

## THE FEDERAL SALARY COUNCIL

Minutes of October 29, 2010

Meeting No. 10-01

The Federal Salary Council held its first meeting of 2010 on Friday, October 29, 2010. Mr. Charles Grimes, Deputy Associate Director for Employee Services at the Office of Personnel Management (OPM), was the Designated Federal Official.

The following Council members attended the meeting:

Member Name	Member Title
Dr. Stephen E. Condrey	Chair (Human Resources Management Program Director, Carl Vinson Institute of Government, University of Georgia)
Mr. Louis P. Cannon	Chief, Protective Services Police Department, District of Columbia Government
Mr. J. David Cox	National Secretary-Treasurer, American Federation of Government Employees (AFGE)
Dr. Rex L. Facer II	Associate Professor of Public Finance and Management, Romney Institute of Public Management, Brigham Young University
Ms. Colleen L. Kelley	National President, National Treasury Employees Union
Ms. Jacqueline Simon	Public Policy Director, AFGE

More than 30 members of the public also attended the meeting, including Congressional Staff from the offices of Representative Scott Murphy (D-NY) and Representative Paul Tonko (D-NY) and 5 representatives from the media.

### Agenda Item 1: Announcements and Introductions

Mr. Grimes began the meeting at 10:00 a.m. He said he was delighted to have the Council members, who were very recently appointed, present for the meeting. At his request, the Council members briefly introduced themselves.

Mr. Grimes thanked the Council members for the introductions. He said that the Council intended to have another meeting on November 19, 2010, and that OPM staff would work quickly to publish a notice of the meeting in the *Federal Register*. He then turned to the next item on the agenda, a briefing by OPM staff on an interim regulation establishing Alaska and Hawaii as separate locality pay areas and including other nonforeign areas in the "Rest of U.S." (RUS) locality pay area<sup>1</sup>.

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<sup>1</sup> A copy of the regulation was included in the meeting folders and is Council document 10-01-02.

## **Agenda Item 2: Briefing by OPM Staff**

Mr. Allan Hearne, OPM Team Leader for the locality pay program, explained that the interim regulation establishes Alaska and Hawaii as separate locality pay areas with Statewide coverage and includes U.S. territories and possessions in the RUS locality pay area. He said that the regulation was required because the Nonforeign Area Retirement Equity Assurance Act of 2009 (NAREAA) extends locality pay to the nonforeign areas and phases out cost-of-living allowances that have been paid in those areas since 1949.

Mr. Hearne explained why the regulation establishes Alaska and Hawaii as separate, Statewide locality pay areas while including other nonforeign areas in the RUS locality pay area. He said the results of applying President's Pay Agent methodology to Bureau of Labor Statistics (BLS) salary data warrant establishing separate locality pay areas in Alaska and Hawaii, and he said the sense of Congress in enacting the law was that Statewide locality pay areas would be established for Alaska and Hawaii. He said salary surveys under the National Compensation Survey (NCS) program are not conducted in the other nonforeign areas. He noted that the BLS Occupational Employment Statistics (OES) program includes salary surveys conducted in Guam, Puerto Rico, and the U.S. Virgin Islands.

In conclusion, Mr. Hearne said that OPM looked forward to hearing the Council's views on locality pay in the nonforeign areas.

Dr. Condrey asked whether any members cared to comment on Mr. Hearne's presentation. Since there were no comments at this time, Dr. Condrey turned to the next item on the agenda, a briefing by BLS staff.

## **Agenda Item 3: Briefing by BLS Staff**

Mr. Phil Doyle, Assistant Commissioner for the BLS Office of Compensation Levels and Trends, reported to the Council on the work that BLS did in support of the locality pay program during Fiscal Year 2010<sup>2</sup>. He said that the work included providing--

- NCS salary data needed to calculate pay gaps for the 32 current locality pay areas, including RUS;
- A new NCS salary survey for the Raleigh locality pay area;<sup>3</sup>
- NCS salary data for Honolulu to aid in the extension of locality pay to Hawaii; and

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<sup>2</sup> Mr. Doyle's statement is Council document FSC-10-01-03.

<sup>3</sup> The Raleigh locality pay area was established by regulation on December 19, 2005. At that time, BLS had cancelled its existing small-scale survey of Raleigh as part of its budget cut, so the Council and Pay Agent used the latest available survey (March 2003) and aged it based on the Employment Cost Index (ECI). This year BLS delivered data as of July 2009 for Raleigh, and OPM staff used the ECI to age the Raleigh data to March 2010, the common date to which all the NCS data were aged.

