

REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

*ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
2005*



The President's Pay Agent
Washington, DC

December 13, 2005

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 we would recommend for January 2007 *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 2007. You do not need to make a decision on the 2007 rates at this time.

Our plans for locality pay area boundaries in 2007 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 support the Council's recommendation to complete the phase-in of salary survey data collected under the National Compensation Survey program and use that data exclusively to set locality pay.

We continue to believe in the need for fundamental reforms of the white-collar Federal pay system. 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. We believe it is imperative to consider alternative approaches to the compensation of Federal employees that will lead to a Government that is citizen-centered, results-oriented, and market-based. We are encouraged by the discussion resulting from the Administration's draft legislative proposal, the Working for America Act, and we look forward to 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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TABLE OF CONTENTS

Page

Introduction..... 1

Across-the-Board and Locality Adjustments..... 2

Locality Pay Surveys 3

Comparing General Schedule and Non-Federal Pay 7

Locality Pay Areas..... 11

Pay Disparities and Comparability Payments..... 15

Cost of Locality Payments 18

Recommendations of the Federal Salary Council and Employee Organizations 20

Future Surveys 21

TABLES

1. Pay Gaps in Six New Areas 11

2. Local Pay Disparities and 2007 Comparability Payments..... 16

3. Remaining Pay Disparities in 2005..... 17

4. Cost of Local Comparability Payments in 2007 19

INTRODUCTION

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

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

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

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

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

The President's Pay Agent consists of the Secretary of Labor and the Directors of the Office of Management and Budget and the Office of Personnel Management. This report fulfills the Agent's responsibility under 5 U.S.C. 5304(d), as amended. It recommends locality pay adjustments for 2007 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 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 2007 increase is the 12-month period ending on September 30, 2005. During that period, the ECI increased by 2.2 percent. Therefore, the January 2007 general increase, if granted, would be 1.7 percent (2.2 percent minus 0.5 percentage points).

The locality component of the pay adjustment under FEPCA was to be phased in over a 9-year period. In 1994, the minimum comparability increase was two-tenths of the “target” pay disparity (i.e., the amount needed to reduce the pay disparity to 5 percent *according to the methodology required by current law*). For each successive year, the comparability increase was scheduled to be at least an additional one-tenth of the “target” pay disparity. For 2002 and thereafter, the law authorized the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent. However, the schedule under FEPCA has not been followed. In 2005, for example, only 58.84 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 2002, the Council recommended and we agreed to begin using NCS data by averaging the OCSP and NCS results (on a 50-50 basis). In 2003, the Council recommended and we agreed to continue the phase-in by weighting NCS results 75 percent and OCSP results 25 percent. In 2004, the Council recommended that we continue to phase in NCS results by applying a 90 percent weight to NCS results and a 10 percent weight to OCSP results. This year, the Council recommended and we agree to use only NCS survey results for the locality pay program.

The same three improvements first introduced in 2002 are incorporated into surveys used this year:

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

The remaining two improvements, which BLS is using in surveys now being conducted that will affect data delivered to the Pay Agent in future years, are the following:

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

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 15,877 establishments for the data submitted for the locality pay program. In the 28 continuing separate metropolitan locality pay areas, BLS surveyed 8,453 establishments. The Rest of U.S. (RUS) locality pay survey covered 49 additional metropolitan areas and 70 non-metropolitan counties. A total of 7,424 establishments were surveyed in the RUS area, including establishments in Kansas City, St Louis, and Orlando, which the Pay Agent plans to merge with RUS in 2006, and establishments in Buffalo, Phoenix, and Raleigh, which the Pay Agent plans to make separate locality pay areas in 2006.

