

October 27, 2006

Federal Salary Council

1900 E Street NW.
Washington, DC 20415-8200

**MEMORANDUM FOR: THE PRESIDENT'S PAY AGENT
HONORABLE ELAINE L. CHAO
HONORABLE ROB PORTMAN
HONORABLE LINDA M. SPRINGER**

**SUBJECT: Level of Comparability Payments for January 2008 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 2008.

Bureau of Labor Statistics (BLS) Surveys and Pay Gap Methodology

We reviewed comparisons of GS and non-Federal pay calculated using BLS survey data collected under the National Compensation Survey (NCS) program in 2004 and 2005. All BLS data were updated to March 2006 and compared to GS pay data as of the same date. The change in non-Federal pay as measured by the nationwide Employment Cost Index (ECI) was used to update the BLS data. All of the pay gaps (difference between base GS rates and non-Federal pay for the same levels of work when considered in the aggregate) we reviewed were calculated using the same general weighting and aggregation methods in use since 1994.

BLS has implemented a new process for grading supervisory jobs and has continued implementation of the four-factor leveling system as directed by the Pay Agent following our earlier recommendations. These improvements have had a significant impact upon pay gaps this year. The average pay gap was about 7 points higher in 2006 than in 2005. This means the new survey methods tend to match survey jobs to lower GS grades. Based on the 2.5 percent change in the ECI for white-collar workers less sales occupations between March 2005 and March 2006, and the 2.1 percent January 2006 GS base pay increase, we otherwise would have expected only about a 0.5 point change in the pay gaps.

The largest increase was in the Washington-Baltimore locality pay area, where the pay gap is 13.99 points higher in 2006 than in 2005. In addition to the new methods for grading supervisory jobs and the new four-factor grade leveling system, it is likely that BLS sample rotation and the Federal grade distribution in the Washington, DC, area also contributed to the increase in the Washington, DC, pay gap.

Locality Rates for 2008

Based on calculations provided by Office of Personnel Management (OPM) staff in taking a weighted average of the locality pay gaps, the overall gap between base GS average salaries (excluding any add-ons such as special rates and existing locality payments) and non-Federal average salaries surveyed by BLS was 37.57 percent as of March 2006. The amount needed to reduce the pay disparity to 5 percent (the target gap) averages 31.02 percent.

We calculate the pay gaps excluding existing locality payments because locality pay is paid on top of the base GS rates. The overall average pay gap in 2006, including the current average locality rate of 16.18 percent, is 18.41 percent. The calculation is $(137.57/116.18-1) \times 100$.

Under 5 U.S.C. 5304(a)(3)(I), after the 9-year phase-in period, the percentage of comparability payments due in January 2002 and any year thereafter may not be less than the full amount of the target gap. Therefore, we recommend overall average locality rates of 31.02 percent for 2008. We cannot calculate the percentage increase over the average of the rates authorized for 2007 at this time because the 2007 rates have not yet been set. The proposed comparability payments for 2008 for each locality pay area are shown in the attachment.

These locality rates would be in addition to the increase in GS 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, wages and salaries, private industry workers, increased between September 2005 and September 2006. The ECI for September 2006 will not be published until October 31, 2006, so the amount is not yet known.

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

The pay gap for the Indianapolis locality pay area, 24.33 percent, is below that for the RUS area at 24.80 percent. Since the pay gap in Indianapolis was above RUS in 2005, we recommend that the Pay Agent retain the Indianapolis locality pay area for 2008 and combine the pay gaps for Indianapolis and RUS in a cost neutral fashion, just as we have done in the past for other locations that dipped below RUS. The Council and the Pay Agent should continue to monitor Indianapolis next year. The attachment includes such a combined pay gap and also includes an adjustment to remove the Buffalo locality pay area from RUS. Buffalo, Phoenix, and Raleigh were made separate locality pay areas in 2006. BLS has not yet removed Buffalo from its RUS sample, since Buffalo represents other locations in the sample design. Phoenix represented only itself and has been removed from the RUS sample and the original Raleigh survey was cancelled due to a budget cut, and the data are no longer in the RUS sample. (The survey data used for the Raleigh locality pay area this year are the same as last year, but updated to 2006.)

Surveys in New Cities

In 2003, we recommended that surveys be expanded in six metropolitan areas currently in RUS where limited BLS data indicated relatively high pay. While BLS has not yet expanded its sample in these areas, BLS has indicated that it plans to do so and included them in its pay model again this year. The pay gaps are shown in the table below.