- NCS salary data for three areas the Council requested in 2009 to review as potential locality pay areas: New Orleans, LA; Charlotte, NC, and Louisville, KY.

Mr. Doyle said the survey data BLS provided included two tabulations, one including and one excluding incentive pay.

Mr. Doyle provided an update on five major improvements in NCS methodology that were recommended by the Council and approved by the Pay Agent. He said that four of the improvements are now fully deployed. They are—

- An econometric model to estimate salaries when survey data are not available,
- A crosswalk between Federal job classifications and the Standard Occupational Classification system,
- A method to identify and exclude from the survey estimates jobs that would be classified above GS-15, and
- A method for evaluating the work level of supervisory and managerial employees.

Mr. Doyle said that the fifth improvement, the use of a four-factor evaluation system to assign work levels to surveyed occupations, is being phased in as BLS selects new survey samples. He said that currently the 4-factor evaluation system is used in more than 80 percent of the sample.

Mr. Doyle said that in 2010 BLS delivered the results of research the Council requested on the use of data from the OES program in conjunction with data from the NCS program. He said that the OES data covered the 32 current locality pay areas and the three areas the Council is monitoring as potential separate locality pay areas: New Orleans, LA; Charlotte, NC, and Louisville, KY. He said BLS also produced estimates for nonforeign areas covered by the OES program: Anchorage, Honolulu, Guam, Puerto Rico, and the Virgin Islands.

Mr. Doyle said the President's Fiscal Year 2011 budget calls for major change in the way BLS meets the data needs of the Council and Pay Agent. He explained:

Currently the NCS program collects pay data by occupation and work level from a sample of more than 36,000 businesses and government agencies. About half of those units are also used to generate the Employment Cost Index or ECI, which serves as the basis for the national adjustment in Federal pay. The other half of the NCS sample is called the Locality Pay Survey or LPS and it is used along with the ECI sample to produce the estimates needed to estimate pay gaps in each locality.

The estimates currently used by the Council and Agent are computed in two steps, one involving direct estimates at the level of the locality, the other involving indirect estimates generated by a national regression model. In cases where a direct estimate is not available, a regression model, which was developed in consultation with OPM staff, is used. As a result of the relatively small size of the NCS sample and the fact that there is Federal white-collar employment in numerous SOC code/grade combinations that are unlikely to occur in the non-Federal sector, the majority of the estimates come from the model. The Rest of US is the only area where the majority of estimates were not modeled.

The budget for Fiscal Year 2011 proposes replacing the current NCS-only data with a new approach that combines data from the Bureau's Employment Cost Index and Occupational Employment Statistics program.

The OES program collects and annually publishes information on the employment and pay for more than 800 occupations as defined in OMB's Standard Occupational Classification System. The OES sample is 1.2 million business establishments and government operations collected over a 3-year cycle. The survey covers all 50 States and the territories and estimates are available for every metropolitan area and up to four "Balance of State" areas in each State.

The budget for Fiscal Year 2011 proposes use of an ECI-OES based econometric model to supply the data needed to compute pay gaps. The model will use detailed information about differences in pay by work level from the remaining portion of the National Compensation Survey sample, the same sample that is used to generate the Employment Cost Index. This information will be combined with data on average occupational pay by area from the Occupational Employment Statistics program to produce estimates of pay by occupational group, grade level, and area. These estimates which draw on the strengths of two survey programs, will replace the NCS-only estimates currently used to compute pay gaps.

The proposed ECI-OES method is similar to the procedure used currently when the sample size from the NCS is not sufficient to provide a direct estimate of the average wage rate for an area-SOC code-grade combination. The proposed method uses a regression equation to estimate the effect of grade on the wage rate and applies this effect to the average wage rate by area and occupation from the OES data, instead of relying exclusively on data from the NCS.

The research conducted by BLS economists shows that the proposed method estimates pay gaps with greater precision than does the current approach and can be used to extend the estimation of pay gaps to areas that are not present in the NCS sample.

This new model-based approach will allow for the production of additional high quality data at a lower cost, while still meeting the requirement to provide data to

the President's Pay Agent and allowing the BLS to eliminate about half of the NCS sample, reducing respondent burden and saving nearly \$10 million. There are two papers in your folders that provide additional information on the proposed model as well as the results of BLS research.

