

REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

*ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
2003*



December 2003

The President's Pay Agent
Washington, DC

December 4, 2003

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Annual Report on Locality-Based Comparability Payments for the General Schedule

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 2005 *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 2005. You do not need to make a decision on the 2005 rates at this time.

Our plans for locality pay area boundaries in 2005 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 continue to follow the Council's recommendation to phase in the use of salary survey data collected under the new National Compensation Survey program, and we have tentatively approved the Council's recommendations to make changes in the boundaries of locality pay areas. The Office of Personnel Management will publish a notice in the *Federal Register* next year to explain the proposed changes and solicit public comments before these changes are implemented in January 2005.

Although we support updating the locality pay area boundaries, we believe these changes will be useful only as an interim measure, pending fundamental reforms in the Federal white-collar pay system. The Pay Agent continues to have 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.

The President's Pay Agent:



Elaine L. Chao
Secretary of Labor



Joshua B. Bolten
Director, Office of
Management and Budget



Kay Coles James
Director, Office of
Personnel Management

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
Across-the-Board and Locality Adjustments.....	2
Locality Pay Surveys	3
Comparing General Schedule and Non-Federal Pay	10
Locality Pay Areas.....	16
Local Pay Disparities and Comparability Payments.....	23
Cost of Locality Payments.....	26
Recommendations of the Federal Salary Council and Employee Organizations.....	29
Future Surveys.....	30

Tables

1. Full Job List for OCSP Locality Surveys.....	5
2. Number of OCSP Survey Jobs by Grade and PATCO Category	11
3. Locations with Pay Gaps below that for the Rest of U.S. Locality Pay Area.....	16
4. Locations Currently in RUS to be Surveyed if Resources Become Available.....	17
5. MSA-Based Areas of Application.....	19
6. County-Based Areas of Application.....	20
7. Areas Retained in MSA-Based Locality Pay Areas.....	21
8. Local Pay Disparities and 2005 Comparability Payments.....	24
9. Remaining Pay Disparities in 2003.....	25
10. Cost of Local Comparability Payments in 2005.....	28

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 2005 if they 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 2005 increase is the 12-month period ending on September 30, 2003. During that period, the ECI increased by 3.0 percent. Therefore, the January 2005 general increase, if granted, would be 2.5 percent (3.0 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 2003, for example, only 44.0 percent of the “target” disparity was closed, on average, due to separate legislation or the President’s alternative plan.

LOCALITY PAY SURVEYS

In the past, the Bureau of Labor Statistics (BLS) conducted a survey of non-Federal pay each year in each locality pay area using survey methods approved by the Pay Agent. 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.

After reviewing test data and several years of production surveys, the Pay Agent agreed with the Federal 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, including some of those raised by the Council, 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. The same three improvements are incorporated into surveys reviewed this year:

- 1) The linkage of Federal and non-Federal jobs by developing an improved crosswalk between General Schedule occupations and the newly implemented Standard Occupational Classification System (SOC) 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 will be phased in starting next year, are the following:

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

Last year, the Council recommended and we agreed to begin using NCS data by averaging the OCSP and NCS results (on a 50-50 basis). For this year, the Council recommended that we continue to phase in NCS results by applying a 75 percent weight to NCS results and a 25 percent weight to OCSP results. It is not uncommon to use a phase-in methodology such as the Council's recommended approach when first implementing a major change in methodology in

order to lessen the impact of the methodology change. We approve the Council's recommended approach.

Since both OCSP and NCS data have been used in this report, the report explains both methods and summarizes where they differ. OCSP methods are covered in more detail in previous reports of the Pay Agent. The 2001 Pay Agent's report is available at <http://opm.gov/oca/payagent/index.asp>.

Industrial and Establishment Size Coverage

As required by FEPCA, BLS salary surveys (both OCSP and NCS) 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.

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

In the OCSP surveys, BLS surveyed 115 work levels distributed over 26 occupations, as shown in Table 1, below. These 26 occupations were selected to be "representative" of all GS occupations, but only about 30 percent of the GS workforce were actually in jobs covered by the surveys.

