

# REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

*ANNUAL REPORT  
OF  
THE PRESIDENT'S PAY AGENT  
2007*



# The President's Pay Agent

Washington, DC

December 6, 2007

## MEMORANDUM FOR THE PRESIDENT

### **SUBJECT: Annual Report on General Schedule Locality-Based Comparability Payments**

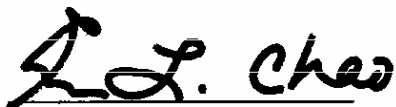
The law requires the President's Pay Agent to submit a report each year showing the locality-based comparability payments we would recommend for General Schedule employees in the following fiscal year if the adjustments were to be made in accordance with section 5304 of title 5, United States Code. In keeping with this statutory requirement, this report shows the adjustments that would be dictated for January 2009 *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 2009. You do not need to make a decision on the 2009 rates at this time.

Our plans for locality pay area boundaries in 2009 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.

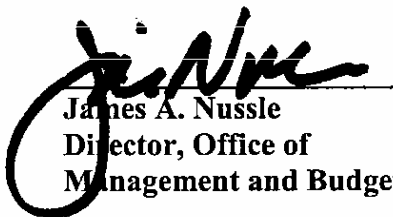
We continue to believe in the need for fundamental reforms of the white-collar Federal pay system. As we have previously reported, the Pay Agent has serious concerns about the utility of a process that requires a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups or the performance of individual employees. In addition, we continue to have major methodological concerns about the underlying model for estimating pay gaps, and will continue to address them in subsequent survey years.

Finally, we also continue to believe it is imperative to develop performance-sensitive compensation systems that will contribute to a Government that is more citizen-centered, results-oriented, and market-based. We prefer a new system that will empower Federal agencies to better manage, develop, and reward employees in order to better serve the American people.

### **The President's Pay Agent:**



Elaine L. Chao  
Secretary of Labor



James A. Nussle  
Director, Office of  
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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 (OMB) and the Office of Personnel Management (OPM). This report fulfills the Agent's responsibility under 5 U.S.C. 5304(d), as amended. It recommends locality pay adjustments for 2009 if such adjustments 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 certain 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 2009 increase is the 12-month period ending on September 30, 2007. During that period, the ECI increased by 3.4 percent. Therefore, the January 2009 general increase, if granted, would be 2.9 percent (3.4 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.

## LOCALITY PAY SURVEYS

Under FEPCA, we must use salary surveys conducted by the Bureau of Labor Statistics (BLS) to set locality pay. 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. NCS uses probability sampling of occupations within survey establishments, rather than a fixed job list with detailed job descriptions, as had been used in the past.

The new survey process was not immediately accepted for use in the locality pay program. In fact, the Federal Salary Council recommended that the original NCS methods not be used to set Federal pay. 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 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.

In our 2002 report (for locality pay in 2004), we began phasing in the NCS surveys by averaging the OCSP and NCS results (on a 50-50 basis). In 2003, we continued the phase-in by weighting NCS results 75 percent and OCSP results 25 percent. In 2004, we applied a 90 percent weight to NCS results and a 10 percent weight to OCSP results. Since the 2005 report (for locality pay in 2007), we have used only NCS survey results for the locality pay program.

Four of the five NCS improvements are fully incorporated into surveys used this year:

- 1) The linkage of Federal and non-Federal jobs by developing a 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.
- 4) The development and implementation of better methods for grading supervisory jobs selected by probability sampling.



BLS continues to phase in the last improvement, which is the use of a four-factor job grading system with job family guides, as it replaces 1/5 of its establishment sample each year. This improvement will be completed in all survey establishments in surveys conducted in 2010 and delivered in 2011. It is designed to improve grade leveling under the NCS program. All of the improvements are described in the 2002 Pay Agent's Report to the President.

