Federal Salary Council

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Washington, DC 20415-8200

MEMORANDUM FOR: **THE PRESIDENT'S PAY AGENT**
HONORABLE ELAINE L. CHAO
HONORABLE JOSHUA B. BOLTEN
HONORABLE KAY COLES JAMES

SUBJECT: **Level of Comparability Payments for January 2005 and Other Matters Pertaining to the Locality Pay Program**

As authorized by the Federal Employees Pay Comparability Act of 1990 (FEPCA), we present our recommendations for the establishment or modification of pay localities, the coverage of salary surveys conducted by the Bureau of Labor Statistics (BLS) for use in the locality pay program, the process of comparing General Schedule (GS) pay to non-Federal pay, and the level of comparability payments for January 2005.

Bureau of Labor Statistics Surveys and Pay Gap Methodology

As we have done for the last several years, the Council reviewed comparisons of GS and non-Federal pay calculated using both BLS' old survey data collected under the Occupational Compensation Survey Program (OCSP) in 1994-1996 and newer BLS survey data collected under the National Compensation Survey Program (NCS) in 2001 and 2002. All BLS data were updated to March 2003 and compared to Federal pay data as of the same date. The change in non-Federal pay as measured by the nationwide Employment Cost Index (white collar, less sales occupations) was used to update the BLS data. All of the pay gaps we reviewed were calculated using the same general weighting and aggregation methods in use since 1994.

As in 2002, three of the five improvements designed for the National Compensation Survey program, supported by the Federal Salary Council and requested by the Pay Agent, were included in the NCS surveys we reviewed this year. Since this is the second year that BLS has incorporated three of the NCS improvements, we can now compare NCS survey results (including modeled data) over 2 years. The NCS pay gaps appear to be more stable now than before the improvements were made. However, the pay gap based on NCS data increased by more than 5 points since 2002 in five locality pay areas and changed by more than 2 points in 11 other locality pay areas. This is also the first set of NCS data to reflect BLS' 20 percent (1/5) sample rotation. BLS replaced 1/5 of the establishment sample in 15 of the 32 locality pay areas for the surveys delivered this year. BLS replaced part of its establishment sample in 10 of the 16 areas where the pay gap changed by more than 2 points. Increasing the establishment sample size may be desirable if sizeable fluctuations in pay gaps are due to sample rotation.

Last year, the Council recommended that we begin phasing in the NCS survey results by averaging the pay gaps derived from the OCSP and NCS pay data for each area. Because the

NCS improvements are not fully implemented and because there are substantial differences in survey results among areas between the NCS and OCSP data, the Council continues to recommend a gradual phase in of NCS results while BLS continues to implement the improvements in the surveys. For locality pay in 2005, we recommend weighting NCS results by 75 percent and OCSP results by 25 percent. **Attachment 1** shows the pay gaps as of March 2003 for both the OCSP surveys and the NCS surveys and the recommended weighted averages of the OCSP and NCS pay gaps.

Locality Rates for 2005

Based on calculations provided by Office of Personnel Management (OPM) staff in taking a weighted average of the two sets of pay gaps, the overall gap between base General Schedule average salaries (excluding any add-ons such as special rates and existing locality payments) and non-Federal average salaries surveyed by BLS was 31.82 percent as of March 2003. The amount needed to reduce the pay disparity to 5 percent (the target gap) averages 25.54 percent.

We calculate the pay gaps excluding existing locality payments because locality pay is paid on top of the base General Schedule rates. The overall average pay gap in 2003, including the current average locality rate of 12.12 percent, is 17.57 percent. The calculation is (131.82/112.12-1) X 100.

Under 5 U.S.C. 5304(a)(3)(I), the percentage of comparability payments due in January 2005 may not be less than the full amount of the target gap. Therefore, we recommend overall average locality rates of 25.54 percent for 2005. We cannot calculate the percentage increase over the average of the rates authorized for 2004 at this time because the 2004 rates have not yet been set. However, the Council points out that these rates are 0.19 points below the 25.73 percent average rate recommended by the Council for 2004. The proposed comparability payments for 2005 for each recommended pay area are also shown in **Attachment 1**.

These locality rates would be in addition to the increase in General Schedule base rates under 5 U.S.C. 5303(a). This provision calls for increases in basic pay equal to one-half of one percentage point less than the percentage by which the Employment Cost Index (ECI), wages and salaries, private industry workers, increased between September 2002 and September 2003. The ECI for September 2003 will not be published until October 30, so the amount is not known at this time.

Locations with Pay Gaps Below the Rest of U.S. (RUS) Pay Area

The Council previously had recommended under the OCSP program that locations with little data available in BLS surveys and pay gaps 2/10 of a percentage point or more below the RUS pay area or below the RUS pay area for three surveys be dropped from the BLS surveys, with the BLS resources redirected to survey new locations. Under OCSP, the pay gaps in Huntsville, Indianapolis, Kansas City, and Orlando are below that for the RUS locality pay area this year, and have been below or close to RUS for several years. Under NCS, pay gaps for Columbus, Dayton, Kansas City, Orlando, and St. Louis are below that for RUS this year, while the NCS

pay gaps for Milwaukee and Richmond, which were below RUS last year, have risen above that for RUS. With the weighted averages of NCS and OCSP, Kansas City, Orlando, and St. Louis are below RUS.

