

## THE FEDERAL SALARY COUNCIL

Minutes of October 7, 2003

MEETING NO. 03-02

The Federal Salary Council (FSC) held its second meeting of 2003 on Tuesday, October 7, 2003. Jerome D. Mikowicz, Acting Deputy Associate Director for Pay and Performance Policy at the Office of Personnel Management (OPM) said that he would be the Designated Federal Official for this meeting in place of Donald Winstead, who was unable to attend. Mr. Mikowicz said today's meeting had a full agenda and that testimony would have time limits, which the Chair would explain. He then turned the floor over to Terri Lacy, Chair, who began the meeting at 1:07 p.m.

### Present

The following members attended: Terri Lacy, Chair (Partner, Andrews and 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); and Colleen M. Kelley (President, National Treasury Employees Union (NTEU)). Randy Irwin of the National Federation of Federal Employees (NFFE) said Richard Brown (NFFE President) was unable to attend due to commuting problems, so Mr. Irwin participated in the meeting as a nonvoting NFFE representative. Chris Granberg participated as a nonvoting representative for the Fraternal Order of Police (FOP) because James Pasco, FOP Executive Director, was unable to attend. Jaque Simon of the American Federation of Government Employees (AFGE) participated as a nonvoting AFGE representative. (As of October 7, 2003, the President had not yet appointed any new members of the Council to replace Mr. Harnage and Mr. Tchirkow.)

In addition to OPM staff, more than 30 members of the public attended the meeting, including:

- Representative Ileana Ros-Lehtinen;
- Federal employees representing Barnstable County, MA, western Massachusetts, South Florida, and Berkeley County, WV;
- Three representatives of the Bureau of Labor Statistics (BLS);
- Congressional staff from the offices of Senator Bob Graham, Senator Edward Kennedy, Senator John Kerry, Representative Jo Ann Davis, Representative William D. Delahunt, Representative John Olver; and Representative Ileana Ros-Lehtinen; and
- Six representatives of the media.

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

Ms. Lacy greeted the Council members and audience. She said that, due to time constraints, testimony for those who had previously testified would be limited to 3 minutes and all other testimony would be limited to 5 minutes. She welcomed Representative Ros-Lehtinen, who testified before the Council on behalf of Monroe County, FL.

## **Monroe County, FL**

Representative Ros-Lehtinen thanked the Council. She said she had attended the meeting on behalf of Federal employees in Monroe County, FL. She reminded the Council that representatives of Federal employees had petitioned the Council in the past to include the county in the Miami locality pay area. She said the difference in locality rates between Monroe County and the Miami locality pay area had hampered recruitment and retention in the county for such agencies as the U.S. Naval Air Station, the Joint Interagency Task Force South, and the National Weather Service.

Representative Ros-Lehtinen said that existing pay flexibilities, such as generous signing bonuses and relocation packages, did not remedy recruitment and retention problems for the county. She said two of the Council's criteria for areas of application, General Schedule (GS) employment and population density, could not be met. These criteria were unattainable due to the nature of the county and the "preponderance of uninhabited parks and preserves, which dominate 90 percent of the county's landmass." She said that the population density criterion would be satisfied if calculations counted only habitable land. She closed by expressing the hope that the Council would "take Monroe County's special needs into consideration" so Federal agencies in the county could recruit and retain the necessary Federal workforce.

Ms. Lacy thanked the Representative and welcomed Colonel Robert Wilcox, Director of Resources for the Joint Interagency Task Force-South (JIATFS). Colonel Wilcox described the work of the JIATFS, which plans, conducts, and directs interagency detection and monitoring of air and maritime drug smuggling activities. He said, "Key West is a great place to live, but there's trouble in paradise," and said that Federal agencies in Key West have difficulty recruiting and retaining the workforce required to maintain the quality of services currently provided. He said that new hires in the area are leaving because of the difference in locality rates between Monroe County and the Miami locality pay area. He said that, while he knew the Council does not consider living costs, difficult problems require a "global approach" and considering the high living costs in the Keys might be helpful. At this point the Colonel's time expired, and the Colonel thanked the Council for hearing his testimony.