### **Industrial and Establishment Size Coverage**

As required by FEPCA, BLS salary surveys 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 delivered two sets of data this year, data covering establishments with 50 or more workers and data covering all establishments with one or more employees. For establishments with 50 or more workers, BLS surveyed a total of 14,957 establishments. In the 29 separate metropolitan locality pay areas (excluding Buffalo and Raleigh), BLS surveyed 8,003 establishments. The Rest of U.S. (RUS) locality pay survey covered 48 additional metropolitan areas and 70 non-metropolitan counties. A total of 6,954 establishments were surveyed in the RUS area, including establishments in Buffalo. While Buffalo is now a separate locality pay area, BLS has not yet completed work on its geographic redesign and Buffalo continues to represent other locations in BLS' geographic sample. The Raleigh survey was discontinued in 2004 and has not yet been reinstated.

BLS surveyed a total of 21,695 establishments in surveys covering establishments with one or more workers. In the 29 separate metropolitan locality pay areas (excluding Buffalo and Raleigh), BLS surveyed 11,226 establishments. A total of 10,469 establishments were surveyed in the RUS area, including establishments in Buffalo.

The industry scope of the surveys includes private goods-producing industries (mining, construction, and manufacturing); private service-providing industries (trade, transportation, and utilities, information, financial activities, professional and business services, education and health services, leisure and hospitality, and other services); and State and local governments. Agriculture, forestry, fishing and hunting, and private households were excluded.

### **Occupational Coverage**

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 2006 GS

employment counts for use in weighting survey job data to higher aggregates. (BLS completed delivery of the most recent NCS surveys in July 2007, before March 2007 GS employment data became available.)

### **Matching Level of Work**

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 survey jobs because it would simply take too long to gather all the information needed. This would also place an undue burden on survey participants.

To conduct grade leveling under the NCS program, OPM developed a simplified four-factor grade leveling system with 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 GS Factor Evaluation System. The factors were validated against a wide variety of GS positions and proved to replicate current grade levels.

The job family guides cover the complete spectrum of white-collar work found in the Government. BLS has been using the guides in its ongoing surveys and roughly 60 percent of the data this year are leveled under the new approach. Fully implementing the new leveling system will take 3 more years because of BLS' data collection cycle, where BLS conducts detailed interviews when establishments are added to the survey sample. A new government sample was completed in July 2007, and new private industry sample members will be completed by July 2010. 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 job family leveling guides.

### **Jobs 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 (above the highest grade in the General Schedule) 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**

Grading supervisory jobs presented another problem for the NCS program because the Government does not use the 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 grades the highest level of work supervised using the appropriate four-factor leveling guide, not the supervisory job itself, and then adds one grade for a first-level supervisor, two grades for a second-level supervisor, and three grades for a third-level supervisor.

### **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 because survey results and pay disparity measures can vary considerably based on which jobs are included. The Pay Agent asked BLS to develop an econometric model to provide estimates for jobs not found in NCS. The model is described later in this report and in **Appendices II and III**.

### **Establishment Size**

BLS delivered data for both establishments with 50 or more workers (large establishments) and all establishments, i.e. including establishments with as few as one employee (small establishments). Establishments with no employees (single entrepreneur owners) are not covered by the surveys. Since locality pay began in 1994, we have used only data from large establishments in the locality pay program.

BLS defines an **establishment** as an economic unit that produces goods or services, usually at a single physical location, and is engaged in one or predominately one activity. BLS defines a **firm** as a legal business, either corporate or otherwise, and may consist of one establishment, a few establishments, or even a very large number of establishments. Hence, large firms can have small establishments if there were fewer than 50 employees at the site. Therefore, the pay practices at “small establishments” reflect the pay practices of large and small firms. BLS estimates there are 4.7 million firms in the United States with fewer than 50 employees that employ about 29 percent of full-time workers and only 248,000 firms with 50 or more workers that employ 71 percent of full-time workers, so most of the small establishments BLS selects to survey are likely also small firms.