The Council's recommendation to drop locations with pay gaps below the RUS pay area was intended to reallocate BLS survey resources to survey new cities where the pay gaps might be above the RUS pay gap. As you know, we have actually surveyed and dropped (or did not recommend making a separate pay area) nine areas since locality pay began in 1994. These were Albuquerque, Memphis, New Orleans, Norfolk, Oklahoma City, Phoenix, Salt Lake City, San Antonio, and Tampa.

Last year, the Council concluded that because not all of the improvements had been completed in NCS, and because the list of cities below RUS varied depending on whether we used OCSP or NCS data, that none of the locations below RUS be dropped as separate pay areas. This year, two of the seven areas that were below RUS with NCS in 2002 are above RUS. However, Orlando and St. Louis are still more than 5 points below RUS, and Kansas City is about 2 points below RUS. With weighted average results, Kansas City, Orlando, and St. Louis remain below RUS. Furthermore, BLS will soon begin planning a redesign of the geographic scope of the NCS program and has requested that the Council provide input by April 2004 on what areas should be surveyed for the locality pay program in the future.

The Council recommends that the Pay Agent instruct BLS to discontinue its salary surveys of Kansas City, Orlando, and St. Louis for locality pay purposes and use these resources to implement locality pay salary surveys in as many of the following locations as possible:

Priority Listing for Conducting Additional Salary Surveys

Location	4-Quarter Avg. GS Employment	Relative Pay
Phoenix-Mesa-Scottsdale, AZ MSA	8,062	10.23%
Memphis, TN-MS-AR MSA	8,018	8.70%
Austin-Round Rock, TX MSA	6,081	5.93%
Louisville-Elizabethtown-Scottsburg, KY-IN CSA	5,213	10.10%
Buffalo-Cheektowaga-Tonawanda, NY MSA	4,672	10.36%
Raleigh-Durham-Cary, NC CSA	4,497	9.84%

We requested that BLS run its model for estimating salaries and include certain RUS metropolitan areas it surveys as separate areas. The BLS model provides a relative pay differential that indicates whether non-Federal pay is higher or lower than RUS pay, based on survey findings. The table above lists MSAs currently in RUS with more than 2,500 GS employees, a nonfarm workforce of more than 375,000, and a BLS pay differential compared to RUS pay of greater than 5 percent, ranked in order by GS employment. BLS should use the resources from canceled surveys to survey as many of these additional areas as practical. Metropolitan areas in the table should be surveyed in rank order by GS employment.

Use of MSAs for Defining Locality Pay Areas

The Federal Employees Pay Comparability Act of 1990 does not provide detailed requirements for defining locality pay areas. The Council reviewed a substantial amount of data and considered alternative ways to define locality pay areas in 1992-1993 in preparation for the start of locality pay in 1994. At that time, we concluded that the existing Metropolitan Statistical Areas (MSAs) established by the Office of Management and Budget (OMB) were suitable as the basis for locality pay areas.

The Council also was mindful that some counties adjacent to an MSA should be included in the locality pay area and developed criteria that could be used to evaluate adjacent counties in a consistent and equitable fashion. These counties are called "areas of application." After much deliberation, the Council based its criteria on readily available and easily quantified factors relevant to labor markets or important to the Government—GS employment, commuting rates, and population size and density. The Pay Agent subsequently approved all the Council's 1993 recommendations on locality pay area boundaries.

In June 2003, the Office of Management and Budget released its new Metropolitan Statistical Area definitions based on the 2000 census and newly revised criteria. OMB defines MSAs to provide consistent geographic definitions for Federal agencies to use in publishing statistical data. OMB does not define MSAs specifically for use in any non-statistical program and cautions other agencies to thoroughly review MSAs before using them for other purposes, such as locality pay.

Under the redesign, MSAs still consist of a heavily urbanized core and surrounding counties that have a high level of economic integration with the core. Counties containing the core urbanized areas are called central counties, and commuting levels to/from the central counties is now the sole criterion for adding outlying counties to the new MSAs. OMB also made technical changes in how commuting rates are calculated. In the 1990s, the criteria for outlying counties also used commuting rates but included criteria on population size and density.

Finally, OMB also changed the categories of MSAs for the redesign. Under the 1990s methodology, highly related adjacent MSAs meeting certain criteria were combined into larger Consolidated Metropolitan Statistical Areas (CMSAs). In fact, 18 of our 31 separate locality pay areas were CMSAs. Under the new design, CMSAs no longer exist, although OMB has established new criteria for combining adjacent MSAs and calls the new areas Combined Statistical Areas (CSAs). OMB has also established a new category of Micropolitan Statistical Areas based on a core urbanized area of 10,000 to 49,999. MSAs must have a core of 50,000 or more.