Ms. Lacy thanked Colonel Wilcox and welcomed Anne Russo, congressional staff from the office of Representative John Olver, who came to speak on behalf of Federal employees in western Massachusetts.

## **Western Massachusetts**

Ms. Russo said she had been before the Council many times before and that Federal agencies "continue to struggle" to attract and retain employees. She said that Representative Olver is very concerned about problems associated with the difference in locality pay between western Massachusetts and the Hartford locality pay area. Ms. Russo thanked the Council for hearing her.

Ms. Lacy welcomed Katie Joyce, congressional staff from the office of Senator John Kerry. She said she had come to convey the Senator's support of both the western Massachusetts proposal

(by the Federal Executive Association of Western Massachusetts (FEAWM)) and the Barnstable proposal (by the Barnstable County Locality Pay Working Group). She agreed with Ms. Russo that Federal agencies in western Massachusetts struggle to attract and retain a good workforce, said this was true of Barnstable County as well, and said the quality of service by Federal agencies in the areas would increase if the two proposals were implemented. She thanked the Council.

Ms. Lacy offered Jeffrey Anliker a chance to speak, but Mr. Anliker said that in the interest of time he would submit his statement in writing for the record and give Bruce Sylvia time to speak regarding the FEAWM proposal to add 21 towns in western Massachusetts to the Hartford locality pay area. Council staff submitted the written proposal to the Council. (The proposal is more thoroughly described in the minutes of Council meeting 02-02 and appears in its entirety in Council document FSC-03-1-10. It proposes the addition of 21 towns in Hampden and Hampshire Counties, MA, to the Hartford locality pay area.)

Ms. Lacy invited Kathleen Wildman, congressional staff from Senator Kennedy's office, to address the Council. Ms. Wildman expressed the Senator's support for the FEAWM proposal and said the Senator "feels strongly" that the 21 towns should be part of the Hartford locality pay area. She said management flexibilities had been tried in the area but had failed. She thanked the Council.

### **Barnstable County, MA**

Ms. Lacy welcomed Frank Almeida, Deputy Science and Research Director at the Northeast Science and Fishery Center, National Oceanic and Atmospheric Administration. Mr. Almeida said he had spoken before the Council 2 years ago. (His testimony at meeting number 01-01 is summarized in the minutes for that meeting—see Council document FSC-01-2-1.) He said that, as a scientist, he respected the Council's decision to defer modification of locality pay area boundaries until data from Census 2000 were available. He said he was not surprised that the new commuting and population data indicate Barnstable County continues to meet several of the Council's criteria for areas of application. He said that he also expected that the county would once again fail to meet the GS employment criterion of 2,000 employees, but he reiterated his point made in earlier Council meetings that Barnstable County is considerably smaller than the average county and that small counties should receive special consideration, since such a criterion (GS employment) is more difficult to meet for a small county. He closed by saying the Council should continue to use metropolitan areas as the basis for locality pay areas, that the Council should continue to define areas of application, and that while area-of-application criteria should be difficult to pass, the Council should nevertheless retain its flexibility to make allowances for "egregious situations." He said that the Council's recommendation last year to add Barnstable County to the Boston locality pay area was "the right way to go" despite the Pay Agent's decision not to adopt that recommendation, and that including Barnstable County in the Boston locality pay area was still the right decision.

Ms. Lacy thanked Mr. Almeida for his testimony and welcomed Christine Leonard, legislative counsel for Representative Delahunt. Ms. Leonard thanked the Council for its decision last year regarding Barnstable County and said she wished to convey Representative Delahunt's strong

support for including the county in the Boston locality pay area. She said that, as the only area on the east coast, from Boston to Washington, DC, included in the “Rest of U.S.” (RUS) locality pay area, Barnstable continues to “stick out like a sore thumb.” She said that Representative Delahunt’s office was surprised and disappointed by the Pay Agent’s decision last year. Ms. Leonard thanked the Council for its time.

