

REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

*ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
2006*



The President's Pay Agent

Washington, DC

December 20, 2006

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 2008 *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 2008. You do not need to make a decision on the 2008 rates at this time.

Our plans for locality pay area boundaries in 2008 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.

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

The President's Pay Agent:

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Secretary of Labor

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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 2008 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 2008 increase is the 12-month period ending on September 30, 2006. During that period, the ECI increased by 3.0 percent. Therefore, the January 2008 general increase, if granted, would be 2.5 percent (3.0 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. By 2006 for example, only 62.7 percent of the “target” disparity was closed, on average, due to separate legislation or the President’s alternative plan.

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), as recommended by the Council, 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 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. This improvement will be completed in 2010, and 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 surveyed a total of 15,357 establishments for the data submitted for the locality pay program. In the 29 separate metropolitan locality pay areas (excluding Buffalo and Raleigh), BLS surveyed 8,216 establishments. The Rest of U.S. (RUS) locality pay survey covered 48 additional metropolitan areas and 70 non-metropolitan counties. A total of 7,141 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 industry scope of the surveys includes mining, construction, and manufacturing industries; service-producing industries, including transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; services industries; and State and local governments. Households, agriculture, and the self-employed were excluded. The surveys covered establishments with 50 or more workers. In 2007, BLS plans to deliver data covering all establishment sizes. The Pay Agent will review the data and consider the recommendations of the Federal Salary Council before making a decision about whether the data from establishments with fewer than 50 employees should be used in the locality pay program.

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 2005 GS employment counts for use in weighting survey job data to higher aggregates. (BLS completed delivery of the most recent NCS surveys in July 2006, before March 2006 GS employment counts 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 FES. 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 40 percent of the data this year are leveled under the new approach. Fully implementing the new leveling system will take 4 more years because of BLS' data collection cycle. See **Appendix IV** of the 2002 Pay Agent's report for a summary of the BLS data collection cycle. **Appendix VI** of the 2002 Pay Agent's report contains the 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 would grade the highest level of work supervised using the appropriate four-factor leveling guide, not the supervisory job itself, and then add one grade for a first-level supervisor, two grades for a second-level supervisor, and three grades for a third-level supervisor. BLS used the new approach for the first time this year and we attribute much of the increase in pay gaps to the new method for grading sampled supervisory jobs, especially in the

Washington-Baltimore locality pay area where the pay disparity increased 13.99 points since 2005.

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**.

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 pay¹ 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 2006 is the common reference and comparison date used in this report. The Employment Cost Index (ECI) based on wages and salaries for white-collar civilian workers, excluding those in sales, was used to age the BLS data.²

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 PATCO³ category by grade level. The NCS program covers virtually all GS jobs since only jobs that were not randomly

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 2004 and October 2005, 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 CONUS⁴ 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.⁵

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.

4 Continental United States, comprising the 48 contiguous States plus 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.⁶

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.⁷ The NCS model accounts for about 84 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 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

⁶ 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.

⁷ 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.

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 74 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 87 percent modeled in Indianapolis to a low of 38 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 39 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 2007. This recommendation was transmitted to the Pay Agent in a memorandum dated October 27, 2006. (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 1.
Pay Gaps in Six New Areas

Area	2006 Pay Gap (Percent)	Compared to RUS
Austin-Round Rock, TX MSA	22.14	-2.66
Buffalo-Niagara- Cattaragus, NY CSA	34.44	9.64
Louisville-Elizabeth- Scottsburg, KY-IN CSA	27.42	2.62
Memphis, TN MSA	19.28	-5.52
Phoenix-Mesa- Scottsdale, AZ MSA	37.05	12.25
Raleigh-Durham-Cary, NC CSA	29.57	4.77

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 last year, but that Austin, Memphis, and Louisville should remain in the RUS locality pay area. While the Louisville pay gap is 2.62 points above that for the RUS locality pay area, the Council noted that only 110 establishments were surveyed in Louisville and 91 percent of the data were modeled. The Council 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 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 42 areas for changes in locality pay area boundaries or new locality pay areas. These requests included increasing locality rates in New Orleans and other areas affected by Hurricane Katrina; splitting the Los Angeles locality pay area; moving Yolo County, CA, from the Sacramento locality pay area to the San Jose-San Francisco locality pay area; and adding 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.