**Table 1.**  
**Pay Gaps and Percent Modeled Data by Establishment Size**

<b>Locality</b>	<b>1-Pay Disparity Establishments with 50 or more workers (percent)</b>	<b>2-Pay Disparity Establishments with 1 or more workers (percent)</b>	<b>3-Difference (column 2 minus column 1 in percentage points)</b>	<b>4-Percent Modeled Data Establishments with 50 or more workers</b>	<b>5-Percent Modeled Data Establishments with 1 or more workers</b>	<b>6-Difference (column 4 minus column 5 in percentage points)</b>
Atlanta	42.79	45.84	3.05	69.97	65.24	4.72
Boston	51.64	55.47	3.83	67.42	64.00	3.42
Buffalo	37.19	36.91	-0.28	83.20	83.05	0.14
Chicago	49.87	50.79	0.92	68.74	68.54	0.20
Cincinnati	31.71	33.72	2.01	77.72	77.24	0.48
Cleveland	39.35	39.06	-0.29	77.18	76.62	0.56
Columbus	34.42	37.99	3.57	77.95	77.76	0.19
Dallas	43.65	46.31	2.66	60.57	59.71	0.86
Dayton	31.08	31.30	0.22	80.17	80.07	0.11
Denver	42.78	42.52	-0.26	73.94	70.25	3.69
Detroit	44.82	47.20	2.38	67.65	66.73	0.92
Hartford	47.52	50.07	2.55	75.47	72.87	2.59
Houston	47.69	48.73	1.04	68.94	68.03	0.91
Huntsville	39.17	39.63	0.46	78.67	78.13	0.54
Indianapolis	30.48	32.42	1.94	82.91	82.02	0.88
Los Angeles	51.09	52.41	1.32	56.29	55.67	0.62
Miami	42.33	43.31	0.98	78.37	77.82	0.55
Milwaukee	37.06	37.20	0.14	84.84	84.31	0.53
Minneapolis	39.95	44.06	4.11	73.70	72.97	0.73
New York	57.79	58.66	0.87	54.45	53.85	0.60
Philadelphia	43.60	44.68	1.08	65.44	64.16	1.29
Phoenix	41.55	44.08	2.53	73.08	72.75	0.33
Pittsburgh	35.28	37.59	2.31	74.85	74.62	0.22
Portland	40.24	43.52	3.28	78.78	77.39	1.38
Raleigh	31.49	Not surveyed	N/A	71.99	N/A	N/A
Richmond	32.22	33.16	0.94	77.69	76.94	0.75
Sacramento	46.32	47.10	0.78	77.75	74.50	3.25
San Diego	50.66	52.31	1.65	71.26	70.88	0.38
San Francisco	67.63	67.92	0.29	54.96	53.83	1.13
Seattle	46.32	49.43	3.11	68.78	68.23	0.55
Washington, DC	61.64	64.17	2.53	58.55	56.66	1.89
Rest of U.S.	29.64	30.51	0.87	36.34	35.19	1.15

The pay gaps in Table 1 including data from small establishments are actually higher, on average, than those limited to data from establishments with 50 or more employees. The typical pattern in the data was for pay levels to be lower in small establishments than in large establishments for lower graded jobs but higher for higher graded jobs. BLS found many relatively high pay management and physician jobs in higher grade levels in small establishments. Because we use Federal employment to weight the data and there are many higher graded Federal jobs, using data from small establishments increases the pay gaps.

Including data from small establishments increases the number of non-Federal employees represented by the data since about 29 percent of non-Federal workers are employed in small establishments. It also slightly reduces our reliance on modeled data, with about 1.7 percent more Federal employees represented by survey data rather than modeled results. However, the Federal Salary Council concluded we should review the results of using small establishments again next year before making any changes in the methods used for the locality pay program. We agree with the Council's recommendation and the remainder of this report is based on data from establishments with 50 or more employees.

## 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 pay<sup>1</sup> 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 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. 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. 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 2007 is the common reference and comparison date used in this report. The Employment Cost Index (ECI) based on wages and salaries for civilian workers was used to age the BLS data.<sup>2</sup>

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.

We use a three-stage weighted average in the pay disparity calculations. In the first stage, job rates (based on survey results or modeled data) are averaged within PATCO<sup>3</sup> category by grade level. The NCS program covers virtually all GS jobs since only jobs that were not randomly

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1 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.

2 NCS surveys used in this report had reference dates between December 2005 and October 2006, except for the Raleigh survey, which had a reference date of March 2003. See **Appendix IV**.