Mr. Doyle said he would be happy to address any questions the Council might have.

Dr. Condrey asked if the Council had any questions about Mr. Doyle's presentation, and there were no immediate questions or comments. Dr. Condrey said he was sure the newly appointed Council would have questions and opinions about the proposed BLS methodology once it had time to absorb the material. He then turned to the next item on the agenda, testimony about locality pay areas. The first speaker was Mr. Patrick DeFalco, chair of the Federal Executive Association of Western Massachusetts (FEAWM), who was scheduled to speak regarding locality pay for Berkshire County, MA.

#### **Agenda Item 4: Testimony about Locality Pay Areas**

##### Berkshire County, MA

Mr. DeFalco introduced himself and thanked the Council for the opportunity to participate in the meeting. He said he wanted to propose a revision to the minutes from the previous Council meeting (meeting 09-01). Regarding the portion of the minutes that says he suggested the Council meet again in October 2010 once it had a full complement of members, Mr. DeFalco said he actually had proposed the Council meet again *before* October 2010. Mr. Grimes said OPM staff would update Mr. DeFalco's remarks accordingly.

Mr. DeFalco said that Mr. Frederick Baron, who spoke on behalf of Berkshire County in the previous Council meeting, was unable to attend today's meeting. Mr. DeFalco provided the Council with a prepared statement that Mr. Baron had planned to present, Council document FSC-10-01-15.

Mr. DeFalco read a written statement (Council document 10-01-14) into the record. His statement supported the FEAWM proposal for Berkshire County, MA (Council document 10-01-07). He said that ideally Albany, NY, would be established as a separate locality pay area that would include Berkshire County<sup>4</sup>. He said that if a separate Albany locality pay area could not be established, the FEAWM would also welcome the alternative solution of adding the following to the Council's criteria for evaluating adjacent areas for possible inclusion in locality pay areas:

*To be included in an adjacent locality pay area (within the same state)<sup>5</sup>, the following 4 criteria must be met for this exception: The county must be adjacent, or within 5 miles of being adjacent, to two or more locality pay areas; The county must be the only county with GS employees in the state*

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<sup>4</sup> The proposal to establish a new Albany locality pay area is discussed below.

<sup>5</sup> The Hartford Combined Statistical Area is not in Massachusetts.

*without locality pay<sup>6</sup>; The county must have at least 85 GS employees; The county must have a combined commuting rate between all bordering locality pay CSA's with add-ons<sup>7</sup> of at least 7.5%.*

When he finished reading his statement, Mr. DeFalco showed the Council a large map of Connecticut, Massachusetts, and Rhode Island, with Berkshire County shown as the only county on the map still receiving RUS locality pay.

Dr. Condrey asked how long a commute it is from Berkshire to Albany. Mr. DeFalco estimated the commute time would be about 25-30 minutes<sup>8</sup>.

Chief Cannon asked Mr. DeFalco whether he had checked to see if Berkshire would be the only county that would meet the proposed criteria. Mr. DeFalco said that while FEAWM did not have access to data that would enable him to answer with certainty, he believed no other counties would meet the criteria.

Since there were no other questions on Mr. DeFalco's presentation, Dr. Condrey turned the floor over to Mr. Andrew Rakowski, President of the Albany Chapter of the Federal Law Enforcement Officers Association, who was scheduled to speak regarding locality pay for Albany, NY.

#### Albany, NY

Mr. Rakowski introduced himself and joked that the Council should excuse his accent, since he was from New York, where people speak differently. Addressing Chief Cannon, he said it was great to see a fellow law enforcement officer on the Council.

Mr. Rakowski said that Mr. Stephen Cox, his counterpart from the Federal Executive Association of Northeastern New York (FEANNY), was unable to attend the meeting. Throughout his presentation he referred to the FEANNY proposal to use OES salary data to establish Albany, NY, as a separate locality pay area. (The FEANNY proposal is Council document FSC-10-01-08.)

Mr. Rakowski said the FEANNY had proposed in four previous Council meetings that Albany be established as a separate locality pay area, and that this was his second time to speak before the Council. Mr. Rakowski said the proposal package was the most comprehensive the group who developed it could provide, and that he thought it would spare BLS the time and resources of having to visit Albany to do a survey, but that he welcomed BLS to visit anyway. He said he challenged BLS to do a better job than the FEANNY research.