OMB made some revisions in CSA definitions in 2006 that affect the Dallas and Philadelphia CSAs. OMB also added the Providence, RI, area to the Boston CSA and the Greeley, Co, area to the Denver CSA. OPM regulations (5 CFR 531.609(d)) provide that areas added to a CSA or MSA by OMB will automatically be added to the corresponding locality pay area the following January. Based on the CSA changes, Grayson County, TX, will be added to the Dallas locality pay area, and Berks County, PA, will be added to the Philadelphia locality pay area in January 2007. The changes to the Boston and Denver CSAs do not affect locality pay area boundaries because the added locations are already included in the respective locality pay area. While these changes in pay area boundaries will occur automatically under existing regulations, OPM plans to provide appropriate notice of these changes and make corresponding changes in the official designations of Boston and Denver locality pay areas.

Locality Pay Areas for 2008

The Pay Agent intends to provide for the same locality pay areas in 2008 as in 2007:

- 1) Atlanta-Sandy Springs-Gainesville, GA-AL Combined Statistical Area;
- 2) Boston-Worcester-Manchester, MA-NH Combined Statistical Area, plus the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area, Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME;

- 3) Buffalo-Niagara-Cattaraugus, NY Combined Statistical Area;
- 4) Chicago-Naperville-Michigan City, IL-IN-WI Combined Statistical Area;
- 5) Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area;
- 6) Cleveland-Akron-Elyria, OH Combined Statistical Area;
- 7) Columbus-Marion-Chillicothe, OH Combined Statistical Area;
- 8) Dallas-Fort Worth, TX Combined Statistical Area;
- 9) Dayton-Springfield-Greenville, OH Combined Statistical Area;
- 10) Denver-Aurora-Boulder, CO Combined Statistical Area, plus the Ft. Collins-Loveland, CO Metropolitan Statistical Area and Weld County, CO;
- 11) Detroit-Warren-Flint, MI Combined Statistical Area, plus Lenawee County, MI;
- 12) Hartford-West Hartford-Willimantic, CT Combined Statistical Area, plus the Springfield, MA Metropolitan Statistical Area and New London County, CT;
- 13) Houston-Baytown-Huntsville, TX Combined Statistical Area;
- 14) Huntsville-Decatur, AL Combined Statistical Area;
- 15) Indianapolis-Anderson-Columbus, IN Combined Statistical Area, plus Grant County, IN;
- 16) Los Angeles-Long Beach-Riverside, CA Combined Statistical Area, plus the Santa Barbara-Santa Maria, CA Metropolitan Statistical Area, and Edwards Air Force Base, CA;
- 17) Miami-Fort Lauderdale-Miami Beach, FL Metropolitan Statistical Area, plus Monroe County, FL;
- 18) Milwaukee-Racine-Waukesha, WI Combined Statistical Area;
- 19) Minneapolis-St. Paul-St. Cloud, MN-WI Combined Statistical Area;
- 20) New York-Newark-Bridgeport, NY-NJ-CT-PA Combined Statistical Area, plus Monroe County, PA, and Warren County, NJ;
- 21) Philadelphia-Camden-Vineland, PA-NJ-DE-MD Combined Statistical Area, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
- 22) Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area;
- 23) Pittsburgh-New Castle, PA Combined Statistical Area;
- 24) Portland-Vancouver-Beaverton, OR-WA Metropolitan Statistical Area, plus Marion County, OR, and Polk County, OR;
- 25) Raleigh-Durham-Cary, NC Combined Statistical Area, plus the Fayetteville, NC Metropolitan Statistical Area, the Goldsboro, NC Metropolitan Statistical Area, and the Federal Correctional Complex, Butner, NC;
- 26) Richmond, VA Metropolitan Statistical Area;
- 27) Sacramento—Arden-Arcade—Truckee, CA-NV Combined Statistical Area, plus Carson City, NV;
- 28) San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area;
- 29) San Jose-San Francisco-Oakland, CA Combined Statistical Area, plus the Salinas, CA Metropolitan Statistical Area and San Joaquin County, CA;
- 30) Seattle-Tacoma-Olympia, WA Combined Statistical Area;
- 31) Washington-Baltimore-Northern Virginia, DC-MD-PA-VA-WV Combined Statistical Area, plus the Hagerstown-Martinsburg, MD-WV Metropolitan Statistical Area, the York-Hanover-Gettysburg, PA Combined Statistical Area, 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 2, below, lists the pay disparity for each pay locality. Table 2 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2008 based on the pay disparities, and it shows the disparities that would remain if the recommended payments were adopted.