In summary, the new MSAs reflect the most recent information on population distribution and commuting patterns, but also reflect changes in how MSAs are defined. After careful review, the Council recommends that we adopt the new MSA definitions as the basic definitions for locality pay areas, acknowledging that changes in MSAs are the result of both changes in demographics and changes in the criteria for establishing MSAs. The new MSA definitions are based on the most recent nationwide data on commuting patterns. Clearly, if a county has a 25 percent commuting rate to or from the core of an MSA-based locality pay area (the OMB standard for adding outlying counties to MSAs), Federal agencies in the county would likely experience serious recruitment and retention difficulties if the county is not included in the adjacent locality pay area. As in the 1990s, the Council supports a recommendation to use the largest defined areas, called Combined Statistical Areas. The Council also recommends that the new Micropolitan Statistical Areas be used only when part of a larger CSA. Since these Micropolitan Areas represent population centers of fewer than 50,000, we believe stand-alone Micropolitan Areas should not be treated the same as MSAs or CSAs. **Attachment 2** lists counties that would be added to existing locality pay areas under this recommendation.

During the 1990s, OMB defined the official MSAs in New England using cities and towns as the building blocks instead of counties, although OMB also produced a county-based alternative. We adopted these town-based MSAs as the basis for locality pay areas for Boston, Hartford, and the Connecticut portion of the New York locality pay area. For the redesign, OMB has produced county-based MSAs in New England as the official MSAs to correspond to the methodology used in the rest of the country. OMB also produced town-based MSAs as an alternative. However, OMB did not provide a town-based version of the Connecticut portion of the New York CSA.

The Council recommends that the Pay Agent adopt the new county-based definitions in New England. This uses the official definition, corresponds to the Pay Agent's practice in the rest of the country, eliminates a problem with the Connecticut portion of the New York CSA, would simplify agency bookkeeping records (many agencies, including OPM's Central Personnel Data File, do not track townships), and has a less disruptive impact on locality pay area boundaries than would occur if the town-based versions were adopted.

Evaluating Areas in the Vicinity of Locality Pay Areas

There are about 7,300 GS employees in counties (or partial counties in the case of York County, ME) that are currently included in MSA-based locality pay areas that are not covered by OMB's new county-based MSA or CSA definition of the applicable locality pay area. Many of these employees are currently in the Washington-Baltimore locality pay area, mainly at the Department of the Navy in King George County, VA, and the Department of the Treasury and the Department of Veterans Affairs in Berkeley County, WV. Most of the others are in Kittery town in York County, ME, employed at the Portsmouth Naval Yard.

Of the six current "county-based" areas of application (areas outside of a pay area MSA or CMSA under OMB's old statistical area definitions that have been added to a locality pay area), only St. Mary's County, MD, is included in the new definition of the applicable MSA or CSA.

None of the areas that petitioned the Council in 2002 or 2003 to be included in a locality pay area are included under OMB's new definitions.

The Council believes there continues to be a need to evaluate other areas in the vicinity of existing locality pay areas but currently in the RUS locality pay area for possible inclusion in the locality pay area. We reviewed our current area-of-application criteria and considered several possible variations. The current criteria for evaluating **adjacent** counties in the RUS locality pay area are the following:

- 2,000 or more GS employees,
- a 5 percent or higher level of commuting, and
- 200 or more persons per square mile OR
- 80 percent of the population living in urbanized areas.

The GS employment criterion gave us a measure of the relative importance of the area under consideration to the Government, but also set a high bar that many adjacent counties could not pass. Employees in some adjacent areas have suggested that the Council reduce the GS employment count in consideration of Federal employment downsizing during the 1990s or in consideration of the size of the county. Others have suggested the criterion be dropped entirely because it is not directly related to labor market factors.

The commuting criterion gave us a measure of the level of economic ties between the areas, was an important factor considered in establishing MSAs in the 1990s, and is the only criterion used for identifying outlying counties under the MSA redesign.

The population density criterion, which is an either/or condition, measured the degree of urbanization of the area and was a proxy for the level of economic activity and pay levels in outlying areas. Its utility is based on the probability that a nearby urbanized area is more likely to have pay levels similar to those in the locality pay area than to those in the RUS locality pay area. Likewise, a low-population county seems more likely to have pay levels more similar to those in the RUS locality pay area.

The Council concludes that the most relevant criteria should be GS employment and commuting rates. The GS employment criterion gives us a measure of the magnitude of the problem in terms of the Federal workforce, and the commuting criterion gives us a measure of the economic linkage among the areas and the likely recruitment or retention problems that might result if the county is excluded from the adjacent locality pay area. After reviewing several possible criteria, the Council recommends that metropolitan areas adjacent to locality pay areas should be evaluated first and that adjacent counties should be of secondary importance. This conclusion rests on the likelihood that adjacent metropolitan areas are more likely to have pay levels similar to adjacent locality pay areas than would adjacent non-metropolitan areas and ties in with our

conclusion that population density could be dropped as a direct criterion. We also believe that we will continue to need criteria for evaluating Federal facilities that cross pay area boundaries.

