

## THE FEDERAL SALARY COUNCIL

**Minutes of September 27, 2004**

**MEETING NO. 04-01**

The Federal Salary Council (FSC) held its first meeting of 2004 on Monday, September 27, 2004. Donald J. Winstead, Deputy Associate Director for Pay and Performance Policy at the Office of Personnel Management (OPM), was the Designated Federal Official. Ms. Terri Lacy, Chair, began the meeting at 10:00 a.m.

### **Present**

The following members attended: Terri Lacy, Chair (Partner, Andrews Kurth L.L.P.); Mary Rose, Vice Chair (Chair, Federal Prevailing Rate Advisory Committee); Rudy J. Maestas (Bureau Chief, Wage and Hour Bureau, New Mexico Department of Labor); Thomas Bastas (President, Association of Civilian Technicians); Richard Brown, President, National Federation of Federal Employees; and Colleen M. Kelley (President, National Treasury Employees Union (NTEU)). Chris Granberg participated as a nonvoting representative for the Fraternal Order of Police (FOP) because James Pasco, FOP Executive Director, was unable to attend.

In addition to OPM staff, more than 20 members of the public attended the meeting, including two representatives of the Bureau of Labor Statistics (BLS) and six representatives of the media.

### **The following is a summary of the Council's discussions:**

Ms. Lacy greeted the Council members and audience, thanked them for attending the meeting, and introduced the Council members.

Ms. Lacy said the FSC charter (document FSC-04-01-03) had been renewed under the Federal Advisory Committee Act and that copies had been provided in the Council member's folders. She said the Council members could also find in their folders a copy of the minutes from the October 7, 2003, meeting (FSC-04-01-01). She noted that the Council members had all had an opportunity to review and comment on the minutes, which she had approved.

Ms. Lacy thanked BLS for its hard work and its support in attending the meeting. She welcomed Ms. Mary McCarthy, Assistant Commissioner, Office of Compensation Levels and Trends, BLS.

### **BLS Presentation**

Ms. McCarthy thanked Ms. Lacy, said she was accompanied by Mr. Jason Tehonich of BLS, and began a briefing on the impact of BLS budget reductions, plans for redesigning the geographic scope of BLS surveys, and the status of National Compensation Survey (NCS) improvements.

Ms. McCarthy said that the BLS compensation survey budget was reduced by \$1.942 million in FY 2004. She said that, in accommodating the budget reduction, BLS first reduced or deferred expenses in such discretionary areas as equipment, training, travel, and supplies. Then BLS reduced the size of the NCS sample. She said that BLS had preserved the sample for the

Employment Cost Index (ECI), explained that the ECI is a principle economic indicator that serves as the basis for the annual across-the-board adjustment for the General Schedule, and said that data collected for the ECI are also used to produce wage estimates for locality pay areas.

Ms. McCarthy said that, after consulting with OPM staff, BLS has

- Eliminated surveys in Raleigh and Kalamazoo;
- Reduced the sample in Kansas City, Orlando, and St. Louis; and
- Reduced the sample in most other pay localities by smaller amounts.

Ms. McCarthy said these sample reductions amounted to an overall sample reduction of approximately 10 percent. She said the impact of the sample reductions would first be seen in data delivered in 2005, since data collection for 2004 was nearly complete by the time the reduced budget passed. She said the anticipated effects of the sample reduction will include--

- A small reduction in the number of published occupations,
- A slightly higher variance for published estimates, and
- Slightly greater reliance on the model to fill for missing data.

Ms. McCarthy added that another effect of the budget reduction was a delay in the start of the collection of BLS' newest sample group, which delayed introduction of the final two improvement projects. She then provided a status report on NCS improvement projects. She reported the status of each of the five planned improvements, as follows:

- Modeled estimates for missing data: implemented
- Improvements in crosswalk between Federal and non-Federal jobs: implemented
- Excluding jobs above GS-15: implemented
- Improving grade leveling of supervisory jobs: collection underway; first results will be delivered in August 2006
- Improvements in grade leveling of non-supervisory jobs (4 factor leveling): collection underway, being phased in with new sample units; first results will be delivered in August 2006

Ms. McCarthy asked if there were any questions. Receiving none, she provided an update on the new NCS area sample and new pay localities.

Ms. McCarthy explained that, for the NCS program, BLS selects a sample of areas to represent the Nation and updates that sample every 10 years to reflect changes in population and commuting patterns identified by the decennial census. She said the sample is used for all NCS products, including the ECI, local publications, and estimates of benefits data. She said the new sample incorporates new Office of Management and Budget (OMB) definitions of metropolitan areas and that the new sample design reflects December 2003 OMB updates to the metropolitan area definitions.