3 “PATCO” categories are 5 broad classes of occupations—professional (P), administrative (A), technical (T), clerical (C), and protective officer (O).

selected in any BLS survey area cannot be modeled. For averaging within PATCO category, each job rate is weighted by the CONUS<sup>4</sup> full-time permanent year-round employment in GS positions that match the job. The reason for CONUS weighting in the first stage is explained below.

When the first stage averages are complete, each grade is represented by up to five PATCO category rates in lieu of its original job rates. Under the NCS program, all PATCO/grade categories with Federal incumbents are represented, except for any where BLS had no data at all and could not model results.

In the second stage, the PATCO category rates are averaged by grade level to one grade level rate for each grade represented. Thus, at grade 5, which has Federal jobs in all five PATCO categories, the five PATCO category rates are averaged to one GS-5 rate. For averaging by grade, each PATCO category rate is weighted by the local full-time permanent year-round GS employment in the category at the grade.

In the third stage, the grade averages 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 can be 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. 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.<sup>5</sup>

As indicated above, at the first stage of averaging the non-Federal data, the weights represent 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.

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4 Continental United States, comprising the 48 contiguous States and the District of Columbia.

5 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 GS employment by grade level. 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.

The methodology employed by the Pay Agent 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 survey job whose Federal counterpart has no local GS incumbents will “drop out” in stage one and have no effect on the overall average. For this reason, national or CONUS weights are used in the first stage of averaging data. CONUS weights are used only where retention of each survey observation is most important—at the job level or stage one. Local weights are used at all other stages.<sup>6</sup>

### **Publishability and Substitute Data**

Since the beginning of the locality pay program in 1994, BLS was never able to publish data for all survey jobs in every survey area. The fact that the set of available 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 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 available.

Since 1995, the Council and the Pay Agent have used estimates of non-Federal pay produced by a multiple regression model to estimate salaries for jobs not available in individual BLS surveys. OPM staff developed the original model to estimate local non-Federal pay rates for the survey jobs with OCSP survey data. 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. A technical report on the original OPM model was provided in **Appendix II** to the 1994 Report, and a summary of subsequent years’ models appeared in **Appendices II or III** of 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 models predict pay as a function of location, occupation, and grade level.<sup>7</sup> The NCS model accounts for about 83 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 for most of the history of the locality pay program. The models used in both the original OCSP surveys and the

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<sup>6</sup> 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 may 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.

<sup>7</sup> The 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.



new NCS program 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 NCS model, with the exception of a handful of jobs for which BLS had no data.

While the use of modeled data is a standard technique, both the Federal Salary Council and the Pay Agent have 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 72 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 85 percent modeled in Milwaukee to a low of 36 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 33 percent modeled at GS-4 to an average of 98 percent modeled at GS-15.

## 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 2009. This recommendation was transmitted to the Pay Agent in a memorandum dated October 25, 2007. (See **Appendix I.**)

### New Locality Pay Areas

The Council reviewed pay gaps for Austin, Buffalo, Louisville, Memphis, Phoenix, and Raleigh again 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 conducted full-scale locality pay surveys in each of these areas. Pay Agent staff asked BLS to include these areas in a 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 are shown in the table below.

**Table 2.  
Pay Gaps in Six Areas**

Area	2007 Pay Gap (Percent)	Compared to RUS
Austin-Round Rock, TX MSA	28.08	-1.56
Buffalo-Niagara- Cattaragus, NY CSA	37.19	7.55
Louisville-Elizabeth- Scottsburg, KY-IN CSA	29.97	0.33
Memphis, TN MSA	25.99	-3.65
Phoenix-Mesa- Scottsdale, AZ MSA	41.55	11.91
Raleigh-Durham-Cary, NC CSA	31.49	1.85

MSA means Metropolitan Statistical Area and CSA means Combined Statistical Area as defined by the Office of Management and Budget.

The Council concluded that we should keep the new Buffalo, Phoenix, and Raleigh locality pay areas just implemented in 2006, but that Austin, Memphis, and Louisville should remain in the RUS locality pay area. The Council also concluded we should continue to monitor Austin, Louisville, and Memphis as BLS continues with its survey redesign. We agree with the Council's recommendations.