We recommend that the entire CSA or MSA be used as the basis for evaluating commuting and that the Pay Agent calculate commuting rates using the Census definition of the Employment Interchange Measure:

> A measure of the ties between two adjacent entities. The employment interchange measure is the sum of the percentage of employed residents of the smaller entity who work in the larger entity and the percentage of the employment in the smaller entity that is accounted for by workers who reside in the larger entity.

We recommend the following criteria for evaluating areas for possible inclusion in adjacent locality pay areas:

1. **For adjacent MSAs and CSAs:** To be included in an adjacent locality pay area, an adjacent MSA or CSA currently in the RUS locality pay area must have at least 1,500 GS employees and an employment interchange measure of at least 7.5 percent.
2. **For adjacent counties that are not part of a multi-county MSA or CSA:** To be included in an adjacent locality pay area, an adjacent county that is currently in the RUS locality pay area must have at least 400 GS employees and an employment interchange measure of at least 7.5 percent.
3. **For Federal facilities that cross locality pay area boundaries:** To be included in an adjacent locality pay area, that portion of a Federal facility outside of a higher-paying locality pay area must have at least 750 GS employees, the duty stations of the majority of those employees must be within 10 miles of the separate locality pay area, and a significant number of those employees must commute to work from the higher-paying locality pay area.

The first set of criteria are to evaluate MSAs or CSAs adjacent to a locality pay area. This assures that nearby metropolitan areas with a high level of integration with the pay area as demonstrated by commuting rates will be included in the locality pay area. We recommend a criterion of 1,500 GS employees to set the level high but not as high as set in the 1990s. We have recommended an employment interchange measure of 7.5 percent as the threshold level. This level is somewhat higher than the 5 percent level used in the past, but we also recommend expanding the base used to compute commuting rates from a "core" concept to a wider "whole" MSA or CSA concept. It is also half of the 15 percent minimum commuting level used by OMB as the basis for combining adjacent MSAs. Based on data provided by OPM staff, the following MSAs meet these criteria:

MSA	Include in	Counties in MSA	4-Quarter Avg. GS Employment	Commuting Rate
Providence-New Bedford-Fall River, RI-MA	Boston	Bristol, MA and all 5 counties in Rhode Island	3,672	18.4%
Fort Collins-Loveland, CO	Denver	Larimer, CO	1,703	12.1%
Springfield, MA	Hartford	Franklin, Hampden, and Hampshire, MA	1,503	8.4%
Santa Barbara-Santa Maria-Goleta, CA	Los Angeles	Santa Barbara, CA	2,030	8.3%
Salinas, CA	San Francisco	Monterey, CA	2,383	15.1%
Hagerstown-Martinsburg, MD-WV	Washington, DC	Washington, MD, and Berkeley and Morgan, WV	2,276	30.6%

The second set of criteria are to evaluate counties adjacent to a locality pay area that have not already been evaluated as part of a multi-county MSA or CSA. This assures that nearby counties with a high level of integration with the pay area as demonstrated by commuting rates will be included in the locality pay area. We recommend a criterion of 400 GS employees, much lower than the 2,000 GS employee level set in the 1990s. We have also recommended an employment interchange measure of 7.5 percent as the threshold level. Based on data provided by OPM staff, the following counties meet these criteria:

County	Include in	4-Quarter Avg. GS Employment	Commuting Rate
Barnstable, MA	Boston	703	17.24%
Grant, IN	Indianapolis	491	8.34%
Kent, DE	Philadelphia	820	18.98%
King George, VA	Washington, DC	1,241	78.84%
Monroe, FL	Miami	463	10.51%
Monroe, PA	New York	1,102	24.46%
New London, CT	Hartford	1,278	24.04%
Carson City, NV	Sacramento	407	21.62%
San Joaquin, CA	San Francisco	887	17.96%

The Council had OPM staff compute 4-quarter averages of GS employment to account for seasonal workers. The September and December 2002 and March and June 2003 Central Personnel Data Files were used for this purpose.

(Note: Dukes and Nantucket Counties, MA, lie off the coast of Barnstable County. However, according to OPM records, there are no GS employees stationed in either county, although there are 15 employees of the Federal Aviation Administration and 11 employees of the Transportation Security Administration stationed in Nantucket County. These agencies have their own pay setting authority, and the Council anticipates that each agency will make its own decisions about pay for these employees.)

Finally, the Council notes that there are still 8 counties and part of York County, ME, that are currently in separate locality pay areas that would be excluded from the MSA portion of the pay area under this redesign. We note that each of these counties has a very high level of commuting to the MSA but few GS employees, and we advise the Pay Agent to adopt a special rule that any county or portion of a county (in cases where the full county was never in the locality pay area) be retained in the locality pay area if it has an employment interchange rate of 15 percent or more. The following counties (or partial county in the case of York, ME) are affected:

County	Include in	GS Employment	Commuting Rate
Atlantic, NJ	Philadelphia	266	23.50%
Cape May, NJ	Philadelphia	104	15.87%
Culpeper, VA	Washington, DC	19	52.43%
Lenawee, MI	Detroit	21	28.61%
Marion, OR	Portland	563	19.77%
Polk, OR	Portland	17	16.17%
Warren, NJ	New York	22	68.78%
Weld, CO	Denver	195	30.65%
Part of York, ME			
Berwick town		Total in all 5 towns	71.63%
Eliot town	Boston	2,328	61.43%
Kittery town			76.35%
South Berwick town			60.39%
York town			46.01%

We recommend that the Pay Agent not continue to review areas already added to locality pay areas every year. While OPM staff should check areas adjacent to locality pay areas each year, if new data are available, areas already included in a locality pay area as a result of the new criteria should not be subject to further review.