NCS Pay Gaps in New Metropolitan Areas (Percent)		
Location	NCS Pay Gap	Compared to RUS
Austin, TX	22.14	-2.66
Buffalo, NY	34.44	9.64
Louisville, KY	27.42	2.62
Memphis, TN	19.28	-5.52
Phoenix, AZ	37.05	12.25
Raleigh, NC	29.57	4.77
RUS	24.80	

While these are small-scale surveys and the proportion of modeled data tends to be above that found in existing locality pay areas, we recommended and you approved making three of the six locations new locality pay areas in 2006 (Buffalo, Phoenix, and Raleigh). This year the pay gaps in these three locations continue to be well above that for the RUS locality pay area while those for Austin and Memphis continue to be below that for the RUS locality pay area. While the pay gap for Louisville is 2.62 points above that for the RUS area this year, we note that only 110 establishments were surveyed in Louisville and 91 percent of the data were modeled. We recommend that Louisville not be made a separate locality pay area at this time but that the Council and the Pay Agent continue to review all three locations as BLS expands the surveys.

BLS informed us that it continues work on its geographic redesign and will begin implementing the new survey geographic scope in 2007 and 2008 surveys.

Establishments with Fewer than 50 Employees

BLS plans to begin including data from establishments with fewer than 50 employees in its publications this year and could include the data from these small establishments in its salary survey deliverables to the Pay Agent in 2007, which would affect pay recommendations for 2009.

Historically, the pay comparability process has not included data from small firms, although there have been a number of attempts to do so in response to criticism that the surveys did not reflect the pay practices of all employers. With the pre-1990 nationwide salary surveys and with Occupational Compensation Survey Program surveys, both of which used detailed job definitions, it was difficult to find jobs matching the survey jobs in smaller establishments that tended not to use detailed job definitions, and it was never determined to everyone's satisfaction whether the results would be substantially different.

Current NCS survey specifications used to compile data for the Pay Agent exclude establishments with fewer than 50 employees. While detailed survey job definitions are not an issue with NCS surveys, some members of the Council continue to have misgivings about whether jobs in smaller establishments would match very well to Federal jobs, particularly for mixed jobs where incumbents perform more than one function. Some members also asked whether the Government should restrict comparisons to larger establishments, since the Government is such a large employer.

BLS estimates that the number of non-Federal workers in white-collar jobs matched to GS jobs represented by survey data would increase by about 37 percent if these smaller establishments were included. BLS has also indicated that it can provide the NCS data both including and excluding the small establishments. Since no final decision is needed this year, we recommend that the Pay Agent ask BLS to provide data both ways next year. We plan to submit a formal recommendation as to whether these data should be used in the locality pay program after reviewing the data next year.

Requests to be Included in or for Modifications of a Locality Pay Area

OPM staff had contacts from employees in 42 areas by email, telephone, or correspondence since 2005:

Allentown, PA	Ashville, NC	Austin, TX
Baton Rouge/Biloxi	Bend, OR	Berkshire County, MA
Butner, NC (National Guard)	Caroline County, VA	Claremont, NH
College Station, TX	Colorado Springs, CO	Del Norte County, CA
Eagle County, CO	Collier County, FL	Floyd County, GA
Fresno, CA	Grand Junction, CO	Grayson County, TX
Gypsum, CO	Jefferson County, TX	Lafayette, LA
Las Vegas, NV	Los Alamos, NM	Los Angeles, CA
Mineral County, WV	Mohave County, AZ	Mono, CA
New Orleans, LA	Norfolk, VA	Okaloosa County, FL
Orlando, FL	Portland, ME	Rochester, NY
Rocky Mount, NC	Salt Lake City, UT	San Joaquin, CA
San Luis Obispo County, CA	Santa Fe, NM	St. Claire, IL
Syracuse, NY	Toledo, OH	Yolo, CA (Sacramento)

New Orleans; Los Angeles; Yolo, CA; and Berkshire County, MA, will be addressed separately below. None of these other locations requesting to be included in an existing pay area pass the applicable criteria for inclusion recommended by the Council and adopted by the Pay Agent, and we recommend that the Pay Agent not make any changes based on these contacts. Likewise, BLS does not have the resources to conduct additional surveys, so it is not feasible to survey any of the areas listed above separately.