Mr. Rakowski said that he had not come to beg and grovel, that the facts speak for themselves. He said the recruitment and retention problems for Federal agencies in the area had led to creativity on the part of some agencies. He said one agency had assigned an employee "on

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<sup>6</sup> Employees in Berkshire County, MA, receive the RUS locality pay rate.

<sup>7</sup> The Council's current method of measuring commuting does not include "add ons" to combined statistical areas.

<sup>8</sup> Mapquest estimates a commute time of 55 minutes and a commuting distance of 39.2 miles between Pittsfield, MA, and Albany, NY.

paper” to the Boston area, since the employee could not afford to take a job with an Albany duty station and live in the Albany area. He said the agency needed the employee for his technical and language skills, and that the employee just had to show up in the Boston office once a week to be assigned to the Boston locality pay area.

Mr. Rakowski said the FEANNY proposal had the support of Senator Kirsten Gillibrand (D-NY), Senator Charles Schumer (D-NY), and Representatives Murphy and Tonko. He repeated that this was the fourth time the FEANNY proposal had been presented to the Council, and added, “I don’t know what else to do. We’ve jumped through every hoop and hurdle.” He said another idea emerged on the airplane trip from Albany: If Albany cannot be established as a separate locality pay area at this time, then make it part of the Boston, Hartford, or New York locality pay area. He said, “So, we’re giving you several options to play with, but this is imperative.” He said the Albany area was losing high quality, experienced employees, and that the case of the “Boston on paper” employee was just one example indicating the urgency of the staffing problems Federal agencies experience in the Albany area.

Chief Cannon asked Mr. Rakowski—

1. If the Council recommended adding Albany to an existing locality pay area, which locality pay area should it be?
2. Would Mr. Rakowski anticipate any resistance from agencies such as the Department of Defense (DOD)?

Mr. Rakowski said that, regarding the second question, DOD is on board with the proposal. He mentioned that Watervliet Arsenal, one of the oldest installations in the country, is in Albany. He said that DOD had been represented at the FEANNY meetings. Mr. Rakowski said that which locality pay area to add Albany to is “perhaps a question for statisticians and bean counters.” He joked that Houston might be a good choice, and pointed out that Buffalo is 4-5 hours away and receives higher locality pay than the Albany area.

Mr. Rakowski said that Albany is sandwiched between three locality pay areas. He said he thought “the fair compromise” would probably be to add the Albany area to the Hartford locality pay area. He said he thought that would be “fair and equitable.”

Dr. Condrey complimented Mr. Rakowski on the proposal. Dr. Condrey said it was a “very nice packet,” and asked whether Mr. Rakowski could guide the Council to the most important content. Mr. Rakowski said he thought the most important thing to focus on is use of OES data. He said, “It’s just the facts, like in Dragnet.”

Since there were no more questions on the Albany presentation, Dr. Condrey turned to the next item on the agenda, a technical presentation by OPM staff.

#### **Agenda Item 5: Technical Presentation by OPM Staff**

Mr. Hearne gave the technical presentation accompanied by a handout (Council document

FSC-10-01-13). He said that such information would normally be covered in a Council Working Group meeting prior to the public meeting, but since the Council members had been appointed only very recently there had not been time for a Council Working Group meeting.

Mr. Hearne began his presentation with an unnumbered table showing the process used in the locality pay program to calculate local pay gaps, using NCS data for the RUS locality pay area as an example. He explained that BLS delivered data for the RUS area with the survey observations rolled up across occupations by grade and PATCO category.<sup>9</sup> He said that the average salaries were calculated from salaries for non-Federal jobs that BLS had matched to Federal jobs, and that BLS had used the four-factor evaluation system Mr. Doyle mentioned earlier to grade the non-Federal jobs. He said that to fill in for missing data, BLS used the econometric model Mr. Doyle had mentioned earlier in his presentation.

Mr. Hearne said that, for the NCS data deliveries to OPM, BLS calculated the average salaries by grade and PATCO using employment weights across all locality pay areas. He said that OPM staff provides BLS with an employment weight file for this purpose<sup>10</sup>.