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

Occupational Coverage

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 2004 GS employment counts for use in weighting survey job data to higher aggregates. (BLS completed delivery of the most recent NCS surveys in July 2005, before March 2005 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 to level surveyed jobs. This would also place an undue burden on survey participants. Therefore, in its original NCS methodology, BLS adopted the primary standard of the GS Factor Evaluation System (FES) for use in leveling jobs that are selected randomly in the survey. The primary standard is a framework that guides OPM when developing detailed standards for occupations under the FES. However, when the FES was designed and tested in the 1970s, OPM's predecessor, the Civil Service Commission, found a high error rate when only the primary standard was used in leveling jobs. The Federal Salary Council and OPM staff concluded that tests of the NCS program methods revealed similar problems.

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

The 20 job family guides cover the complete spectrum of white-collar work found in the Government. BLS and OPM have completed work on the guides, and BLS is now using the guides in its ongoing surveys. Fully implementing the new leveling system will take 5 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 20 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 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 and OPM have completed work on developing this procedure, and BLS is now using the new procedures in its ongoing surveys. However, the data available for this report were not processed using the new approach.

As in the 2002 through 2004 reports, BLS excluded second- and third-level supervisors entirely from the NCS data this year. BLS graded first-level supervisors by using existing NCS grade leveling procedures. The Pay Agent issued these instructions to BLS because the grades of second- and third-level supervisors are more likely affected by their supervisory duties, while first-level supervisors are more likely graded based on other factors, such as technical expertise. This modification allowed us to use some of the data from supervisory positions.¹ We anticipate that data from all levels of supervisory positions will be available and used next year.

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**.

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

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 pay² 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 2005 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.³

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 PATCO⁴ category by grade level. The NCS program covers virtually all GS jobs since only jobs that were not randomly

² 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.

³ NCS surveys used in this report had reference dates between December 2003 and September 2004. See **Appendix IV**.

⁴ “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 CONUS⁵ 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 multiplied 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.⁶

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

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

6 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.⁷

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.⁸ The NCS model accounts for about 83 percent of the variations in pay, which is very good for models of this type.

Use of modeling is a generally accepted practice, and we have used modeled data for most of the history of the locality pay program. The models used in both the original OCSP surveys and the 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

⁷ 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.

⁸ 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 73 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 87 percent modeled in Milwaukee to a low of 37 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 36 percent modeled at GS-4 to an average of 99 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 21, 2005. (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 separate model with the existing locality pay areas and produce model-filled data files for review.

The pay gaps for these areas using the small-scale NCS surveys with model fills for missing jobs are shown in the table below.

Table 1.
Pay Gaps in Six New Areas

Area	2005 Pay Gap (Percent)	Compared to RUS
Austin-Round Rock, TX MSA	18.92	-1.25
Buffalo-Niagara- Cattaragus, NY CSA	27.67	7.50
Louisville-Elizabeth- Scottsburg, KY-IN CSA	20.98	0.81
Memphis, TN MSA	18.83	-1.34
Phoenix-Mesa- Scottsdale, AZ MSA	25.94	5.77
Raleigh-Durham-Cary, NC CSA	29.51	9.34

The Council concluded that we should continue with our plans to make Buffalo, Phoenix, and Raleigh locality pay areas in 2006, but that Austin, Memphis, and Louisville should remain in the RUS locality pay area. We agree with the Council's recommendation and plan to complete implementation of the new locality pay areas for Buffalo, Phoenix, and Raleigh.

Please note that the RUS data used in this report include data from the six areas identified above, as specified by the Pay Agent in our 2003 and 2004 reports. These surveys are included in the RUS data because data from these areas represent other areas in BLS' RUS sampling scheme. We have adjusted the RUS pay gap in a cost neutral fashion to net out the new Buffalo, Phoenix, and Raleigh locality pay areas. The RUS data BLS provided this year already included Kansas City, St. Louis, and Orlando, so there is no need to combine the pay gap data for these locations with RUS data. Finally, the Raleigh survey was canceled last year as part of a budget reduction, so we used the same data this year, appropriately aged. We encourage BLS to expedite renewal of its salary survey in the Raleigh area.