### **King George County, VA**

Ms. Lacy welcomed Mr. Vaughn Murphy, congressional staff for Representative Jo Ann Davis. Mr. Murphy read a letter from Representative Davis in which she said the Council’s recommendations should not include the removal of King George County, VA, from the Washington, DC, locality pay area. She cited the high level of commuting between the county and the Washington area, high living costs in the county, and the importance of the Dahlgren Navy Base as a Federal employer and an activity that is “on the cutting edge of developing technology and weaponry to ensure that our fighting force is the best equipped in the world.” She expressed her wish that no decision be made that would “compromise the wages and living standards of Federal workers in King George County.” After reading the letter, Mr. Murphy said that a reduction in locality pay for the county would be hard on Federal workers, since housing prices in the county are, like those elsewhere in the Washington housing market, increasingly high.

### **Berkeley County, WV, and Washington County, MD**

The next speaker was Ms. Susan Anderson, President of Local R4-78 of the Service Employees International Union/National Association of Government Employees (SEIU/NAGE). Ms. Anderson submitted a letter from David Holloway, the President of NAGE, in which he asked that the Council “stop any new regulation that would eliminate or reduce any special locality pay for Federal workers.” Ms. Anderson then expressed her concern about Washington, MD, and Berkeley, WV, becoming part of the Hagerstown-Martinsburg, MD-WV Metropolitan Statistical Area and possibly not being included in the Washington, DC, locality pay area. She discussed high housing costs in the area and the extent to which Federal workers there are financially challenged. She cited Congressional support for her position by Senators Rockefeller and Byrd and Representative Capito. She asked that the Council ensure the “standard of living is not brutally destroyed” and that “efforts of decreasing locality pay for Federal workers” be stopped. She thanked the Council for its time.

Ms. Lacy then announced the Council would hear a presentation by Phil Doyle of the Bureau of Labor Statistics (BLS).

### **BLS Presentation**

Phil Doyle, Chief, Division of Compensation Data Analysis and Planning, greeted the Council and said that, like previous speakers, he would discuss geographic areas but that his discussion would concern the impact of the new metropolitan area definitions on the National Compensation Survey (NCS) program. He said BLS was now implementing the new Office of Management and Budget (OMB) definitions. He explained that, as a Federal statistical agency,

BLS reselects areas every 10 years, that BLS statistics must reflect where people currently live and work, and that OMB requires BLS to update its area definitions. He said it is “helpful if everyone is using the same set of definitions.”

Mr. Doyle said that BLS needs input from the Council by April, 2004, so that BLS can meet the Council’s needs. He said BLS must know by then which areas to designate as certainty areas and that, once the certainty areas are known, a probability sample of remaining areas must be drawn to represent RUS. Mr. Doyle said that, once BLS knows the Council’s needs, BLS and the Council can work together to implement the area definitions. Mr. Doyle stressed that BLS does need sufficient lead time to implement changes, given its fixed resources. However, he said that while the process cannot be completed overnight, it can begin as soon as the Council communicates its needs to BLS.

Mr Doyle also responded to the following questions posed prior to the meeting by the Federal Salary Council Working Group.