Mr. Hearne explained that the NCS salary data used to calculate pay gaps have different reference dates and so must be aged to a common date to ensure that all local pay gaps are measured as of one common date. He said that the NCS data BLS provided this year for the RUS area are data as of July 2009 and are aged to March 2010, the reference date for the Federal salary data used in the pay gap calculations. His handout showed average salaries by grade and PATCO first as provided in this year's NCS data deliveries and then after being aged to March 2010 with BLS Employment Cost Index data for wages and salaries of civilian workers.

Mr. Hearne said that the Federal Employees Pay Comparability Act of 1990 (FEPCA) requires that the pay disparities used in the locality pay program be calculated using two numbers for each area, an overall local non-Federal salary based on BLS surveys and an overall local Federal salary.

Mr. Hearne explained how in the calculation of local pay gaps local employment weights are used to weight the average salaries by grade and PATCO in order to calculate average salaries by grade. He said overall average salaries for the area are then calculated using the average salary and local General Schedule (GS) employment weight for each grade. He said pay gaps used for recommending locality rates are based on Federal salaries *excluding* locality pay, since FEPCA requires that pay gaps be calculated using base GS rates excluding locality pay. His chart showed the difference between pay gaps using base GS rates (e.g., 30.95 percent for the RUS locality pay area as of March 2010) and pay gaps including locality pay (e.g., 14.71 percent for the RUS locality pay area as of March 2010).

Mr. Hearne presented page 2 of his handout, which showed for each locality pay area—

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<sup>9</sup> "PATCO" categories are 5 broad classes of occupations—professional (P), administrative (A), technical (T), clerical (C), and protective officer (O).

<sup>10</sup> In the initial averaging of the NCS salaries, the weights represent GS employment across all locality pay areas, while local GS employment weights are used in the remaining calculations. For more detail on this and for further information on the calculation of pay gaps in the locality pay program, see the annual Pay Agent reports posted on the OPM Web site at <http://www.opm.gov/oca/payagent/index.asp>.



- The March 2010 base GS payroll,
- The March 2010 pay gap,
- The target pay gap/locality payment for 2012 required under FEPCA<sup>11</sup>

Mr. Hearne explained that under the pay adjustment cycle beginning with BLS survey data and ending with locality rates, March 2010 pay gaps are used to recommend January 2012 locality pay rates.

Mr. Hearne explained that the base GS payroll is used to weight the pay gaps to calculate an overall pay gap across locality pay areas. He said that for this purpose the base GS payroll is used rather than GS employment because “we’re talking about pay gaps, not employment gaps.” He reported average March 2010 pay gaps and target gaps/locality payments the Council would recommend under FEPCA for January 2012 as follows:

<b>Areas</b>	<b>2010 Pay Gap</b>	<b>Target Pay Gap and 2012 Local Rate</b>
All Locality Pay Areas, Excluding Nonforeign Areas	48.92%	42.44%
All Locality Pay Areas, Including Nonforeign Areas	48.79%	41.70%

Mr. Hearne said the target pay gaps/locality payments he displayed are the minimum required by FEPCA, and that these locality rates would go into effect absent the President’s exercise of his alternative plan authority under 5 U.S.C. 5304a.<sup>12</sup>

Mr. Hearne presented page 3 of his handout, which shows March 2010 NCS pay gaps compared to March 2009 NCS pay gaps. He said that on average the March 2010 NCS pay gaps were about 3 percent higher than the 2009 pay gaps. He said that since a) Federal employees had received an across the board increase of 1.5 percent in January 2010 and b) the ECI increased by

<sup>11</sup> Under FEPCA, after the 9-year phase-in period for locality pay, 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, which is the amount needed to reduce the pay disparity to 5 percent.

<sup>12</sup> 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.

1.5 percent from March 2009 to March 2010, one might expect March 2010 NCS pay gaps to be about the same March 2009 NCS pay gaps. He said that some fluctuation could nevertheless be expected in the pay gaps.

Mr. Hearne said that some factors explaining the change in pay gaps between March 2009 and March 2010 include—

- Continued phasing in of a change in methodology that BLS has been implementing for several years, i.e. use of a four-factor evaluation system to assign work levels to surveyed occupations;
- A high paid attorney job was randomly sampled in Chicago, which caused the average GS-14 non-Federal salary to increase substantially, increasing the Chicago pay gap;
- DOD relocated about 2,000 employees to the Wright-Patterson Air Force Base in the Dayton locality pay area as part of the DOD Base Realignment and Closure program. This increased Federal employment weights at higher grades, which generally have higher pay disparities than found for lower grades;
- There has been an increase over the past year in higher-graded full-time permanent GS employees in the Washington, DC, area. This resulted in use of greater Federal employment weights for higher grades, which tend to have higher pay disparities than found for lower grades; and
- BLS randomly selected a job in the Miami locality pay area where incumbents receive high levels of incentive pay, which caused an increase in the Miami pay disparity.