Defining Locality Pay Areas

OPM published a proposed rule in the *Federal Register* on June 20, 2005, on behalf of the Pay Agent to implement changes in locality pay areas recommended by the Federal Salary Council in 2004 (70 FR 35383). These changes included merging the Kansas City, St. Louis, and Orlando locality pay areas with the RUS locality pay area and creating new locality pay areas for the Buffalo-Niagara-Cattaraugus, NY Combined Statistical Area (CSA), the Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area (MSA), and the Raleigh-Durham-Cary, NC CSA. The changes will become effective in January 2006.

We also evaluated areas adjacent to the three new locality pay areas for possible inclusion in the locality pay area under criteria recommended by the Council. The criteria previously recommended by the Council are as follows:

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 Employment Interchange Measure is defined by the Bureau of the Census as 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.

Based on these criteria, there are no additions to the Buffalo and Phoenix locality pay areas, but the Raleigh locality pay area will include the Fayetteville, NC MSA and the Goldsboro, NC MSA.

The Federal Salary Council also recommended, and we approve, a change in the criteria for evaluating Federal facilities that cross locality pay area boundaries in order to ensure that all of the Federal Correctional Complex, Butner, NC, is included in the Raleigh locality pay area. The Council's recommended change is shown in italics below:

3. For Federal facilities that cross locality pay area boundaries: To be included in an adjacent locality pay area, the whole facility must have at least 500 GS employees, with the majority of those employees in the higher-paying locality pay area, or 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.

Under the new criterion for facilities that cross boundaries, all of the Federal Correctional Complex, Butner, NC, will be included in the Raleigh locality pay area in 2006.

Locality Pay Areas for 2007

The Pay Agent intends to provide for the same locality pay areas in 2007 as planned for 2006:

- 1) Atlanta-Sandy Springs-Gainesville, GA-AL Combined Statistical Area;
- 2) Boston-Worcester-Manchester, MA-NH Combined Statistical Area, plus the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area, Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME;
- 3) Buffalo-Niagara-Cattaraugus, NY Combined Statistical Area;
- 4) Chicago-Naperville-Michigan City, IL-IN-WI Combined Statistical Area;
- 5) Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area;
- 6) Cleveland-Akron-Elyria, OH Combined Statistical Area;
- 7) Columbus-Marion-Chillicothe, OH Combined Statistical Area;
- 8) Dallas-Fort Worth, TX Combined Statistical Area;
- 9) Dayton-Springfield-Greenville, OH Combined Statistical Area;
- 10) Denver-Aurora-Boulder, CO Combined Statistical Area, plus the Ft. Collins-Loveland, CO Metropolitan Statistical Area and Weld County, CO;
- 11) Detroit-Warren-Flint, MI Combined Statistical Area, plus Lenawee County, MI;
- 12) Hartford-West Hartford-Willimantic, CT Combined Statistical Area, plus the Springfield, MA Metropolitan Statistical Area and New London County, CT;
- 13) Houston-Baytown-Huntsville, TX Combined Statistical Area;
- 14) Huntsville-Decatur, AL Combined Statistical Area;
- 15) Indianapolis-Anderson-Columbus, IN Combined Statistical Area, plus Grant County, IN;

- 16) Los Angeles-Long Beach-Riverside, CA Combined Statistical Area, plus the Santa Barbara-Santa Maria, 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-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 lists 2 through 5 of OMB Bulletin 05-02, which is available on the Internet at <http://www.whitehouse.gov/omb/bulletins/fy05/b05-02.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 2007 based on the pay disparities, and it shows the disparities that would remain if the recommended payments were adopted.

Table 2 includes locality pay areas for Buffalo, Phoenix, and Raleigh. Since data for these three locations are still used as part of the salary survey data for the RUS locality pay area, we have adjusted the RUS area disparity to net out these three areas. The adjusted RUS pay disparity is the original RUS disparity adjusted to remove Buffalo, Phoenix, and Raleigh 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 31.39 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 25.13 percent $(131.39/125.13-1) \times 100 = 5.00$ percent).