1. If surveys are canceled in Kansas City, Orlando, and St. Louis, how could BLS use the resources from those surveys to augment the establishment sample or job sample in surveys in other locality pay areas? What impact would such sample augmentation have on the amount of data that must be modeled and on the quality of the survey results? What is the best way to augment samples?
2. If those surveys are canceled, and the resources allocated to surveying new areas instead of augmenting existing surveys, how many additional cities could be surveyed? (See attached list of cities (Council document FSC 03-2-3) with 2,500 or more GS employees and over 375,000 nonfarm workers.) Describe any issues about the attached list of cities that would effect resource allocation (such as BLS already has a small survey in Raleigh but not in Las Vegas). Same questions as above, but add Columbus and Dayton to canceled surveys.
3. What would be the effect on survey resources if we combine the Los Angeles and San Diego locality pay areas? How about the Cincinnati, Columbus, and Dayton locality pay areas?
4. Can BLS rerun the NCS model and treat any of the cities listed in the attached spreadsheet (attachment 2 of Council document FSC-03-2-3) as separate areas? The Council would like to see the geographic parameter estimates for as many cities as possible. We do not expect model fills, just rerun the model and produce geographic parameters for use in assessing which cities in RUS should be surveyed separately. What comments does BLS have on the viability/accuracy/suitability of using these small sample surveys in the model?

BLS’ responses are in Council document FSC-03-2-2. After Mr. Doyle made his presentation, he invited questions from the Council. Receiving none, he said if any should arise later, BLS would be glad to respond. Ms. Lacy thanked Mr. Doyle for his presentation and said that Ms. Rose would now read the Report of the Federal Salary Council Methodology Working Group.

## **Report of the Working Group**

Ms. Rose read the report, Council document FSC 03-2-3, to the Council. In presenting the report, the Council followed a format whereby the report was presented in sections, each section covering a major issue or a group of related issues. At the end of the reading of each section, the Council stopped the reading to discuss the issues.

The first section Ms. Rose read covered BLS surveys and pay gap methodology, locality rates for 2005, and locations with pay gaps below RUS. Decisions associated with this section were:

- What BLS surveys should be used?
- Should samples be augmented in current surveys?
- How should cities with pay gaps below RUS be treated?
- How should new cities be selected for survey?
- Should some existing locality pay areas be combined?
- Should locality rates be rounded to the nearest full percentage point?

For the question regarding which BLS surveys to use, the Working Group recommended weighting Occupational Compensation Survey Program (OCSP) pay gaps 25 percent and NCS pay gaps 75 percent. (Last year, the Council recommended and the Pay Agent approved using 50 percent for each survey.)

Ms. Simon expressed concern about the Working Group's recommendation. She said that she was frustrated and had several concerns, since AFGE could not vote because it does not currently have a member appointed to the Council and that she had been unable to participate in the Working Group meeting on October 6, which was Yom Kippur. (The Working Group meeting was held on October 6 because the work needed for the Working Group's recommendations could not be completed until shortly before that date, and time ran out--the Working Group was unable to schedule an alternative date.)

Ms. Lacy said she regretted that Ms. Simon felt concern but added that the Council had tried to get an AFGE representative for Working Group meetings. (The Working Group held 7 meetings in 2003: 7-21, 7-22, 8-13, 9-17, 9-26, 10-6, and 10-7. Ms. Simon was unable to attend any of these meetings, although she did participate briefly in one teleconference. Other AFGE staff attended one Working Group meeting.) She said she welcomed specific questions on Working Group issues but asked that Ms. Simon recognize that the work culminating in the Working Group recommendations was "broad-based and extensive." She said the Council would need to vote on the items at this meeting in order to make recommendations in time to the Pay Agent. Ms. Simon said she did have a specific question: What was the basis for the decision to go from

a 50-50 split between NCS and OCSP to a 75-25 split? Ms. Lacy said she thought Council staff could best answer the question, so she asked Allan Hearne, OPM Team Leader for the Locality Pay Program, to respond.

Mr. Hearne said that as NCS surveys were improved, the Council's intention had been to phase in NCS survey results. He said that OCSP survey results were now 7 to 9 years old and that the longer the data are used the more inaccurate the pay gaps become. He said the Working Group had decided to recommend continuing to phase in the NCS survey results by increasing the weight given to NCS data.

Ms. Rose added that when the Council decided to use NCS data last year, it had decided to use 50 percent NCS and 50 percent OCSP survey results. She said the intent in doing so was to provide BLS with an incentive to continue implementing improvements the Council had requested. (The minutes and Council documents for meetings from the last 2 years discuss efforts to improve NCS surveys in detail.) She said that AFGE had been fully represented last year when it decided to begin phasing in NCS survey data.