Mr. Hearne presented page 4 of his handout, which compares March 2010 NCS pay gaps including incentive pay to March 2010 NCS pay gaps excluding incentive pay. He said that in 2008 and 2009 the RUS sample included a job with \$1 million dollar incentive payments, which greatly increased the RUS pay gap. He said that including this incentive data would have resulted in 11 areas having pay gaps lower than that for the RUS area. He said the Council had wanted to include the incentive data but that the Pay Agent had respectfully disagreed. He said that because of this problem with incentive data OPM staff had asked BLS to deliver NCS data with and without incentive pay so that the Council could monitor the effects of incentive pay on the pay gaps.

Mr. Hearne said that BLS has included incentive pay in data used to set GS pay rates ever since the 1970s. He said that *incentive pay* in the NCS program is defined as payments made under a performance-based formula known beforehand by employees and employer, and he said that bonuses and awards not based on a specific formula are excluded in the surveys. Explaining why incentive pay appeared to be more of a problem now than in years past, he said that while the prior survey methodology (Occupational Compensation Survey Program) used a fixed job list with 26 jobs, job selection under NCS is by random probability sampling, and any of the 230 jobs on OPM's Standard Occupational Classification crosswalk can be selected for survey. He said a far greater number of potential job matches increases the potential for selection of more

jobs receiving high incentive pay. He also mentioned that incentive pay is more common in the private sector now than in years past.

Mr. Hearne said that the \$1 million incentive payment had cycled out of the RUS sample after the summer 2009 NCS data deliveries but that unfortunately the problem had “moved to Miami.” He pointed out that his handout showed small differences for most areas between pay gaps including incentive pay versus pay gaps excluding incentive pay, but he showed that the Miami pay gap including incentive pay was 7.61 percentage points higher than the Miami pay gap excluding incentive pay.

Mr. Hearne presented page 5 of his handout, which showed NCS Miami pay gaps by grade with and without incentive data. He called the Council’s attention to the 23.3 percent difference between the GS-11 salaries with and without incentive data. He said the salary for the “A” PATCO category in grade 11 had the high incentive data that contributed significantly to the large increase in the NCS Miami pay gap between 2009 and 2010. He then asked the Council members to turn to page 6 of his presentation, which showed the NCS Miami data at the grade/PATCO level, with the GS-11, PATCO A, salaries shown with and without incentive data. The salary with incentive data was 31.55 percent higher than the salary without incentive data.

Mr. Hearne presented page 7 of his handout, which showed NCS pay gaps including incentive data for Anchorage, AK; Charlotte, NC; Honolulu, HI; Louisville, KY; and New Orleans, LA. He explained that these five areas were in addition to the 32 current locality pay areas, and reminded the Council that in his earlier presentation on the nonforeign areas he had already mentioned there were NCS surveys for Anchorage and Honolulu, which could be used to set Statewide locality pay for Alaska and Hawaii. He said that the Council was monitoring the other three areas for their potential to be established as separate locality pay areas. He said that the Council had discontinued using NCS data to monitor Austin and Memphis, since NCS salary data showed lower pay gaps than for the RUS area for several years. He said that the previous Council had decided to begin monitoring Charlotte and New Orleans instead, and to continue monitoring Louisville. He showed that all three of those areas have pay gaps higher than the RUS pay gap.

Mr. Hearne presented page 8 of his handout. He said that FEPCA requires use of BLS surveys for the locality pay program and also requires that level of work be taken into account. He said that, as Mr. Doyle had mentioned earlier, BLS has an econometric model to estimate work levels for OES salary data. He said that BLS had run this model and provided grade/PATCO estimates from which OPM staff could calculate March 2010 OES pay gaps, which could then be compared to March 2010 NCS pay gaps. Mr. Hearne said that this page of his handout showed the impact of switching from NCS to OES surveys, and he called the Council’s attention to the column showing differences between March 2010 NCS and OES pay gaps. He said the Council needed to make a recommendation regarding the use of OES data in the locality pay program. He said that one limitation of OES data might be low pay gaps in smaller economies where fewer higher-graded jobs are found, which would affect the average salary for the job and skew the model results.