New Orleans and Other Areas Affected by Katrina

OPM staff received a number of contacts from employees and agencies in the New Orleans area affected by Hurricane Katrina. Initially, most of the contacts hoped locality pay would be increased in New Orleans in consideration of hardships and large increases in living costs that occurred after the storm. OPM received similar contacts from other areas, including Baton Rouge and Biloxi. Currently, the New Orleans Federal Executive Board (FEB) is coordinating with Federal agencies to determine if special salary rates or other pay flexibilities should be used.

Because locality pay is based on salary surveys, not living costs, and because it takes a number of years to implement a new locality pay area (i.e., typically this would require a Council recommendation, BLS salary survey, OPM proposed and final regulations, and rates approved by the President), the locality pay program may not be the best tool to help Federal agencies in New Orleans and other affected areas deal with temporary spikes in living costs. The New Orleans FEB and affected agencies are studying alternative approaches. The Council recommends that agencies consult with OPM on what actions should be taken to address recruitment and retention problems in New Orleans or other areas affected by Hurricane Katrina.

Los Angeles

The Los Angeles FEB requested last year that the Council recommend that the Los Angeles locality pay area be split into a coastal area and an interior area. Under the FEB's recommendation, Los Angeles, Orange, Ventura, and Santa Barbara Counties would constitute coastal Los Angeles, and Riverside and San Bernardino Counties would comprise the inland area. The Council asked its Working Group to review the proposal and report back.

The Los Angeles FEB has also produced or submitted several other reports. In total, we received five documents from the FEB:

- *Proposal to Separate the Los Angeles-Long Beach-Riverside Locality Pay Area Into Two Separate Locality Pay Areas*
- *California's Inland Empire: The Leading Edge of Southern California Growth*
- *Comments on "Concept Paper for a Federal Law Enforcement Personnel System"*
- *Imperfect Storm*
- *Federal Recruitment and Retention Report*

The reports stress the difficulties Federal agencies experience recruiting and retaining a quality workforce in the Los Angeles area and suggest alternatives for improvements. The proposal within the purview of the Council is to split the locality pay area. Other proposals include consideration of living costs, especially housing prices, in Federal pay setting. Such proposals would require legislation and are outside of our charter.

In regard to splitting the pay area, we asked BLS and OPM staff to explore what impact that might have on the pay gap and locality pay rate for the Los Angeles area and whether such a splitting was feasible given BLS' current sample size.

BLS concludes that there are not enough data to split the existing National Compensation Survey sample into two areas and that excluding the data from the inland counties would significantly decrease the statistical accuracy of the resulting estimates. Based on data from its Occupational Employment Statistics program, which is not used in the locality pay program and does not measure work levels, but is a general measure of wage levels, BLS reports that pay levels in coastal Los Angeles are roughly 3 percent higher, on average, than pay levels in the entire Los Angeles area and that pay levels in inland Los Angeles are about 14 percent below the overall average. Taken another way, pay levels in coastal Los Angeles are about 20 percent higher than pay levels in the inland counties. However, BLS also reports about 83 percent of workers are in the coastal areas, while only about 17 percent are in the inland counties, so most of the data used in the pay measures are already from the coastal counties.

If we take the current pay gap for Los Angeles at 44.95 percent, and adjust it to reflect pay levels that are 3 percent above the average ($144.95 \times 1.03 - 100$), the pay gap in coastal Los Angeles would be about 49.3 percent, an increase of 4.35 points. Since we are still phasing in locality pay, such a change in the pay gap would likely represent only a 2 to 3 point increase in the locality rate for coastal Los Angeles.

OPM staff provided some demographic data obtained from the Census Bureau, evaluated GS quit rates in coastal Los Angeles vs. inland Los Angeles and nationwide, and tracked the geographic location of GS employees originally in the Los Angeles area over time to see where they went.