The data for the RUS locality pay area used in this report include data from Austin, Buffalo, Louisville, and Memphis. The Pay Agent instructed BLS to continue to include these surveys in the RUS data until it completes implementation of its survey geographic redesign because each of these surveys represents other areas in BLS' sampling scheme. We have adjusted the RUS pay gap in a cost neutral fashion to net out Buffalo since it is now a separate locality pay area. The other three locations continue to be a part of the RUS area. BLS did not include data from Phoenix in the RUS data this year since Phoenix represented only itself in the BLS geographic design, and the Raleigh survey was cancelled when BLS' budget was reduced in 2004 and the Raleigh data are no longer in the RUS estimates. We used the old Raleigh data this year to calculate the Raleigh pay gap, appropriately aged. We continue to encourage BLS to expedite renewal of its salary survey in the Raleigh area.

### **Defining Locality Pay Areas**

The Federal Salary Council reviewed requests from Federal employees in 33 areas for changes in locality pay area boundaries or new locality pay areas. These requests included a request for a separate locality pay area in Albany, NY, and a request to add Berkshire County, MA, to the Hartford locality pay area. The Council recommended we not make any of the requested changes and we agree. The Council's recommendations are in **Appendix I**.

### **Locality Pay Areas for 2009**

The Pay Agent intends to provide for the same locality pay areas in 2009 as in 2008:

- (1) Atlanta-Sandy Springs-Gainesville, GA-AL—consisting of the Atlanta-Sandy Springs-Gainesville, GA-AL CSA;
- (2) Boston-Worcester-Manchester, MA-NH-RI-ME—consisting of the Boston-Worcester-Manchester, MA-RI-NH CSA, plus Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME;
- (3) Buffalo-Niagara-Cattaraugus, NY—consisting of the Buffalo-Niagara-Cattaraugus, NY CSA;
- (4) Chicago-Naperville-Michigan City, IL-IN-WI—consisting of the Chicago-Naperville-Michigan City, IL-IN-WI CSA;
- (5) Cincinnati-Middletown-Wilmington, OH-KY-IN—consisting of the Cincinnati-Middletown-Wilmington, OH-KY-IN CSA;
- (6) Cleveland-Akron-Elyria, OH—consisting of the Cleveland-Akron-Elyria, OH CSA;
- (7) Columbus-Marion-Chillicothe, OH—consisting of the Columbus-Marion-Chillicothe, OH CSA;
- (8) Dallas-Fort Worth, TX—consisting of the Dallas-Fort Worth, TX CSA;
- (9) Dayton-Springfield-Greenville, OH—consisting of the Dayton-Springfield-Greenville, OH CSA;
- (10) Denver-Aurora-Boulder, CO—consisting of the Denver-Aurora-Boulder, CO CSA, plus the Ft. Collins-Loveland, CO MSA;