Mr. Hearne pointed out that March 2010 OES pay gaps are on average 0.97 percentage points lower than March 2010 NCS pay gaps, but he also stressed that in some areas the differences are considerably larger, e.g.—

- Los Angeles (which has a March 2010 OES pay gap 8.31 percentage points higher than the March 2010 NCS pay gap for Los Angeles), and
- Miami (which has the high incentive data in the GS-11, PATCO A, cell and an OES pay gap 10.45 percentage points lower than its NCS pay gap).

Mr. Hearne noted that in comparisons between NCS and OES pay gaps, significant differences in areas with larger payrolls affect the overall average difference across areas more.

Mr. Hearne presented page 9 of his handout. He said that the people from Albany might like this page. He said that OPM staff had asked BLS to use OES data to compute pay gaps in the 10 listed areas for 3 years. He pointed out that over the 3-year period the estimated pay gaps for Albany were consistently higher than those for the RUS area. He also mentioned that the estimated 2010 OES pay gap for New Orleans is considerably lower than the 2010 NCS pay gap for New Orleans, and he mentioned the drop over the 3-year period in the OES pay gap for New Orleans. He said the OES data might have potential for evaluating adjacent areas for inclusion in locality pay areas, as well as for establishing separate locality pay areas.

Mr. Hearne presented page 10 of his handout. He explained that this page showed differences between NCS and OES pay gaps for 4 years, 2007-2010. He pointed out that the difference between NCS and OES pay gaps decreases during the period. He said that looking at overall averages masks significant differences between the two methodologies for individual areas, and as examples he pointed out the differences for Denver, Los Angeles, Richmond, and Seattle and how they compare to the overall difference. He said the data shown gives one an idea of how OES data compare over time to NCS data and which areas might be winners and which might be losers in a switch to use of OES data.

Mr. Hearne presented page 11 of his handout, which shows 3 years of OES pay gaps for selected areas compared to NCS pay gaps for nearby locality pay areas. He said this page was an attempt to show how the OES model could be used to evaluate areas for inclusion in locality pay areas. As an example, he mentioned the idea of adding Albany to the Hartford locality pay area. He said that since the OES pay gap for Albany indicates that non-Federal pay levels there are well below those for Hartford, the Council might conclude it would be better to establish Albany as a separate locality pay area. He mentioned that New Orleans began the 3-year period with a pay gap slightly above RUS and ended the 3-year period with a pay gap slightly below RUS. He mentioned that he normally would have briefed the Council on these data in a working group meeting to provide time to absorb the material and form opinions, but that there had been no time for a working group meeting.

Mr. Hearne presented pages 12-13 of his handout and discussed the issue of selection criteria for establishing new locality pay areas. As an example of data the Council might consider for use in selecting new locality pay areas, his handout showed GS and National Security Personnel

System employment for metropolitan areas with 2,000 or more GS employees, along with a column showing whether the each area had been considered for establishment as a new locality pay area and a column showing whether the area was part of the RUS survey. He pointed out the four columns showing Economic Research Institute (ERI) pay relatives at the \$40,000; \$80,000; and \$120,000 salaries and an average of the pay relatives for those three salary levels. He said ERI data are not currently used formally in the locality pay program but were provided here just to give the Council an idea of what non-Federal pay levels might be in an area. He said there might be other criteria the Council could use to select areas, and as an example said the Council had in the past looked at non-Federal as well as Federal employment.

Page 14 of Mr. Hearne's presentation showed metropolitan areas with 1,000-1,999 GS employees to give the Council an idea of what areas might be excluded if a criterion of 2,000 GS employees were established.

Mr. Hearne covered pages 15-16 of his handout, which showed OES pay gaps. He called attention to the negative pay gaps in Guam and Puerto Rico, which he said meant that OES data indicate base GS pay rates are ahead of non-Federal pay rates in those areas. Regarding Guam, Puerto Rico, and the Virgin Islands, he said one thing to consider when looking at the pay gaps is that OES data might show low results in areas where fewer higher graded jobs are found, a concern he mentioned earlier when he covered page 8 of his presentation. He pointed out the OES pay gap in the U.S. Virgin Islands is below the OES pay gap for the RUS area.