Selected Demographic Data for Counties in the Los Angeles Locality Pay Area

	Location	GS Employees, March 2006	Persons per square mile, 2000	Percent population change 2000-2005	Percent Bachelors Degree, 2000	Travel time to work, 2000 (Minutes)	Percent owners, 2000	MSA Median Sale price (NAR) Existing SFH 1-2006	Median household income, 2003	Percent below poverty line, 2003
	USA	1,275,596	79.6	5.3	24.4	25.5	66.2	\$217,900	\$43,318	12.5
	California	101,919	217.2	6.7	26.6	27.7	56.9	\$494,700	\$48,440	13.8
C O A S T A L	Los Angeles County	16,201	2,344.2	4.4	24.9	29.4	47.9	\$563,900	\$41,486	17.7
	Orange County	3,828	3,605.6	5.0	30.8	27.2	61.4	\$712,600	\$55,861	10.6
	Ventura County	3,995	408.2	5.7	26.9	25.4	67.6	N/A	\$57,864	9.8
	Santa Barbara County	1,824	145.9	0.4	29.4	19.3	56.1	N/A	\$45,713	13.1
I N L A N D	Riverside County	2,500	214.4	26.0	16.6	31.2	68.9	\$396,200	\$44,595	12.3
	San Bernardino County	5,215	85.2	14.9	15.9	31.0	64.5	\$396,200	\$43,185	16.0

Source: OPM for GS employment, National Association of Realtors for house prices, all other data from the U.S. Census Bureau, State and County Quick Facts.

These data indicate that Los Angeles and Orange Counties have the highest population density, much higher than the inland counties but also much higher than Ventura and Santa Barbara Counties. The inland counties have experienced the greatest population growth since 2000, but the Council concludes that would be a reason to include them in the overall Los Angeles area, not a reason to exclude them. As pointed out by the FEB, the workforce in the inland counties is less educated than that in the coastal counties and also faces longer commutes, probably since so many commute to Los Angeles proper. The proportion of homeowners is lowest in Los Angeles County while home prices are lowest in the inland counties. Finally, Los Angeles and San Bernardino have the lowest median household income and percent below poverty.

Riverside and San Bernardino Counties are included in the Los Angeles Combined Statistical Area (CSA) by the Office of Management and Budget (OMB). OPM staff calculated employment interchange measures with the remaining counties in the Los Angeles CSA of 19 percent for Riverside and 30 percent for San Bernardino. Santa Barbara County is not part of the CSA as identified by OMB and was added to the locality pay area as an area of application because its 8 percent commuting interchange rate passed our commuting criterion. It seems incongruous to include Santa Barbara simply because it's on the coast but exclude Riverside and San Bernardino which have more direct links to the remaining counties, at least based on commuting patterns. We also note that most of the urbanized areas and most of the population in Riverside and San Bernardino Counties are on the western side, closest to Los Angeles proper and connected to LA by a system of interstate highways.

FY 2005 Quit Rates in the Los Angeles Area
Full-time Permanent GS Employees

Location	Prof	Admin	Tech	Clerical	Other	All
Los Angeles County	2.03%	1.39%	2.50	2.70	6.17	2.05
Orange County	2.87	1.35	2.85	3.59	0.81	2.03
Santa Barbara County	2.91	1.32	3.78	2.44	4.44	2.88
Ventura County	3.55	1.13	1.02	2.38	4.46	2.02
Riverside County	0.93	1.49	5.74	5.22	5.82	3.61
San Bernardino	3.77	1.35	5.60	8.77	8.24	4.66
Worldwide	2.05	1.19	2.72	6.04	5.21	2.29

OPM staff computed FY 2005 quit rates for GS employees by county in the Los Angeles area. As shown in the table above, based on data submitted to the Central Personnel Data File (CPDF) by Federal agencies, quits rates are generally higher in the inland counties, not in the coastal counties. Based on these data the overall quit rates are below the national average for Los Angeles, Orange, and Ventura Counties.

OPM also tracked GS employees in the CPDF over time to see how many stayed in the Los Angeles area, and, if they changed duty station, where they went. Based on these data, more GS employees leaving Los Angeles County but staying with the Government went to Orange County than went to Riverside or San Bernardino. Likewise, employees leaving Orange County tended to go to Los Angeles and San Diego more often than to the inland counties. Only Santa Barbara showed the largest number of losses to an inland county. Finally, employees in Riverside and San Bernardino tended to go to Los Angeles County and San Diego if they left their employment county.

There are other locality pay areas that employees or agencies might argue should be split. Those could include the Washington-Baltimore area, where many employees believe pay levels are higher in Washington than in Baltimore. Likewise, employees in New York could argue that New York proper should receive higher locality pay than surrounding areas. If the Pay Agent splits the Los Angeles locality pay area, we anticipate there will be repercussions in other locations.