- (11) Detroit-Warren-Flint, MI—consisting of the Detroit-Warren-Flint, MI CSA, plus Lenawee County, MI;
- (12) Hartford-West Hartford-Willimantic, CT-MA—consisting of the Hartford-West Hartford-Willimantic, CT CSA, plus the Springfield, MA MSA and New London County, CT;
- (13) Houston-Baytown-Huntsville, TX—consisting of the Houston-Baytown-Huntsville, TX CSA;
- (14) Huntsville-Decatur, AL—consisting of the Huntsville-Decatur, AL CSA;
- (15) Indianapolis-Anderson-Columbus, IN—consisting of the Indianapolis-Anderson-Columbus, IN CSA, plus Grant County, IN;
- (16) Los Angeles-Long Beach-Riverside, CA—consisting of the Los Angeles-Long Beach-Riverside, CA CSA, plus the Santa Barbara-Santa Maria-Goleta, CA MSA and all of Edwards Air Force Base, CA;
- (17) Miami-Fort Lauderdale-Pompano Beach, FL—consisting of the Miami-Fort Lauderdale-Pompano Beach, FL MSA, plus Monroe County, FL;
- (18) Milwaukee-Racine-Waukesha, WI—consisting of the Milwaukee-Racine-Waukesha, WI CSA;
- (19) Minneapolis-St. Paul-St. Cloud, MN-WI—consisting of the Minneapolis-St. Paul-St. Cloud, MN-WI CSA;
- (20) New York-Newark-Bridgeport, NY-NJ-CT-PA—consisting of the New York-Newark-Bridgeport, NY-NJ-CT-PA CSA, plus Monroe County, PA, and Warren County, NJ;
- (21) Philadelphia-Camden-Vineland, PA-NJ-DE-MD—consisting of the Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
- (22) Phoenix-Mesa-Scottsdale, AZ—consisting of the Phoenix-Mesa-Scottsdale, AZ MSA;
- (23) Pittsburgh-New Castle, PA—consisting of the Pittsburgh-New Castle, PA CSA;
- (24) Portland-Vancouver-Beaverton, OR-WA—consisting of the Portland-Vancouver-Beaverton, OR-WA MSA, plus Marion County, OR, and Polk County, OR;
- (25) Raleigh-Durham-Cary, NC—consisting of the Raleigh-Durham-Cary, NC CSA, plus the Fayetteville, NC MSA, the Goldsboro, NC MSA, and the Federal Correctional Complex Butner, NC;
- (26) Richmond, VA—consisting of the Richmond, VA MSA;
- (27) Sacramento—Arden-Arcade—Yuba City, CA-NV—consisting of the Sacramento—Arden-Arcade—Yuba City, CA-NV CSA, plus Carson City, NV;
- (28) San Diego-Carlsbad-San Marcos, CA—consisting of the San Diego-Carlsbad-San Marcos, CA MSA;
- (29) San Jose-San Francisco-Oakland, CA—consisting of the San Jose-San Francisco-Oakland, CA CSA, plus the Salinas, CA MSA and San Joaquin County, CA;
- (30) Seattle-Tacoma-Olympia, WA—consisting of the Seattle-Tacoma-Olympia, WA CSA, plus Whatcom County, WA;
- (31) Washington-Baltimore-Northern Virginia, DC-MD-VA-WV-PA—consisting of the Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA, plus the Hagerstown-Martinsburg, MD-WV MSA, the York-Hanover-Gettysburg, PA CSA, 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 OMB Bulletins available on the Internet at <http://www.whitehouse.gov/omb/bulletins/index.html>.

## PAY DISPARITIES AND COMPARABILITY PAYMENTS

Table 3, below, lists the pay disparity for each pay locality. Table 3 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2009 based on the pay disparities, and it shows the disparities that would remain if the recommended payments were adopted.

Table 3 includes the Buffalo locality pay area. Since data for Buffalo are still used as part of the salary survey data for the RUS locality pay area, we have adjusted the RUS area pay disparity to net out Buffalo. The adjusted RUS pay disparity is the original RUS disparity adjusted to remove Buffalo by weighting the individual location pay disparities by GS base payroll in each area and subtracting out Buffalo. The “RUS-adjusted disparity” column shows the adjusted RUS pay disparity.

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 over a 9-year period (5 U.S.C. 5304(a)(3)(I)). The “Disparity to Close” shown in Table 3 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. The last column shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Atlanta, the 42.79 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 35.99 percent  $(142.79/135.99-1) \times 100 = 5.00$  percent).

The actual remaining pay disparity as of January 2009 may differ from the calculations for two reasons. First, Federal pay will have increased by the amount of the across-the-board increases that become effective in January 2008 and January 2009. Second, non-Federal pay will have increased by some amount from March 2007 to January 2009. 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 3.**  
**Local Pay Disparities and 2009 Comparability Payments**