Future Requests to be Included in a Locality Pay Area

The Council notes that OPM or the Council receives numerous requests each year for changes in locality pay area boundaries. The requests run the gamut from simple phone calls or emails from individual employees to detailed petitions and presentations by organized groups at Council meetings. The Council intends to request the following information from such groups in the future if they wish the Council to consider their request:

- The credentials of the requesting group establishing how the group represents GS employees in the area.
- Identification of the geographic area covered by the proposal.
- The number of GS employees in the area by agency.
- A detailed explanation of why the area should be added to the adjacent locality pay area.
- Current vacancy rates in the area for GS positions.
- Documentation of recruitment and or retention problems for GS employees in the area.
- Documentation that agencies have tried other pay flexibilities, including requests for special salary rates and use of recruitment, retention, and relocation payments, and that these flexibilities did not solve recruitment and retention problems.
- An indication that the headquarters of affected agencies know about and support the request.
- Distance measures by road between the requesting area and the locality pay area.
- A summary of transportation facilities linking the requesting area and the locality pay area, including commuter rail or other mass transit facilities.
- Agency organizational relationships between activities covered by the proposal and activities in another locality pay area.

Locality Pay Areas for 2005

We recommend continuation of 29 of the 32 existing locality pay areas, but with revised pay area definitions, for locality pay in 2005, as follows:

(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) Chicago-Naperville-Michigan City, IL-IN-WI Combined Statistical Area;
(4) Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area;
(5) Cleveland-Akron-Elyria, OH Combined Statistical Area;
(6) Columbus-Marion-Chillicothe, OH Combined Statistical Area;
(7) Dallas-Fort Worth, TX Combined Statistical Area;
(8) Dayton-Springfield-Greenville, OH Combined Statistical Area;
(9) Denver-Aurora-Boulder, CO Combined Statistical Area, **plus** the Ft. Collins Loveland, CO Metropolitan Statistical Area and Weld County, CO;
(10) Detroit-Warren-Flint, MI Combined Statistical Area, **plus** Lenawee County, MI;
(11) Hartford-West Hartford-Willimantic, CT Combined Statistical Area, **plus** the Springfield, MA Metropolitan Statistical Area and New London County, CT;
(12) Houston-Baytown-Huntsville, TX Combined Statistical Area;
(13) Huntsville-Decatur, AL Combined Statistical Area;
(14) Indianapolis-Anderson-Columbus, IN Combined Statistical Area, **plus** Grant County, IN;
(15) 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;
(16) Miami-Fort Lauderdale-Miami Beach, FL Metropolitan Statistical Area, **plus** Monroe County, FL;
(17) Milwaukee-Racine-Waukesha, WI Combined Statistical Area;
(18) Minneapolis-St. Paul-St. Cloud, MN-WI Combined Statistical Area;
(19) New York-Newark-Bridgeport, NY-NJ-CT-PA Combined Statistical Area, **plus** Monroe County, PA, and Warren County, NJ;
(20) Philadelphia-Camden-Vineland, PA-NJ-DE-MD Combined Statistical Area, **plus** Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
(21) Pittsburgh-New Castle, PA Combined Statistical Area;
(22) Portland-Vancouver-Beaverton, OR-WA Metropolitan Statistical Area, **plus** Marion County, OR, and Polk County, OR;
(23) Richmond, VA Metropolitan Statistical Area;
(24) Sacramento--Arden-Arcade--Truckee, CA-NV Combined Statistical Area, **plus** Carson City, NV;
(25) San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area;
(26) San Jose-San Francisco-Oakland, CA Combined Statistical Area, **plus** the Salinas, CA Metropolitan Statistical Area and San Joaquin County, CA;
(27) Seattle-Tacoma-Olympia, WA Combined Statistical Area;
(28) Washington-Baltimore-Northern Virginia Combined Statistical Area, **plus** the Hagerstown-Martinsburg, MD-WV Metropolitan Statistical Area, Culpeper County, VA, and King George County, VA; and
(29) Rest of U.S.--consisting of those portions of the continental United States not located within another locality pay area.

The Kansas City, Orlando, and St. Louis locality pay areas would be discontinued under this recommendation and become part of the RUS locality pay area. The pay gaps for these locations shown in **Attachment 1** have been averaged with that for RUS to reflect this recommendation.