Table 2 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 table also includes the Indianapolis locality pay area where the pay disparity is below that for the RUS locality pay area. Based on the recommendations of the Federal Salary Council, we have combined the pay disparities for Indianapolis and RUS in a cost neutral fashion, but will continue Indianapolis as a separate locality pay area. The Council and the Pay Agent will review salary survey data for Indianapolis again next year. The adjusted RUS pay disparity is the original RUS disparity adjusted to remove Buffalo and add Indianapolis by weighting the individual location pay disparities by GS base payroll in each area. 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 2 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 38.50 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 31.90 percent ($(138.50/131.90-1) \times 100 = 5.00$ percent).

The actual remaining pay disparity as of January 2008 may differ from the calculations above for two reasons. First, Federal pay will have increased by the amount of the across-the-board increases that become effective in January 2007 and January 2008. Second, non-Federal pay will have increased by some amount from March 2006 to January 2008. 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 2. Local Pay Disparities and 2008 Comparability Payments

Locality	1-Pay Disparity (percent)	2-RUS Adj. Disparity (percent)	3-Disparity to Close (percent)	4-Locality Payment (percent)	5-Remaining Disparity (percent)
Atlanta	38.50	38.50	31.90	31.90	5.00
Boston	45.43	45.43	38.50	38.50	5.00
Buffalo	34.44	34.44	28.04	28.04	5.00
Chicago	44.27	44.27	37.40	37.40	5.00
Cincinnati	27.89	27.89	21.80	21.80	5.00
Cleveland	35.52	35.52	29.07	29.07	5.00
Columbus	30.33	30.33	24.12	24.12	5.00
Dallas	39.95	39.95	33.29	33.29	5.00
Dayton	31.80	31.80	25.52	25.52	5.00
Denver	38.02	38.02	31.45	31.45	5.00
Detroit	39.50	39.50	32.86	32.86	5.00
Hartford	46.81	46.81	39.82	39.82	5.00
Houston	41.82	41.82	35.07	35.07	5.00
Huntsville	26.84	26.84	20.80	20.80	5.00
Indianapolis	24.33	24.71	18.77	18.77	5.00
Los Angeles	44.95	44.95	38.05	38.05	5.00
Miami	33.89	33.89	27.51	27.51	5.00
Milwaukee	35.54	35.54	29.09	29.09	5.00
Minneapolis	39.12	39.12	32.50	32.50	5.00
New York	52.12	52.12	44.88	44.88	5.00
Philadelphia	40.13	40.13	33.46	33.46	5.00
Phoenix	37.05	37.05	30.52	30.52	5.00
Pittsburgh	29.09	29.09	22.94	22.94	5.00
Portland	36.53	36.53	30.03	30.03	5.00
Raleigh	29.57	29.57	23.40	23.40	5.00
Richmond	31.89	31.89	25.61	25.61	5.00
Sacramento	40.01	40.01	33.34	33.34	5.00
San Diego	46.15	46.15	39.19	39.19	5.00
San Francisco	63.11	63.11	55.34	55.34	5.00
Seattle	38.44	38.44	31.85	31.85	5.00
Washington, DC	51.92	51.92	44.69	44.69	5.00
Rest of U.S.	24.80	24.71	18.77	18.77	5.00

Average Locality Rate

The average locality comparability rate in 2008, using the basic GS payroll as of March 2006 to weight the individual rates, would be 31.02 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2006 was 16.18 percent. At this time, we do not know what locality rates will be approved for 2007. The locality rates included in this report would represent a 12.77 percent average pay increase over 2006 locality rates.

Overall Remaining Pay Disparities

The full pay disparities contained in this report average 37.57 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 2006) are included in the comparison, the overall remaining pay disparity as of March 2006 was $(137.57/116.18-1) \times 100$, or about 18.41 percent. Table 3, below, shows the overall remaining pay disparity in each of the 32 approved locality pay areas as of March 2006.