<b>Locality</b>	<b>1-Pay Disparity (percent)</b>	<b>2-RUS Adj. Disparity (percent)</b>	<b>3-Disparity to Close and Locality Payment (percent)</b>	<b>4-Remaining Disparity (percent)</b>
Atlanta	42.79	42.79	35.99	5.00
Boston	51.64	51.64	44.42	5.00
Buffalo	37.19	37.19	30.66	5.00
Chicago	49.87	49.87	42.73	5.00
Cincinnati	31.71	31.71	25.44	5.00
Cleveland	39.35	39.35	32.71	5.00
Columbus	34.42	34.42	28.02	5.00
Dallas	43.65	43.65	36.81	5.00
Dayton	31.08	31.08	24.84	5.00
Denver	42.78	42.78	35.98	5.00
Detroit	44.82	44.82	37.92	5.00
Hartford	47.52	47.52	40.50	5.00
Houston	47.69	47.69	40.66	5.00
Huntsville	39.17	39.17	32.54	5.00
Indianapolis	30.48	30.48	24.27	5.00
Los Angeles	51.09	51.09	43.90	5.00
Miami	42.33	42.33	35.55	5.00
Milwaukee	37.06	37.06	30.53	5.00
Minneapolis	39.95	39.95	33.29	5.00
New York	57.79	57.79	50.28	5.00
Philadelphia	43.60	43.60	36.76	5.00
Phoenix	41.55	41.55	34.81	5.00
Pittsburgh	35.28	35.28	28.84	5.00
Portland	40.24	40.24	33.56	5.00
Raleigh	31.49	31.49	25.23	5.00
Richmond	32.22	32.22	25.92	5.00
Sacramento	46.32	46.32	39.35	5.00
San Diego	50.66	50.66	43.49	5.00
San Francisco	67.63	67.63	59.65	5.00
Seattle	46.32	46.32	39.35	5.00
Washington, DC	61.64	61.64	53.94	5.00
Rest of U.S.	29.64	29.57	23.40	5.00

### Average Locality Rate

The average locality comparability rate in 2009, using the basic GS payroll as of March 2007 to weight the individual rates, would be 36.89 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2007 was 16.88 percent. At this time, we do not know what locality rates will be approved for 2008. The locality rates included in this report would represent a 17.12 percent average pay increase over 2007 locality rates.

### Overall Remaining Pay Disparities

The full pay disparities contained in this report average 43.73 percent using the basic GS payroll to weight the local pay disparities. However, this calculation excludes existing locality payments. When the existing locality payments (i.e., those paid in 2007) are included in the comparison, the overall remaining pay disparity as of March 2007 was  $(143.73/116.88-1) \times 100$ , or about 22.97 percent. Table 4, below, shows the overall remaining pay disparity in each of the 32 approved locality pay areas as of March 2007.

**Table 4.**  
**Remaining Pay Disparities in 2007**

<b>Locality Pay Area</b>	<b>Remaining Disparity</b>	<b>Locality Pay Area</b>	<b>Remaining Disparity</b>
Atlanta	23.21%	Milwaukee	18.63%
Boston	25.35%	Minneapolis	18.43%
Buffalo	20.18%	New York	26.67%
Chicago	23.06%	Philadelphia	20.82%
Cincinnati	12.21%	Phoenix	25.02%
Cleveland	20.17%	Pittsburgh	18.50%
Columbus	16.89%	Portland	19.22%
Dallas	22.42%	Raleigh	13.18%
Dayton	14.71%	Richmond	15.57%
Denver	18.96%	Sacramento	22.97%
Detroit	19.16%	San Diego	25.20%
Hartford	20.48%	San Francisco	28.62%
Houston	16.61%	Seattle	23.39%
Huntsville	22.51%	Washington, DC	36.30%
Indianapolis	15.47%	Rest of U.S.	15.03%
Los Angeles	21.82%		
Miami	20.31%	Average	22.97%



## **COST OF LOCALITY PAYMENTS**

### **Estimated Cost of Locality Payments**

The cost of locality payments is estimated using OPM records of all Federal employees with duty stations within the continental United States (CONUS) as of March 2007 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 3. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in CONUS in 2009 will not differ substantially from the number and distribution in March 2007. 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 2008 and the 2.9 percent across-the-board increase that would become effective in January 2009 under current law (under FEPCA, across-the-board increases are based on the change in the applicable ECI minus 0.5 percentage points). Both annual rates are converted to expected annual earnings by multiplying each by an appropriate work schedule factor.<sup>8</sup> The “gross locality payment” is computed for each employee by multiplying expected annual earnings from the scheduled annual rate by the proposed 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 by an existing special rate. 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 existing 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 2009**

Table 4, below, compares the cost of the projected 2008 locality rates to those that would be authorized in 2009 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 3. For the purpose of this

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<sup>8</sup> 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.

cost estimate, we have assumed that there will be a 2.5 percent across-the-board increase in January 2008 and 0.5 percent of payroll allocated for locality pay increases. The “2008 Baseline” cost would be the cost of locality pay in 2009 if the assumed 2008 locality rates are not increased, i.e., the percentage locality payments in 2008 on top of 2007 (we are using a 2007 data file) base pay rates including an assumed 2.5 percent across-the-board adjustment in January 2008 and an assumed 2.9 percent adjustment in January 2009.