Ms. McCarthy said the new NCS area sample consists of 27 combined statistical areas (CSAs), 90 metropolitan statistical areas (MSAs), 22 micropolitan statistical areas, and 13 non-metropolitan county clusters. She provided the list as a handout (attachment to FSC-04-01-02).

Ms. McCarthy provided a comparison of the current and previous NCS samples and discussed transition issues (details can be found in document FSC-04-01-02). She then discussed how areas of concern to the locality pay program fared in implementation of the new sample. She said all 28 metropolitan pay localities recommended by the Council were included, along with Kansas City, Orlando, and St. Louis, and the 6 new areas (Austin, Buffalo, Louisville, Memphis, Phoenix, and Raleigh) that OPM had requested.

Ms. McCarthy said data for the six new areas are now usable. She said BLS was exploring how it might quickly restore Raleigh to the sample. (Raleigh was removed from the sample as part of accommodating the BLS budget reduction.) She said that, under the new survey design, some surveys would be conducted in areas of application (e.g., Atlantic City, NJ), but that BLS could exclude such areas from the "Rest of U.S." (RUS) data if requested. (There are six such areas, excluding potential areas of application in the vicinity of the three new locality pay areas: Salinas, CA; Fort Collins, CO; Springfield, MA; Atlantic City, NJ; Salem, OR; and Providence, RI.)

Ms. McCarthy said BLS should be "in good shape" to meet the Council's needs for years to come. She then asked if there were questions.

Mr. Maestas noted that Ms. McCarthy had listed 3 areas of the 39 metropolitan areas added to the current sample for RUS and asked that she repeat them. She said the three areas were Jacksonville, Salt Lake City, and Las Vegas.

Since there were no other questions, Ms. Lacy said the Council would now move to the next item on the agenda: discussion of the proposed rule to implement changes in locality pay area boundaries recommended by the Council in 2003, which would begin with a presentation by Mr. Winstead.

### **Proposed Rule to Implement Changes in Locality Pay Area Boundaries**

Mr. Winstead said the proposed rule to modify locality pay area boundaries was published in the *Federal Register* on September 22, 2004. His presentation is summarized below:

- OPM published a proposed rule on behalf of the President's Pay Agent (the Secretary of Labor and the Directors of the Office of Management and Budget (OMB) and OPM). Comments are due by November 8, 2004. OPM will publish a final rule in time for the January 2005 pay adjustments.
- With one exception, the proposal would implement the Federal Salary Council's 2003 recommendations to the Pay Agent.

- We would continue the practice of using OMB metropolitan area definitions as the basis for defining separate General Schedule (GS) locality pay areas, but we would use OMB’s new criteria and definitions for metropolitan statistical areas (MSAs) and Consolidated Statistical Areas (CSAs). We would also use commuting data obtained in the 2000 Census.
- In addition to MSAs and CSAs, locality pay areas would continue to have “areas of application” based on the criteria the Council recommended for evaluating areas adjacent to the separate locality pay areas. These include--
  - Criteria for evaluating adjacent metropolitan areas (1500 or more GS employees, 7.5 percent or greater commuting rate),
  - Criteria for evaluating adjacent counties that are not part of a multi-county metropolitan area (400 or more GS employees, 7.5 percent or greater commuting rate)
  - Criteria for evaluating Federal facilities that cross locality pay area boundaries (750 or more GS employees, with a majority of the employees working within 10 miles of the separate locality pay area and a significant number of them commuting to work from the higher-paying locality pay area).
  - Criteria for retaining areas included in a former MSA-based locality pay area (commuting interchange rate of 15 percent or more).
- Overall, the proposed rule would retain all of the existing locality pay areas, some of which would be expanded to include a number of additional locations.
- Overall, the number of employees in separate locality areas would rise.
  - About 15,000 employees in the current “Rest of U.S.” (RUS) area would move to separate locality pay areas; and
  - about 16,000 employees in current locality pay areas who would otherwise be excluded by OMB’s new criteria would remain in the locality area as an area of application under the Council’s new criteria.
- OPM plans to publish a final rule that will make all of these changes in time for the January 2005 pay adjustments.
- The proposed rule would not implement the Council’s 2003 recommendation to discontinue Kansas City, Orlando, and St. Louis as separate locality pay areas. The President’s Pay Agent determined that it would be advisable to continue to monitor the disparity between Federal and non-Federal pay in these areas before discontinuing any of them. The Pay Agent asked the Council to include its views on this matter in its annual report to the Pay Agent, which will be submitted after this meeting.

