than or equal to the cost of any special rate, the net locality payment is set at zero. In this case, the locality payment is completely offset. If the gross locality payment is greater than the cost of any special rate, the net locality payment is equal to the gross locality payment minus the cost of any special rate. In this case, the locality payment is at most partially offset. If the scheduled annual rate is the same as the annual rate inclusive of special rates (i.e., the cost of any special rate is zero), then there is no offset and the net locality payment equals the gross locality payment. The sum of the net locality payments so derived is the estimated cost of local comparability payments.

Estimated Cost of Locality Payments in 2006

Table 8, below, compares the cost of the projected 2005 locality rates to those that would be authorized in 2006 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 6. For the purpose of this cost estimate, we have assumed that there will be a 2.5 percent across-the-board increase in January 2005, but that locality pay percentages will remain at 2004 levels. If Congress provides

¹⁶ The work schedule factor equals 1 for full-time employees and one of several values less than 1 for the several categories of non-full-time employees.

for a 3.5 percent overall pay increase in 2005 and if that amount is allocated as recommended by the Federal Salary Council in **Appendix I** to this report, the estimated net cost of new locality payments in 2006 would be about \$753 million less than shown in the table. The “2005 Baseline” cost would be the cost of locality pay in 2006 if the assumed 2005 locality rates are not increased, i.e., the percentage locality payments in 2005 on top of 2004 base pay rates increased by an assumed 2.5 percent across-the-board adjustment in January 2005 and an assumed 2.1 percent adjustment in January 2006.

The “100 Percent of Target in 2006” columns show what the total locality payments would be and the net increase in 2006. The “2006 Increase” column shows the 2006 total payment minus the 2005 baseline—i.e., the increase in locality pay in 2006 attributable to higher locality pay rates. Based on the assumptions outlined above, we estimate the total cost of the net pay increases attributable to the locality rates that otherwise would be required by current law to be about \$7.8 billion on an annual basis. This amount does not include the cost of benefits or the cost of the 2.1 percent increase in rates of basic pay that would take effect in January 2006 under current law.

This cost estimate excludes 1,652 records of white-collar workers which were unusable because of errors. Many of these employees may receive locality payments. Including these records would add about \$10 million to the net cost of locality payments. The cost estimate covers only General Schedule employees and employees covered by pay plans that receive locality pay by action of the Pay Agent. It excludes the cost of pay raises for employees under other pay systems that may be linked in some fashion to locality pay increases. These other pay systems include the Federal Wage System for blue-collar workers, under which pay raises often are capped based on the increase in locality rates for white-collar workers; pay raises for employees of the Federal Aviation Administration and other agencies that have independent authority to set pay; and pay raises for employees covered by various demonstration projects.

Table 8.
Cost of Local Comparability Payments in 2006 (in millions of dollars)

Cost Component	2005 Baseline	100% of Target in 2006	
		Total Payments	2006 Increase
Gross locality payments	\$9,507	\$17,524	\$8,017
Special rates offsets	838	1,064	226
Net locality payments	\$8,669	\$16,460	\$7,791

RECOMMENDATIONS OF THE FEDERAL SALARY COUNCIL AND EMPLOYEE ORGANIZATIONS

The Federal Salary Council's deliberations and recommendations have had an important and constructive influence on the findings and recommendations of the Pay Agent. The Council's recommendations appear in **Appendix I**. We have adopted all of the Council's recommendations. The members of the Federal Salary Council are:

Terri Lacy	Chair;
Mary M. Rose	Vice Chair;
Rudy J. Maestas	Chief, Wage and Hour Bureau, New Mexico Department of Labor;
Colleen M. Kelley	National President, National Treasury Employees Union;
Richard N. Brown	National President, National Federation of Federal Employees/AFL-CIO;
Thomas Bastas	National President, Association of Civilian Technicians; and
James Pasco	Executive Director, Fraternal Order of Police

The Council's recommendations were provided to a selection of organizations not represented on the Council. These organizations were asked to send comments for inclusion in this report. Comments received appear in **Appendix VII**.

FUTURE SURVEYS

BLS has implemented three of the five improvements designed for its National Compensation Survey (NCS) program:

- (1) Problems associated with random selection of survey jobs.

Progress: BLS has designed an econometric model that is used to estimate salaries for jobs not randomly selected in the surveys. NCS program data used for this report include modeled data when survey data are not available.

- (2) Matching Federal and non-Federal jobs.

Progress: OPM formed an interagency working group that developed a crosswalk between Federal job classifications and the new Standard Occupational Classification system, which BLS uses in its surveys. OPM staff made a few improvements designed to better match certain jobs, and BLS used the new crosswalk and March 2003 GS employment data to weight the NCS data used in this report.

- (3) Excluding randomly selected jobs that would be classified above GS-15 in the Federal Government.

Progress: BLS developed methods for identifying and excluding non-Federal jobs that would be classified above GS-15 in the Federal Government. These jobs were excluded from data delivered to the Pay Agent for use in the locality pay program.

Two other improvements are now being introduced into the surveys, but will not begin to be reflected in the survey data until 2006. These are:

- (1) Assigning GS grades to randomly selected survey jobs.

Progress: OPM has designed and tested a four-factor evaluation system for use in the surveys, and BLS has successfully used the new approach in field tests. OPM also developed 20 job family grade leveling guides that cover the range of work under the General Schedule and provide occupation-specific information for use in the surveys. BLS has begun to phase the new approach into its surveys. This improvement will take 5 years to fully implement because BLS conducts detailed job leveling interviews only when it first adds an establishment to its surveys and replaces only 1/5 of its establishment sample each year.

- (2) Assigning GS grades to randomly selected survey jobs with supervisory duties.

Progress: BLS has identified survey establishments where supervisory jobs were surveyed, discussed new collection procedures with its staff, and tested a new method of grading supervisory jobs based on grading the highest level of work supervised.

BLS has completed field testing of the new procedures and has begun to use the new approach in its surveys.

The last two improvements in NCS surveys will begin to affect data delivered in 2006. We encourage BLS and Pay Agent staff to expedite completion of these last two improvements in the NCS program.