The actual remaining pay disparity as of January 2007 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 2006 and January 2007. Second, non-Federal pay will have increased by some amount from March 2005 to January 2007. 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 2007 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	31.39	31.39	25.13	25.13	5.00
Boston	39.06	39.06	32.44	32.44	5.00
Buffalo	27.67	27.67	21.59	21.59	5.00
Chicago	35.75	35.75	29.29	29.29	5.00
Cincinnati	26.89	26.89	20.85	20.85	5.00
Cleveland	28.54	28.54	22.42	22.42	5.00
Columbus	22.54	22.54	16.70	16.70	5.00
Dallas	34.87	34.87	28.45	28.45	5.00
Dayton	25.38	25.38	19.41	19.41	5.00
Denver	32.50	32.50	26.19	26.19	5.00
Detroit	34.10	34.10	27.71	27.71	5.00
Hartford	42.57	42.57	35.78	35.78	5.00
Houston	36.40	36.40	29.90	29.90	5.00
Huntsville	22.40	22.40	16.57	16.57	5.00
Indianapolis	20.51	20.51	14.77	14.77	5.00
Los Angeles	40.73	40.73	34.03	34.03	5.00
Miami	29.83	29.83	23.65	23.65	5.00
Milwaukee	31.20	31.20	24.95	24.95	5.00
Minneapolis	34.70	34.70	28.29	28.29	5.00
New York	50.57	50.57	43.40	43.40	5.00
Philadelphia	34.82	34.82	28.40	28.40	5.00
Phoenix	25.94	25.94	19.94	19.94	5.00
Pittsburgh	24.22	24.22	18.30	18.30	5.00
Portland	29.35	29.35	23.19	23.19	5.00
Raleigh	29.51	29.51	23.34	23.34	5.00
Richmond	23.39	23.39	17.51	17.51	5.00
Sacramento	38.23	38.23	31.65	31.65	5.00
San Diego	40.49	40.49	33.80	33.80	5.00
San Francisco	57.13	57.13	49.65	49.65	5.00
Seattle	32.52	32.52	26.21	26.21	5.00
Washington, DC	37.93	37.93	31.36	31.36	5.00
Rest of U.S.	20.17	19.81	14.10	14.10	5.00

Average Locality Rate

The average locality comparability rate in 2007, using the basic GS payroll as of March 2005 to weight the individual rates, would be 24.15 percent under the methodology used for this report. The average rate authorized in 2005 was 14.99 percent.

Overall Remaining Pay Disparities

The pay disparities contained in this report average 30.36 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 2005) are included in the comparison, the overall remaining pay disparity as of March 2005 was $(130.36/114.99-1) \times 100$, or about 13.37 percent. Table 3, below, shows the overall remaining pay disparity in each of the 32 approved locality pay areas as of March 2005.

Table 3.
Remaining Pay Disparities in 2005

Locality Pay Area	Remaining Disparity	Locality Pay Area	Remaining Disparity
Atlanta	15.39%	Milwaukee	15.47%
Boston	17.36%	Minneapolis	16.13%
Buffalo	14.28%	New York	24.45%
Chicago	13.41%	Philadelphia	15.56%
Cincinnati	9.35%	Phoenix	12.73%
Cleveland	12.52%	Pittsburgh	10.07%
Columbus	7.51%	Portland	11.58%
Dallas	17.21%	Raleigh	15.92%
Dayton	11.09%	Richmond	9.05%
Denver	12.23%	Sacramento	18.64%
Detroit	12.06%	San Diego	19.38%
Hartford	19.29%	San Francisco	24.32%
Houston	9.32%	Seattle	13.72%
Huntsville	8.88%	Washington, DC	18.93%
Indianapolis	7.59%	Rest of U.S.	7.24%
Los Angeles	15.68%		
Miami	11.18%	Average	13.37%

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 2005 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 2007 will not differ substantially from the number and distribution in March 2005. The estimate does not include increases in premium pay costs or Government contributions for retirement, life insurance, or other employee benefits that may be attributed to locality payments.