The “2009 Locality Pay” columns show what the total locality payments would be and the net increase in 2009. The “2009 Increase” column shows the 2009 total payment minus the 2008 baseline—i.e., the increase in locality payments in 2009 attributable to higher locality pay rates. Based on the assumptions outlined above, we estimate the total cost attributable to the locality rates shown in Table 3 to be about \$12.1 billion on an annual basis. This amount does not include the cost of benefits or the cost of the 2.9 percent increase in rates of basic pay that would take effect in January 2009 under current law. If the January 2008 pay increase turns out to be 3.5 percent instead of the assumed 3.0 percent, the cost of 2009 locality payments would be about \$11.7 billion.

This cost estimate excludes 517 records (out of 1.2 million) of white-collar workers which were unusable because of errors. Many of these employees may receive locality payments. Including these records would add about \$5 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. However, the cost estimate excludes members of the Foreign Service because the Department of State no longer reports these employees to the CPDF. The estimate also 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 or otherwise affected by increases 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. The cost estimate also excludes the cost of benefits affected by pay raises.

**Table 5.**  
**Cost of Local Comparability Payments in 2009 (in millions of dollars)**

Cost Component	2008 Baseline	2009 Locality Pay	
		Total Payments	2009 Increase
Gross locality payments	\$12,008	\$24,381	\$12,373
Special rates offsets	\$558	\$825	\$267
Net locality payments	\$11,450	\$23,556	\$12,106

## 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;
George Nesterczuk	Vice Chair;
Rudy J. Maestas	Chief, Wage and Hour Bureau, New Mexico Department of Labor;
J. David Cox	National Secretary-Treasurer American Federation of Government Employees
Colleen M. Kelley	National President, National Treasury Employees Union;
Frank D. Ferris	National Executive Vice President, National Treasury Employees Union;
Richard N. Brown	National President, National Federation of Federal Employees;
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**

### **Survey Improvements**

BLS has implemented four 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 a locality survey. NCS program data used for this report include modeled data when survey data were 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 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 crosswalk and March 2006 GS employment data to weight the NCS job 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.

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

Progress: BLS 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 used the new approach in its surveys beginning with the 2006 delivery.

The final NCS improvement continues to be phased into the surveys, but will not be completely implemented for 3 more years:

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

Progress: OPM designed and tested a four-factor evaluation system for use in the surveys, and BLS 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 developed several additional guides for its own uses. BLS has been phasing in the new approach over the last several years and about 60 percent of the data were graded under the new approach this year.

This improvement will take 5 years to fully implement in private sector establishments because BLS conducts detailed job leveling interviews only when it first adds an establishment to its surveys and replaces only 1/5 of its private sector establishment sample each year. An additional year is needed to introduce the new leveling process in State and local governments, bringing the total to 6 years for full implementation.

### **Establishments with Fewer than 50 Employees**

BLS has expanded its surveys to cover establishments with fewer than 50 employees and delivered data both with and without these small establishments this year. This is the first year the Federal Salary Council and the Pay Agent have considered using data from small establishments in the locality pay program.

Including data from small establishments increases the number of non-Federal employees represented by the data since about 29 percent of non-Federal workers are employed in small establishments. It also slightly reduces our reliance on modeled data, with about 1.7 percent more Federal employees represented by survey data rather than modeled results. Overall, the pay gaps were slightly higher including the data from small establishments. However, the Federal Salary Council concluded we should review the results of including data from small establishments again next year before making any decisions about whether to use the data in the locality pay program. We agree with the Council's recommendation.