Status of Improving Future Surveys

Over the last several years, the Council has reviewed and monitored progress by Pay Agent and BLS staff in designing and implementing improvements in the NCS program. The Council had recommended in its October 22, 1999, letter to the Pay Agent that these improvements should be made. The Pay Agent submitted a report to Congress on May 15, 2001, on the status of these improvements. The improvements cover the following topics:

1) Assigning GS grades to randomly selected survey jobs.

Progress: OPM has completed development of a four-factor evaluation system for use in the surveys, and BLS has successfully used the new approach in field tests and has already begun to use the Knowledge Factor Guide. BLS will begin to phase the new

approach into BLS surveys in the next survey cycle. This improvement will take the longest to implement.

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

Progress: BLS and Pay Agent staffs have designed a new approach based on grading the highest level of work supervised and adding one, two, or three grades based on the level of supervision. Final tests of the new approach were conducted last fall, and BLS will begin to phase in the new approach in surveys conducted in the next survey cycle.

3) Other problems associated with random selection of survey jobs.

Progress: BLS has designed and implemented an econometric model to estimate salaries for jobs not randomly selected in the surveys. The model is derived from survey data and estimates pay for missing jobs as a function of location, occupation, and grade level. This year's model explains 82 percent of variations in pay and has a mean absolute error of 17 percent.

4) 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. BLS used the new crosswalk and March 2002 GS employment weights for data delivered this year. As in 2002, OPM staff made six changes in the crosswalk developed by the interagency group to match GS jobs to more specific SOC jobs.

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

Progress: BLS has developed methods for identifying and excluding non-Federal jobs that would be classified above GS-15. These data were excluded from the data delivered to the Pay Agent this year.

The Council continues to support BLS in completing implementation of improvements in NCS.

Allocating Locality Pay in 2004

In the past, the Council has recommended and the President has agreed to allocate funds available for locality pay raises based on the size of the pay gap in each area. The Council recommends that funds available for locality pay in 2004 be allocated as follows:

Instead of applying a uniform phase-in factor--across-the-board--to all localities, the Pay Agent should base increases on the size of the pay gap in each locality, so that areas with bigger gaps than the average target gap (25.71 percent based on 2002 pay gaps for 2004 payments) would get bigger increases than those resulting from application of the uniform phase-in factor, while areas

with smaller gaps than the average would get smaller increases.

At this point, we do not know what amount will be provided for 2004. Presently, the Congress has draft appropriations bills that would set the total increase at 4.1 percent. If that amount is approved, the Council recommends that 2.7 percent be allocated for the across-the-board pay raise (the same as would occur under existing law) and that 1.4 percent be allocated for locality pay raises. **Attachment 3** shows the rates for each area under this recommendation.

By direction of the Council:

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Terri Lacy
Chairman

Attachments

Attachment 1

2003 Pay Gaps under OCSP and NCS Revised to Reflect New FSC Area Definitions

Gaps Below RUS are Highlighted

* Indicates locations to be merged with RUS and discontinued as separate locality pay areas in 2005