Table 3.
Remaining Pay Disparities in 2006

Locality Pay Area	Remaining Disparity	Locality Pay Area	Remaining Disparity
Atlanta	20.33%	Milwaukee	18.13%
Boston	21.20%	Minneapolis	18.59%
Buffalo	18.43%	New York	23.70%
Chicago	19.08%	Philadelphia	18.71%
Cincinnati	9.23%	Phoenix	21.66%
Cleveland	17.42%	Pittsburgh	13.43%
Columbus	13.48%	Portland	16.53%
Dallas	20.24%	Raleigh	12.11%
Dayton	15.79%	Richmond	15.54%
Denver	15.51%	Sacramento	18.74%
Detroit	15.29%	San Diego	22.62%
Hartford	21.03%	San Francisco	26.76%
Houston	12.23%	Seattle	17.39%
Huntsville	11.90%	Washington, DC	29.29%
Indianapolis	10.51%	Rest of U.S.	10.83%
Los Angeles	17.67%		
Miami	13.62%	Average	18.41%

COST OF LOCALITY PAYMENTS

Estimated Cost of Locality Payments

The cost of locality payments is the sum of all individual locality payments during a calendar year, offset by special salary rates. This amount is estimated using OPM records of all Federal employees with duty stations within the continental United States (CONUS) as of March 2006 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 2. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in CONUS in 2008 will not differ substantially from the number and distribution in March 2006. 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 1.7 percent across-the-board increase in January 2007 and the 2.5 percent across-the-board increase that would become effective in January 2008 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.⁸ 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. Note that both the cost of special rates and the amount of special rate offsets are lower this year than in the past. This is due to the cancellation of special rates that have been overtaken by locality payments and changes in pay administration practices.

⁸ 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.

Estimated Cost of Locality Payments in 2008

Table 4, below, compares the cost of the projected 2007 locality rates to those that would be authorized in 2008 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 2. For the purpose of this cost estimate, we have assumed that there will be a 1.7 percent across-the-board increase in January 2007 and 0.5 percent of payroll allocated for locality pay increases. The “2007 Baseline” cost would be the cost of locality pay in 2008 if the assumed 2007 locality rates are not increased, i.e., the percentage locality payments in 2007 on top of 2006 (we are using a 2006 data file) base pay rates including an assumed 1.7 percent across-the-board adjustment in January 2007 and an assumed 2.5 percent adjustment in January 2008.

The “2008 Locality Pay” columns show what the total locality payments would be and the net increase in 2008. The “2008 Increase” column shows the 2008 total payment minus the 2007 baseline—i.e., the increase in locality payments in 2008 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 2 to be about \$9.3 billion on an annual basis. This amount does not include the cost of benefits or the cost of the 2.5 percent increase in rates of basic pay that would take effect in January 2008 under current law.

This cost estimate excludes 3,322 records (out of 1.3 million) of white-collar workers which were unusable because of errors. There were more error records this year likely due to changes in pay administration rules. Some agencies were unable to make the necessary changes in their data processing systems in time for March 2006 data submissions and automated techniques OPM used to update records reported under the old rules were unable to assess these 3,322 records. Many of these employees may receive locality payments. Including these records would add about \$24 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 4.
Cost of Local Comparability Payments in 2008 (in millions of dollars)

Cost Component	2007 Baseline	2008 Locality Pay	
		Total Payments	2008 Increase
Gross locality payments	\$11,893	\$21,404	\$9,511
Special rates offsets	\$557	\$754	\$197
Net locality payments	\$11,336	\$20,650	\$9,314

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;
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/AFL-CIO;
Thomas Bastas	National President, Association of Civilian Technicians; and
James Pasco	Executive Director, Fraternal Order of Police

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

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 2005 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 has completed field testing of the new procedures and used the new approach in its surveys this year.

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 2

years and about 40 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. Data currently delivered to the Pay Agent exclude these small establishments, but the Pay Agent has asked BLS to report data in 2007 both with and without small establishments.

BLS informs us that about 27 percent of non-Federal employees in white-collar jobs matched to GS jobs work in these small establishments. However, some members of the Federal Salary Council have expressed concerns about whether jobs in small establishments, especially mixed jobs where the incumbent has multiple roles, can be accurately matched to Federal jobs, and questioned whether the Government should limit coverage to larger establishments. The Federal Salary Council plans to continue its review of this issue, and we will consider the Council's recommendations before making any changes in the establishment size cut-off for the locality pay program.