Since there were no questions, Ms. Lacy said the Council would now discuss the Council Working Group Report (document FSC-04-01-05). Ms. Rose presented the report.

**Report of the Working Group**

Ms. Rose read major sections of the Working Group Report (Council document FSC-04-01-05). In presenting the report, Ms. Rose followed a format whereby she covered the report in sections, each section covering a major issue or a group of related issues. At the end of each section, Ms. Rose identified related recommendations the Council would need to make. After Ms. Rose presented the report, Ms. Lacy asked the Council to consider and vote on the issues it raised.

The issues, recommendations of the Working Group, and final recommendations to the Pay Agent were as follows:

| <b>Issue</b>  | <b>Recommendation of the Working Group</b>  | <b>Recommendation</b>   |
|---|---|---|
| What BLS surveys should be used for the purpose of determining pay gaps and locality payments and under what formula? | Use a weighted average of Occupational Compensation Survey Program (OCSP) and NCS data—10% OCSP and 90% NCS.  | Unanimously adopted the recommendation for submission to the Pay Agent. |
| How should the three areas with pay gaps below that of the RUS locality pay area be treated?                          | The Kansas City, Orlando, and St. Louis locality pay areas should be merged with the RUS locality pay area in 2006.   | Unanimously adopted the recommendation for submission to the Pay Agent. |
| Should Buffalo, Phoenix, and Raleigh be separate pay areas based on small-scale samples?                              | Yes, the pay gaps in these three locations are substantially above that for the RUS locality pay area.  | Unanimously adopted the recommendation for submission to the Pay Agent. |
| Should BLS expand its sample in all six of the new areas?   | Yes, BLS should expand its sample in the three areas we plan to make locality pay areas in 2006 and should also continue with its plan to expand the sample in the other three areas (Austin, Memphis, and Louisville) so that the Council can reconsider them in the future. | Unanimously adopted the recommendation for submission to the Pay Agent. |
| Should the Pay Agent add the York–Hanover-Gettysburg, PA CSA to the Washington-Baltimore locality pay area in 2005?   | Yes, the York MSA now passes the applicable criteria.   | Unanimously adopted the recommendation for submission to the Pay Agent. |
| Should the Council make any recommendations about any of the areas that contacted OPM during the last year?           | No, none of these areas pass the applicable criteria.   | Unanimously adopted the recommendation for submission to the Pay Agent. |
| Does the Council support the recommended pay raise allocation for 2005?   | Yes, the Council supports a 2.5 percent across-the-board increase with 1.0 percent for locality pay to be allocated by the President.   | Unanimously adopted the recommendation for submission to the Pay Agent. |

During the discussion of whether Buffalo, Phoenix, and Raleigh should be established as separate locality pay areas, Ms. Lacy asked whether OPM staff had evaluated adjacent areas to see if they might qualify as areas of application. Mr. Allan Hearne, Team Leader for the locality pay program, said OPM staff had not yet completed that review but would inform the Council's working group on this matter, and OPM will review and include any adjacent areas that pass the area-of-application criteria when OPM publishes a proposed rule in 2005 to establish the new pay areas in 2006. Ms. Lacy also asked Mr. Hearne how the Council could provide for the possibility that OPM staff might find data that could lead to areas of application for Buffalo, Phoenix, and Raleigh. Mr. Hearne said the Council could say "including any areas of application."

During the discussion of the areas that contacted OPM regarding locality pay area boundaries, Ms. Rose listed each of those 14 areas. The list is provided in Council document FSC-04-01-05. That Council document also includes a discussion of a petition submitted on behalf of Federal employees in Yuba and Sutter Counties, CA.

Before the Council agreed to the Working Group's allocation in the event of a 3.5 percent pay increase in 2005, Ms. Kelley said she wished to clarify one point: Did the recommended allocation assure that no one in the locality pay system would receive only a 2.5 percent increase and that everyone would get some portion of the 1.0 percent of payroll allocated for locality pay adjustments? Ms. Rose indicated that this was the Council's intent. Then the Council voted to adopt the Working Group's recommendation.

Ms. Lacy said there were no additional Council meetings scheduled for 2004. She said there were no additional presentations scheduled but asked if anyone from the public would care to comment. There were no comments from the public.

Ms. Lacy adjourned the meeting at 10:51 a.m.

CERTIFIED

          SIGNED            
Terri Lacy  
Chair