Locality	2005 Areas Mar-03 Base GS Payroll	REVISED 2003 OCSP Pay Gap	REVISED 2003 NCS Pay Gap	NCS Compared to OCSP	75/25 Average	With Areas Combined with RUS	Target Pay Gap	2005 Locality Rate
Atlanta	$1,313,716,262	30.72%	35.29%	4.57%	34.15%	34.15%	27.76%	27.76%
Boston	$1,275,591,631	39.61%	39.75%	0.14%	39.72%	39.72%	33.07%	33.07%
Chicago	$1,068,776,615	42.42%	37.00%	-5.42%	38.36%	38.36%	31.77%	31.77%
Cincinnati	$352,131,919	38.20%	23.67%	-14.53%	27.30%	27.30%	21.24%	21.24%
Cleveland	$441,237,815	32.51%	29.60%	-2.91%	30.33%	30.33%	24.12%	24.12%
Columbus	$400,365,499	31.10%	**22.20%**	-8.90%	24.43%	24.43%	18.50%	18.50%
Dallas	$855,709,259	33.27%	33.25%	-0.02%	33.26%	33.26%	26.91%	26.91%
Dayton	$522,252,157	31.04%	**22.03%**	-9.01%	24.28%	24.28%	18.36%	18.36%
Denver	$1,006,388,748	39.64%	36.44%	-3.20%	37.24%	37.24%	30.70%	30.70%
Detroit	$637,289,802	42.64%	33.98%	-8.66%	36.15%	36.15%	29.67%	29.67%
Hartford	$214,982,173	40.55%	43.85%	3.30%	43.03%	43.03%	36.22%	36.22%
Houston	$598,129,100	49.87%	40.24%	-9.63%	42.65%	42.65%	35.86%	35.86%
Huntsville	$609,454,291	**26.47%**	26.50%	0.03%	26.49%	26.49%	20.47%	20.47%
Indianapolis	$308,886,867	**26.25%**	25.48%	-0.77%	25.67%	25.67%	19.69%	19.69%
Kansas City*	$772,753,084	**27.24%**	**20.86%**	-6.38%	**22.46%**	**24.05%**	18.14%	18.14%
Los Angeles	$1,732,165,127	45.67%	40.80%	-4.87%	42.02%	42.02%	35.26%	35.26%
Miami	$568,221,437	37.65%	32.00%	-5.65%	33.41%	33.41%	27.06%	27.06%
Milwaukee	$165,125,133	33.44%	25.81%	-7.63%	27.72%	27.72%	21.64%	21.64%
Minneapolis	$330,303,569	36.77%	32.62%	-4.15%	33.66%	33.66%	27.30%	27.30%
New York	$2,596,165,521	42.35%	44.82%	2.47%	44.20%	44.20%	37.33%	37.33%
Orlando*	$230,418,434	**25.76%**	**15.39%**	-10.37%	**17.98%**	**24.05%**	18.14%	18.14%
Philadelphia	$1,453,206,497	36.30%	36.03%	-0.27%	36.10%	36.10%	29.62%	29.62%
Pittsburgh	$307,407,671	29.39%	25.70%	-3.69%	26.62%	26.62%	20.59%	20.59%
Portland	$504,501,611	37.07%	32.41%	-4.66%	33.58%	33.58%	27.22%	27.22%
Richmond	$397,470,057	31.30%	27.78%	-3.52%	28.66%	28.66%	22.53%	22.53%
Rest of U.S.	$22,909,110,915	28.69%	22.78%	-5.91%	24.26%	**24.05%**	18.14%	18.14%
Sacramento	$305,277,058	36.80%	35.23%	-1.57%	35.62%	35.62%	29.16%	29.16%
St. Louis*	$575,736,718	29.17%	**17.30%**	-11.87%	**20.27%**	**24.05%**	18.14%	18.14%
San Diego	$902,207,649	39.04%	40.54%	1.50%	40.17%	40.17%	33.50%	33.50%
San Francisco	$1,302,937,596	54.59%	55.61%	1.02%	55.36%	55.36%	47.96%	47.96%
Seattle	$1,098,040,067	38.16%	37.29%	-0.87%	37.51%	37.51%	30.96%	30.96%
Washington	$15,198,207,466	34.69%	36.62%	1.93%	36.14%	36.14%	29.66%	29.66%
Weighted Avg.	$60,954,167,748	33.79%	31.16%	-2.63%	31.82%	31.82%	25.54%	25.54%

Combining Locations Below RUS

Location	Payroll	Gap
Rest of U.S.	$22,909,110,915	24.26%
Kansas City	$772,753,084	22.46%
Orlando	$230,418,434	17.98%
St. Louis	$575,736,718	20.27%
Average	$24,488,019,151	24.05%

Attachment 2

Counties Added to MSA-Based Locality Pay Areas

Atlanta-Sandy Springs-Gainesville, GA Combined Statistical Area
Butts County, GA
Chambers County, AL
Dawson County, GA
Hall County, GA
Haralson County, GA
Heard County, GA
Jasper County, GA
Lamar County, GA
Meriwether County, GA
Pike County, GA
Polk County, GA
Troup County, GA
Upson County, GA
Boston-Worcester-Manchester, MA-NH Combined Statistical Area
Belknap County, NH
Merrimack County, NH
Chicago-Naperville-Michigan City, IL-IN-WI Combined Statistical Area
Jasper County, IN
LaPorte County, IN
Newton County, IN
Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area
Bracken County, KY
Clinton County, OH
Franklin County, IN
Columbus-Marion-Chillicothe, OH Combined Statistical Area
Fayette County, OH
Knox County, OH
Marion County, OH
Morrow County, OH
Ross County, OH
Union County, OH
Dallas-Fort Worth, TX Combined Statistical Area
Cooke County, TX
Delta County, TX
Palo Pinto County, TX
Somervell County, TX

Wise County, TX **Attachment 2 (Page 2)**
Dayton-Springfield-Greenville, OH Combined Statistical Area
Champaign County, OH
Darke County, OH
Preble County, OH
Denver-Aurora-Boulder, CO Combined Statistical Area
Clear Creek County, CO
Elbert County, CO
Gilpin County, CO
Park County, CO
Hartford-West Hartford-Willimantic, CT Combined Statistical Area
Windham County, CT
Houston-Baytown-Huntsville, TX Combined Statistical Area
Austin County, TX
Matagorda County, TX
San Jacinto County, TX
Walker County, TX
Huntsville-Decatur, AL Combined Statistical Area
Lawrence County, AL
Morgan County, AL
Indianapolis-Anderson-Columbus, IN Combined Statistical Area
Bartholomew County, IN
Brown County, IN
Henry County, IN
Jennings County, IN
Montgomery County, IN
Putnam County, IN
Kansas City-Overland Park-Kansas City, MO-KS Combined Statistical (locality pay area may be discontinued)
Atchison County, KS
Bates County, MO
Caldwell County, MO
Franklin County, KS
Johnson County, MO
Linn County, KS