The Council also notes that no one has contacted the Council or OPM representing GS employees or their agencies in Riverside or San Bernardino Counties. We anticipate there would be significant opposition to the idea of splitting the locality pay area from employees in the inland counties.

Based on the information from BLS that it is not feasible to split the survey sample, an indicator that the effect on the locality pay rate would be modest, demographic information that is inconclusive, high levels of commuting to/from coastal and inland Los Angeles, no representation at Council meetings of the views of employees and agencies from the inland counties, the potential effect on other pay areas, that most of the development in the inland counties is on the western side—closest to Los Angeles, and turnover rates that indicate employees leave the inland counties faster than the coastal counties, the Council recommends that the Pay Agent not adopt the proposal to split the Los Angeles locality pay area.

Yolo County, CA

Department of Agriculture staff contacted OPM staff because one of its local offices suggested that Yolo County, CA, which is part of the Sacramento locality pay area be included in the San Jose-San Francisco locality pay area. The local agency office cited anecdotal recruitment and retention problems and high housing costs as justification for this move.

Yolo County is part of the Sacramento—Arden-Arcade—Truckee CSA with an employment interchange rate of 56.2 percent with the remainder of the CSA and an employment interchange rate of only 11.86 percent with the San Jose-San Francisco CSA. That is why OMB includes it in the Sacramento CSA. Since Sacramento is already a separate locality pay area with its own BLS survey, and since the survey results indicate that the pay gap (excluding existing locality pay) in Sacramento is 40.01 percent while that in San-Jose San Francisco is 63.11 percent, the Council recommends that the Pay Agent not pursue this idea.

Berkshire County, MA

Representatives from Berkshire County, MA, also approached the Council last year and requested that we recommend that Berkshire be included in the Hartford locality pay area. Their rationale includes that Berkshire is the only county in Massachusetts or southern New England not included in a separate locality pay area, that agency organizational structures sometimes result in satellite offices and headquarters offices receiving different pay, and anecdotal recruitment and retention information. Employees from Berkshire proposed a change in our criteria for evaluating adjacent counties to accommodate their proposal. The proposed criteria would drop the current GS employment count from 400 to 100, drop the 7.5 percent commuting interchange entirely, and require that the county be adjacent to two or more locality pay areas.

There are slightly more than 100 GS employees in Berkshire County. Berkshire is not adjacent to the Hartford CSA. Rather, it is adjacent to the Springfield area of application to Hartford. In the past, we have not permitted “piggy backing” of areas of application. Berkshire is adjacent to Litchfield County, CT, which is part of the New York CSA. Most of the GS employees in Berkshire County are stationed in Pittsfield, which is 30 miles from the Connecticut border, 81 miles from Hartford, and 153 miles from New York City.

We note that agency organizational structure is not a basis for defining locality pay areas and would yield conflicting results since agencies and components don’t necessarily follow the same organizational patterns. The proposal would drop commuting entirely as a criterion for evaluating areas, since Berkshire has only a 0.29 percent employment interchange rate with the Hartford CSA and a 2.72 percent rate with the New York CSA, both well below the Council’s 7.5 percent criterion. We believe that commuting patterns are key to defining labor markets and should be retained in the criteria.

The Council also notes that retention data from the CPDF indicate 9 GS employees in Berkshire left the Government in FY 2005 (4 quit, 3 retired, 1 was fired, and 1 died) but that Federal agencies reported 12 new hires. Finally, OPM staff has indicated that the changes in area of application criteria, as suggested for the 100 or so GS employees in Berkshire, would also affect 1,602 GS employees in Imperial County, CA, who would be eligible to be included in either the Los Angeles or San Diego locality pay areas; 225 GS employees in La Paz County, AR, which is adjacent to both the Los Angeles and Phoenix locality pay areas; and 156 GS employees in Lancaster, PA, which is adjacent to both the Washington, DC, and the Philadelphia locality pay areas.

The Council recommends that no changes be made in the area of application criteria.