Ms. Simon said she was very concerned about increasing the weighting of NCS data because it not only "lowers pay for people but also could cause cities to fall out." She said the NCS data showed "lots of variability over a short period of time" and was "highly volatile." She said, "Jumping into relying on it while it's exhibiting volatility puts thousands of employees' pay in jeopardy." Ms. Lacy noted Ms. Simon's concerns.

The Council then turned its attention to the question of whether resources gained from discontinuing full surveys for areas with pay gaps below RUS should be used to augment existing survey samples and decrease reliance on the econometric model. The Working Group recommended not doing so because information from BLS indicated doing so would not greatly increase sample sizes across-the-board.

The Council next discussed how cities with pay gaps below RUS should be treated. The Working Group recommended discontinuing full surveys for Kansas City, Orlando, and St. Louis, merging those areas back into RUS, and redirecting the resources to survey other metropolitan areas. Ms. Kelley asked Steve Keller of NTEU, who had served on the FSC Working Group, to explain how the Working Group had decided what metropolitan areas to recommend. Mr. Keller said the Working Group's approach was much like the approach used in 1994. He referred to page 19 of the Working Group report, discussed data that might be used to select new metropolitan areas for new surveys (such as GS employment and BLS model earnings differentials), and said final recommendations on this issue would be made in the full Council's report to the Pay Agent.

The Council then discussed whether to round locality rates to the nearest percentage point. Since the Working Group had found that doing so would decrease precision in the process of allocating locality pay, the Working Group recommended not implementing such a change.

Ms. Rose read the next section of the Working Group report, which discussed using OMB metropolitan area definitions as the basis for locality pay area boundaries. When she reached the end of the section, the Council discussed the following questions:

- Should the Pay Agent continue to define locality pay areas primarily on the basis of OMB metropolitan area definitions?
- How should the new MSA/CSA definitions be used in the locality pay program?
- Should the largest defined areas—Combined Statistical Areas (CSAs)—be used whenever available?
- Should county-based or town-based MSAs/CSAs be used in New England?
- Should the Pay Agent retain the ability to establish areas of application?

The Working Group recommended the following:

- Use metropolitan area definitions as the basis for locality pay area boundaries.
- The largest defined areas, CSAs, should be used when available.
- County-based metropolitan areas rather than town-based ones should be used for New England.
- The Pay Agent should retain its ability to establish areas of application.

The Council took a break at 2:28 p.m. and reconvened at 2:45 p.m.

Ms. Rose read the next section of the report, which discussed evaluating areas in the vicinity of locality pay areas for possible inclusion as areas of application. At the end of this section was the following list of questions:

- What formula should be used to calculate commuting rates?
- What area should be included in commuting measures?
- How should Micropolitan Areas be treated?
- What criteria should be used to evaluate areas adjacent to locality pay areas?
- What geographic scope should be used in applying these criteria?
- Should areas already added to locality pay areas be reviewed every year?

The Working Group recommended the following:

- The most relevant criteria should be GS employment and commuting rates.



- To calculate commuting rates, use the Census definition of the Employment Interchange Measure (see Council document FSC-03-2-3 for the definition).
- Use commuting to/from the entire CSA or MSA.
- Do not consider Micropolitan Statistical Areas separately.
- Use the following criteria for evaluating areas for possible inclusion in adjacent locality pay areas:
  - 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.
  - 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.
  - 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.
  - Retain any county (or portion of a county in cases where the full county was never in the locality pay area) in the locality pay area if it has an employment interchange rate of 15 percent or more.
- Areas already included in a locality pay area need not be reevaluated each year

Ms. Simon expressed a concern about using GS employment as a criterion. She said that, since outsourcing had increased in the Federal sector, it might be better to include contractors in employment counts. Since outsourcing is increasing, areas could drop out. She also said using pay gaps rather than GS employment might be a good alternative to employment counts.