Cost estimates are derived as follows. First, both the “scheduled annual rate of pay,” as defined in 5 CFR 531.602, and the annual rate inclusive of special rates are determined for each employee. These rates are adjusted to include an assumed 2.1 percent across-the-board increase in January 2006 and the 1.7 percent across-the-board increase that would become effective in January 2007 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.⁹ The “gross locality payment” is computed for each employee by multiplying expected annual earnings from the scheduled annual rate by the proposed locality payment percentage for the employee’s locality pay area. The sum of these gross locality payments is the cost of locality pay before offset by special rates.

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

Estimated Cost of Locality Payments in 2007

Table 4, below, compares the cost of the projected 2006 locality rates to those that would be authorized in 2007 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 2. For the purpose of this

⁹ The work schedule factor equals 1 for full-time employees and one of several values less than 1 for the several categories of non-full-time employees.

cost estimate, we have assumed that there will be a 2.1 percent across-the-board increase in January 2006 and locality pay increases as recommended by the Federal Salary Council at its letter of October 21, 2005 (as shown in **Appendix I**). The “2006 Baseline” cost would be the cost of locality pay in 2007 if the assumed 2006 locality rates are not increased, i.e., the percentage locality payments in 2006 on top of 2007 base pay rates including an assumed 2.1 percent across-the-board adjustment in January 2006 and an assumed 1.7 percent adjustment in January 2007.

The “2007 Locality Pay” columns show what the total locality payments would be and the net increase in 2007. The “2007 Increase” column shows the 2007 total payment minus the 2006 baseline—i.e., the increase in locality pay in 2007 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 \$5.3 billion on an annual basis. This amount does not include the cost of benefits or the cost of the 1.7 percent increase in rates of basic pay that would take effect in January 2007 under current law.

This cost estimate excludes 826 records of white-collar workers which were unusable because of errors. Many of these employees may receive locality payments. Including these records would add about \$3.4 million to the net cost of locality payments. The cost estimate covers only General Schedule employees and employees covered by pay plans that receive locality pay by action of the Pay Agent. It excludes the cost of pay raises for employees under other pay systems that may be linked in some fashion to locality pay increases. These other pay systems include the Federal Wage System for blue-collar workers, under which pay raises often are capped 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.

Table 4.
Cost of Local Comparability Payments in 2007 (in millions of dollars)

Cost Component	2006 Baseline	2007 Locality Pay	
		Total Payments	2007 Increase
Gross locality payments	\$11,442	\$16,828	\$5,386
Special rates offsets	937	1,062	125
Net locality payments	\$10,505	\$15,766	\$5,261

RECOMMENDATIONS OF THE FEDERAL SALARY COUNCIL AND EMPLOYEE ORGANIZATIONS

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

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

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

FUTURE SURVEYS

Survey Improvements

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

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

Progress: BLS has designed an econometric model that is used to estimate salaries for jobs not randomly selected in 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 2004 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.

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

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

Progress: OPM 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 has begun to phase the new approach into its surveys. This improvement will take 5 years to fully implement because BLS conducts detailed job leveling interviews only when it first adds an establishment to its surveys and replaces only 1/5 of its establishment sample each year. However, data used for this report continue to rely on the original NCS use of the primary standard and the 9 factors of the Factor Evaluation System.

(2) 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 has begun to use the new approach in its surveys. However, data used in this report exclude 2nd and 3rd level supervisors.

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

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 BLS could include them in data deliveries commencing in 2007. The Federal Salary Council plans to study this issue, and we will consider the Council's recommendations before making any changes.