Locality Pay Areas for 2008

We recommend continuation of the 32 existing locality pay areas in 2008, as follows:

- (1) Atlanta-Sandy Springs-Gainesville, GA-AL—consisting of the Atlanta-Sandy Springs-Gainesville, GA-AL CSA;
- (2) Boston-Worcester-Manchester, MA-NH-ME-RI—consisting of the Boston-Worcester-Manchester, MA-NH CSA, plus the Providence-New Bedford-Fall River, RI-MA MSA, Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME;
- (3) Buffalo-Niagara-Cattaraugus, NY—consisting of the Buffalo-Niagara-Cattaraugus, NY CSA;
- (4) Chicago-Naperville-Michigan City, IL-IN-WI—consisting of the Chicago-Naperville-Michigan City, IL-IN-WI CSA;
- (5) Cincinnati-Middletown-Wilmington, OH-KY-IN—consisting of the Cincinnati-Middletown-Wilmington, OH-KY-IN CSA;
- (6) Cleveland-Akron-Elyria, OH—consisting of the Cleveland-Akron-Elyria, OH CSA;
- (7) Columbus-Marion-Chillicothe, OH—consisting of the Columbus-Marion-Chillicothe, OH CSA;
- (8) Dallas-Fort Worth, TX—consisting of the Dallas-Fort Worth, TX CSA;
- (9) Dayton-Springfield-Greenville, OH—consisting of the Dayton-Springfield-Greenville, OH CSA;
- (10) Denver-Aurora-Boulder, CO—consisting of the Denver-Aurora-Boulder, CO CSA, plus the Ft. Collins-Loveland, CO MSA and Weld County, CO;
- (11) Detroit-Warren-Flint, MI—consisting of the Detroit-Warren-Flint, MI CSA, plus Lenawee County, MI;
- (12) Hartford-West Hartford-Willimantic, CT-MA—consisting of the Hartford-West Hartford-Willimantic, CT CSA, plus the Springfield, MA MSA and New London County, CT;
- (13) Houston-Baytown-Huntsville, TX—consisting of the Houston-Baytown-Huntsville, TX CSA;
- (14) Huntsville-Decatur, AL—consisting of the Huntsville-Decatur, AL CSA;
- (15) Indianapolis-Anderson-Columbus, IN—consisting of the Indianapolis-Anderson-Columbus, IN CSA, plus Grant County, IN;
- (16) Los Angeles-Long Beach-Riverside, CA—consisting of the Los Angeles-Long Beach-Riverside, CA CSA, plus the Santa Barbara-Santa Maria, CA MSA and Edwards Air Force Base, CA;
- (17) Miami-Fort Lauderdale-Miami Beach, FL—consisting of the Miami-Fort Lauderdale-Miami Beach, FL MSA, plus Monroe County, FL;
- (18) Milwaukee-Racine-Waukesha, WI—consisting of the Milwaukee-Racine-Waukesha, WI CSA;

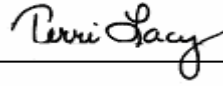
- (19) Minneapolis-St. Paul-St. Cloud, MN-WI—consisting of the Minneapolis-St. Paul-St. Cloud, MN-WI CSA;
- (20) New York-Newark-Bridgeport, NY-NJ-CT-PA—consisting of the New York-Newark-Bridgeport, NY-NJ-CT-PA CSA, plus Monroe County, PA, and Warren County, NJ;
- (21) Philadelphia-Camden-Vineland, PA-NJ-DE-MD—consisting of the Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
- (22) Phoenix-Mesa-Scottsdale, AZ—consisting of the Phoenix-Mesa-Scottsdale, AZ MSA;
- (23) Pittsburgh-New Castle, PA—consisting of the Pittsburgh-New Castle, PA CSA;
- (24) Portland-Vancouver-Beaverton, OR-WA—consisting of the Portland-Vancouver-Beaverton, OR-WA MSA, plus Marion County, OR, and Polk County, OR;
- (25) Raleigh-Durham-Cary, NC—consisting of the Raleigh-Durham-Cary, NC CSA, plus the Fayetteville, NC MSA, the Goldsboro, NC MSA, and the Federal Correctional Complex, Butner, NC;
- (26) Richmond, VA—consisting of the Richmond, VA MSA;
- (27) Sacramento—Arden-Arcade—Truckee, CA-NV—consisting of the Sacramento—Arden-Arcade—Truckee, CA-NV CSA, plus Carson City, NV;
- (28) San Diego-Carlsbad-San Marcos, CA—consisting of the San Diego-Carlsbad-San Marcos, CA MSA;
- (29) San Jose-San Francisco-Oakland, CA—consisting of the San Jose-San Francisco-Oakland, CA CSA, plus the Salinas, CA MSA and San Joaquin County, CA;
- (30) Seattle-Tacoma-Olympia, WA—consisting of the Seattle-Tacoma-Olympia, WA CSA;
- (31) Washington-Baltimore-Northern Virginia, DC-MD-PA-VA-WV—consisting of the Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA, plus the Hagerstown-Martinsburg, MD-WV MSA, the York-Hanover-Gettysburg, PA CSA, and King George County, VA; and
- (32) Rest of U.S.—consisting of those portions of the continental United States not located within another locality pay area.