Mr. Hearne said that in enacting NAREAA, the sense of Congress was that locality pay rates for the non-Foreign areas would be based on surveys conducted by BLS. He said that for Guam, Puerto Rico, and the U.S. Virgin Islands, BLS did not have NCS data but had OES data. He said that in recommending locality pay rates for the nonforeign areas one issue for the Council to consider is what to recommend regarding locality rates for non-Foreign areas with pay gaps below that for the RUS area. He said the practice in the past had been to use RUS as a base (i.e., the lowest rate for areas receiving locality pay) and to treat areas with lower pay gaps as part of the RUS area. He said the Council and Pay Agent had both recognized that the non-Federal RUS salary is an average and that non-Federal salaries for the areas from which the RUS averages are calculated are sometimes above and sometimes below the RUS averages.

During Mr. Hearne's presentation—

- Dr. Condrey asked whether different locality rates were ever set for different grades based on pay gaps at the grade level. Mr. Hearne said this rarely had been done, and he said he believed the last time was in 1976. (Current law requires a single rate per area.)
- Dr. Facer asked if the method for calculating pay gaps that Mr. Hearne demonstrated on page 1 of his presentation is the same for all areas, and Mr. Hearne said it was.
- Dr. Condrey asked Mr. Hearne if cases of salaries varying by more than two standard deviations were ever dropped, or whether some other method was ever employed to handle outliers. Mr. Hearne said outliers generally are not excluded or modified, and that the handling in 2008 and 2009 of the RUS incentive data in the average salary for GS-12,

PATCO A, was an exception. He said that in that case had nothing been done 11 areas would have had pay gaps falling below that for RUS. He said that some suggestions had been made in the past for systematically handling outliers, but he said that none were ever adopted.

- Dr. Condrey asked whether in OES surveys anomalous incentive payments might be less of a problem than in NCS because of the larger sample in OES. Mr. Hearne agreed that was likely true.
- Ms. Simon asked why OES appeared to be “so unstable.” Mr. Hearne said OPM staff are still studying OES. Ms. Simon replied, “So, it could be changes in private sector pay.” Mr. Hearne said changes in private sector pay is a reason pay gaps can fluctuate, and he added that changes and differences are often due to several things.
- Dr. Facer asked whether the Council had access to the underlying econometric models and parameter estimates. Mr. Hearne said that BLS could provide those.

When Mr. Hearne had concluded his presentation and there were no more questions, Dr. Condrey thanked him for the presentation.

The next item on the agenda was discussion of issues and recommendations of the Council. Dr. Condrey said that before the meeting the Council members had agreed to defer that item until the next Council meeting. Dr. Condrey then turned to the next item on the agenda, public comment.

#### **Agenda Item 7: Public Comment**

Mr. DeFalco said he believed there would be potential danger in using OES data to evaluate adjacent areas for possible inclusion in locality pay areas. He said that focusing only on pay levels in Berkshire County ignores the importance of commuting interchange between Berkshire, MA and nearby locality pay areas. He said OES data are probably more useful for establishing entire locality pay areas than for evaluating adjacent areas, and that use of OES data is likely to be problematic for smaller areas.

Mr. Randy Erwin, Legislative Director for the National Federation of Federal Employees, said that a couple of years ago he had been told that high incentive pay significantly affecting pay gaps was an anomaly. He asked whether it was true that it was now happening again. Mr. Hearne confirmed that it was. Mr. Erwin said that seemed to indicate the problem was not as anomalous as originally thought.

Mr. Rakowski said that right after the meeting he had a teleconference with 300 people who would want to know the status of the Albany proposal. He said he had hoped for feedback and to get a sense of “what we are doing right and what we are doing wrong.” Dr. Condrey told Mr. Rakowski that he could report in the teleconference that the Council would give the Albany proposal full consideration. He said that the Council would hold a working group meeting and then have another public meeting on November 19, 2010.

Mr. Rakowski said that in the previous Council meeting there was not a full complement of members, and he asked whether the Council membership now was a full complement. Mr. Grimes said there were more members in this meeting than in the last meeting and that there was no quorum requirement set in the law. Mr. Rakowski asked, "So, the plan is we could come back. You will consider this further for recommendation to the Pay Agent?" Dr. Condrey confirmed that Mr. Rakowski was correct.

There was no further public comment. Dr. Condrey adjourned the meeting at 11:05 a.m.

**CERTIFIED**

SIGNED

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Stephen E. Condrey  
Chair