Miami--Fort Lauderdale--Miami Beach, FL Metropolitan Statistical Area
Palm Beach County, FL
Minneapolis-St. Paul-St. Cloud, MN-WI Combined Statistical Area
Benton County, MN
Goodhue County, MN
McLeod County, MN
Rice County, MN
Stearns County, MN
New York-Newark-Bridgeport, NY-NJ-CT-PA Combined Statistical Area
Litchfield County, CT
Ulster County, NY
Orlando-The Villages, FL Combined Statistical Area (locality pay area may be discontinued)
Sumter County, FL
Pittsburgh-New Castle, PA Combined Statistical Area
Armstrong County, PA
Lawrence County, PA
Portland--Vancouver--Beaverton, OR-WA Metropolitan Statistical Area
Skamania County, WA
Richmond, VA Metropolitan Statistical Area
Amelia County, VA
Caroline County, VA
Cumberland County, VA
King and Queen County, VA
King William County, VA
Louisa County, VA
Sussex County, VA
Sacramento--Arden-Arcade--Truckee, CA-NV Combined Statistical Area
Douglas County, NV
Nevada County, CA
San Jose-San Francisco-Oakland, CA Combined Statistical Area
San Benito County, CA

Seattle-Tacoma-Olympia, WA Combined Statistical Area
Mason County, WA
St. Louis-St. Charles-Farmington, MO-IL Combined Statistical Area (locality pay area may be discontinued)
Bond County, IL
Calhoun County, IL
Macoupin County, IL
St. Francois County, MO
Washington County, MO
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV Combined Statistical Area
Frederick County, VA and Winchester, VA
Hampshire County, WV

Attachment 3

FSC Recommendation for a 4.1 Percent Overall Increase in 2004
2.7 Percent Across-the-Board and 1.4 Percent for Locality Pay Increases

Locality	Mar-03 Base GS Payroll	2002 Target Gap	Target Gap to Average	2003 Local Rates	FSC Add on	FSC Add on 2004 Rate
Atlanta	$1,300,651,635	26.79%	1.0420	10.85%	1.76%	12.61%
Boston	$1,246,058,567	30.25%	1.1766	15.00%	1.99%	16.99%
Chicago	$1,067,419,569	32.05%	1.2466	16.15%	2.11%	18.26%
Cincinnati	$351,989,124	24.87%	0.9673	13.44%	1.63%	15.07%
Cleveland	$441,237,815	24.90%	0.9685	11.50%	1.64%	13.14%
Columbus	$371,874,363	20.70%	0.8051	11.78%	1.36%	13.14%
Dallas	$854,279,696	26.62%	1.0354	12.10%	1.75%	13.85%
Dayton	$521,338,374	20.67%	0.8040	10.67%	1.36%	12.03%
Denver	$923,707,086	28.71%	1.1167	14.77%	1.89%	16.66%
Detroit	$637,289,802	31.26%	1.2159	16.27%	2.05%	18.32%
Hartford	$147,272,464	35.09%	1.3648	15.56%	2.31%	17.87%
Houston	$591,549,749	39.70%	1.5441	20.53%	2.61%	23.14%
Huntsville	$605,775,217	21.70%	0.8440	10.06%	1.43%	11.49%
Indianapolis	$304,568,102	19.45%	0.7565	9.83%	1.28%	11.11%
Kansas City	$753,081,412	19.45%	0.7565	10.26%	1.28%	11.54%
Los Angeles	$1,732,165,127	35.58%	1.3839	17.71%	2.34%	20.05%
Miami	$506,975,136	26.36%	1.0253	13.81%	1.73%	15.54%
Milwaukee	$165,125,133	21.98%	0.8549	11.20%	1.44%	12.64%
Minneapolis	$304,283,370	29.06%	1.1303	12.84%	1.91%	14.75%
New York	$2,545,368,251	37.40%	1.4547	16.83%	2.46%	19.29%
Orlando	$190,395,430	19.45%	0.7565	9.65%	1.28%	10.93%
Philadelphia	$1,421,456,494	28.76%	1.1186	13.43%	1.89%	15.32%
Pittsburgh	$304,573,861	21.37%	0.8312	10.52%	1.40%	11.92%
Portland	$498,528,067	26.23%	1.0202	12.97%	1.72%	14.69%
Richmond	$389,092,402	20.93%	0.8141	10.75%	1.38%	12.13%
Rest of U.S.	$23,472,092,072	19.45%	0.7565	9.62%	1.28%	10.90%
Sacramento	$296,919,733	28.68%	1.1155	13.29%	1.89%	15.18%
St. Louis	$561,617,115	19.45%	0.7565	9.99%	1.28%	11.27%
San Diego	$902,207,649	31.79%	1.2365	14.07%	2.09%	16.16%
San Francisco	$1,263,747,648	47.64%	1.8530	21.08%	3.13%	24.21%
Seattle	$1,097,438,603	30.55%	1.1883	13.11%	2.01%	15.12%
Washington	$15,184,088,682	28.78%	1.1194	12.74%	1.89%	14.63%
Weighted Avg.	$60,954,167,748	25.71%	0.9998	12.12%	1.69%	13.81%
		Add on amount--->		1.69%		