Ms. Lacy pointed out that, regarding the concern that areas might drop out as a result of increased outsourcing, the Working Group report said areas should not be continually reviewed. Ms. Simon said that assurance assumes areas affected by outsourcing would “squeeze in,” but what about new areas that might submit petitions? She said she questioned whether GS employment showed “the extent of the problem” and that “the size of the pay gap shows the problem more than GS employment.” (Note: OPM generally has no information on pay gaps in counties adjacent to locality pay areas.)

When Ms. Lacy asked if there were other comments, Ms. Kelley said she fully supported the Working Group recommendations but that perhaps the issue of increased outsourcing could be discussed in the future.

Ms. Rose read the next section of the report, which discussed the issue of how future requests for area-of-application status should be handled. The Working Group recommended requiring that the following be included in future requests:

- The credentials of the requesting group establishing how the group represents GS employees in the area.
- Identification of the geographic area covered by the proposal.
- The number of GS employees in the area by agency.
- A detailed explanation of why the area should be added to the adjacent locality pay area.
- Current vacancy rates in the area for GS positions.
- Documentation of recruitment and or retention problems for GS employees in the area.
- Documentation that agencies have tried other pay flexibilities including requests for special salary rates, and use of recruitment, retention, and relocation payments and that these flexibilities did not solve recruitment and retention problems.
- An indication that the headquarters of affected agencies know about and support the request.
- Distance measures by road between the requesting area and the locality pay area.
- A summary of transportation facilities linking the requesting area and the locality pay area, including commuting rail or other mass transit facilities.
- Agency organizational relationships between activities covered by the proposal and activities in another locality pay area.

The next section of the report listed locality pay areas for 2005. The Working Group's recommendations for 2005 locality pay area definitions are in its Working Group Report. (Note: The Working Group report does not reflect the group's recommendation to drop three locality pay areas in 2005. That recommendation was formulated at a Working Group meeting held just prior to the full Council meeting, and there was no time to change the document.)

Ms. Rose read the next section of the section of the Working Group report, which discussed the status of BLS improvements. The Working Group recommended that the Council continue to support BLS improvements in NCS surveys.

Ms. Rose read the next section of the report, which discussed allocating locality pay in 2004. The Working Group recommended that the Pay Agent base increases in each locality pay area on the size of the pay gap in each area so that areas with larger gaps receive larger increases. Based on the current congressional proposal for a 4.1 percent increase, the Working Group recommended allocating 2.7 percent to the base GS increase and 1.4 percent to locality pay.

Since Ms. Rose had presented the entire Working Group report, Ms. Lacy discussed how to proceed. She said the Council could adopt all, some, or none of the Working Group's recommendations.

Ms. Kelley said that some people following the work of the Council over the past several years might wonder if the Council has listened to the many concerns brought to its attention. She said that the Working Group Report, however, “goes to all of the issues relevant to the program” and shows the Council has been listening. She said she fully supported the Working Group and believed “Federal employees looking to the Council for change owe the Working Group gratitude.”

Ms. Lacy agreed, thanked Ms. Kelley for her comments, and said the Working Group had worked very hard.

Mr. Bastas motioned that all Working Group recommendations regarding methodology, pay gaps, and locality pay area boundaries for 2005 be adopted. Mr. Maestas seconded. The motion passed unanimously.

Ms. Lacy opened a discussion of allocating locality pay for 2004. Ms. Kelley made a recommendation to adopt the Working Group recommendations. Mr. Maestas seconded. The motion passed unanimously.

Ms. Lacy opened the floor for public comment. Bruce Sylvia, Jeffery Anliker, Frank Almeida, and Colonel Wilcox thanked the Council for its decisions regarding locality pay area boundaries.

Ms. Lacy adjourned the meeting at 3:20 p.m.

CERTIFIED

SIGNED  
Terri Lacy  
Chair