Allocating Locality Pay in 2007

At this point, we do not know what pay raise will be provided in 2007. Presently, the Congress has draft appropriations bills that would set the total increase at 2.7 percent. The Council recommends that 1.7 percent be allocated for the across-the-board pay raise (the same as would occur under existing law) and that any additional amount above this be used for locality pay raises, distributed so that locations with the largest pay gaps receive the largest increases. While we believe the details of the distribution should be left to the President to determine, we

recommend that employees in each locality pay area receive at least some portion of the funds available for locality pay after payment of the 1.7 percent across-the-board increase.

By direction of the Council:

A handwritten signature in cursive script that reads "Terri Lacy". The signature is written in black ink and is positioned above a horizontal line.

Terri Lacy

Chairman

Attachment

ATTACHMENT

Pay Gaps and Locality Rates for 2008

Locality Pay Area	Mar-06 Base GS Payroll	Mar-06 Pay Gap	Adjusted RUS Gap	Target Gap and 2008 Local Rate
ATLANTA	\$1,442,931,514	38.50%	38.50%	31.90%
BOSTON	\$1,337,051,510	45.43%	45.43%	38.50%
BUFFALO	\$236,196,748	34.44%	34.44%	28.04%
CHICAGO	\$1,127,973,055	44.27%	44.27%	37.40%
CINCINNATI	\$389,118,175	27.89%	27.89%	21.80%
CLEVELAND	\$466,795,156	35.52%	35.52%	29.07%
COLUMBUS	\$421,897,412	30.33%	30.33%	24.12%
DALLAS	\$1,021,827,468	39.95%	39.95%	33.29%
DAYTON	\$561,278,489	31.80%	31.80%	25.52%
DENVER	\$1,070,891,793	38.02%	38.02%	31.45%
DETROIT	\$627,826,869	39.50%	39.50%	32.86%
HARTFORD	\$236,950,824	46.81%	46.81%	39.82%
HOUSTON	\$686,860,791	41.82%	41.82%	35.07%
HUNTSVILLE	\$591,716,428	26.84%	26.84%	20.80%
INDIANAPOLIS	\$362,510,957	24.33%	24.71%	18.77%
LOS ANGELES	\$1,813,802,502	44.95%	44.95%	38.05%
MIAMI	\$682,562,212	33.89%	33.89%	27.51%
MILWAUKEE	\$178,662,479	35.54%	35.54%	29.09%
MINNEAPOLIS	\$368,092,899	39.12%	39.12%	32.50%
NEW YORK	\$2,664,784,828	52.12%	52.12%	44.88%
PHILADELPHIA	\$1,540,479,126	40.13%	40.13%	33.46%
PHOENIX	\$429,133,625	37.05%	37.05%	30.52%
PITTSBURGH	\$333,188,851	29.09%	29.09%	22.94%
PORTLAND OR	\$539,184,819	36.53%	36.53%	30.03%
RALEIGH	\$581,710,442	29.57%	29.57%	23.40%
REST OF U.S. (RUS)	\$26,035,223,383	24.80%	24.71%	18.77%
RICHMOND VA	\$437,319,142	31.89%	31.89%	25.61%
SACRAMENTO	\$349,179,624	40.01%	40.01%	33.34%
SAN DIEGO	\$966,772,005	46.15%	46.15%	39.19%
SAN FRANCISCO	\$1,364,817,943	63.11%	63.11%	55.34%
SEATTLE	\$1,220,992,149	38.44%	38.44%	31.85%
WASHINGTON DC	\$16,763,755,211	51.92%	51.92%	44.69%
	\$66,851,488,429		37.57%	31.02%

Removing/Adding Locations from/to RUS		
Buffalo-remove	\$236,196,748	34.44%
Indianapolis-add	\$362,510,957	24.33%
RUS	\$26,271,420,131	24.80%
Adjusted RUS	\$26,397,734,340	24.71%