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 2002 GS employment counts for use in weighting up survey job data to higher aggregates. (BLS completed delivery of the most recent NCS surveys in August, before March 2003 employment counts became available.)

Table 1. Full Job List for OCSP Locality Surveys

Occupation by Category	Work Level by General Schedule (GS) Grade Equivalent														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Professional															
Accountant					I		II		III		IV	V	VI		
Accountant, Public							I		II		III	IV			
Attorney									I		II	III	IV	V	VI
Engineer					I		II		III		IV	V	VI	VII	VIII
Buyer/Contracting Specialist ¹					I		II		III		IV				
Scientist					I		II		III		IV	V	VI	VII	VIII
Administrative															
Budget Analyst					I		II		III		IV				
Computer Programmer					I		II		III		IV	V			
Computer Systems Analyst									I		II	III	IV	V	
Computer Sys Analyst Supv/Mgr												I	II	III	IV
Personnel Specialist					I		II		III		IV	V	VI		
Personnel Supervisor/Mgr											I	II	III	IV	V
Tax Collector					I		II		III						
Technical															
Computer Operator				I	II	III	IV	V							
Drafter			I	II	III		IV								
Engineering Technician			I	II	III		IV		V		VI				
Engineering Technician, Civil			I	II	III		IV		V		VI				

¹ Levels I and II cover Federal employees in both professional and technical categories.

Table 1. (continued)
Work Level by General Schedule (GS) Grade Equivalent

Occupation by Category	Work Level by General Schedule (GS) Grade Equivalent														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Clerical															
Clerk, Accounting ²		I	II	III	IV										
Clerk, General	I	II	III	IV											
Key Entry Operator		I	II												
Personnel Assistant ³			I	II	III	IV									
Secretary				I	II	III	IV	V							
Word Processor ⁴			I	II	III										
Officers, Protective															
Corrections Officer							I								
Firefighter					I										
Police Officers, Uniformed					I	II									

2 Levels III and IV cover Federal employees in both clerical and technical categories.

3 Level IV covers Federal employees in the technical category.

4 Level III covers Federal employees in both clerical and technical categories.

Matching Level of Work

Under the former OCSP surveys, BLS field economists used a set list of survey job descriptions, each of which summarized work in a specific occupation at a single GS grade level. 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, BLS is now using the Knowledge Guide in its surveys, and BLS plans to introduce the remaining three factor guides in its surveys starting next year. It will take 5 years to fully implement the conversion to the new leveling system 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

Under the former OCSP program, the occupationally-specific survey job descriptions also included instructions for excluding non-Federal jobs that, if classified under the GS position classification system, would be graded 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. BLS developed and tested the guidance with assistance from OPM. Appendix V of the 2002 Pay Agent's report explains the process for identifying these jobs in the NCS program.

Grading Supervisory Positions

The former OCSP survey job descriptions also included instructions on how to grade or whether to exclude non-Federal supervisory jobs. This presented another problem for the NCS program because the Government does not use the same 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 that 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 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 plans to incorporate the improvement starting next year.

As in 2002, 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.⁵

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 and was also a serious problem with OCSP surveys because survey results and pay disparity measures can vary considerably based on which jobs are included. Pay Agent staff developed a model to estimate missing OCSP jobs and the Pay Agent instructed BLS to develop an econometric model to provide estimates for jobs not found in NCS. The model developed by BLS is described later in this report and in **Appendix II**.

Differences in Results

Last year, NCS pay gaps were about 4 points below those using the OCSP results, on average. This year, the results are about 2.6 points apart. However, the results vary significantly for a number of locality pay areas. As noted in 2002, many factors could cause pay measures under the NCS program to be different from those under OCSP. OPM staff identified a number of possible reasons for this outcome, including the following:

⁵ 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.

- OCSP data are out of date, and the nationwide rate of change measures (i.e., Employment Cost Index) used to age the data probably overestimate or underestimate pay on a locality or occupational basis.⁶
- OCSP used a fixed job list that may have been biased toward higher-paying jobs.⁷
- Certain key OCSP results are based on small samples and may overstate pay levels.⁸
- The FSC and OPM staff believe test surveys indicated problems in assigning grades under the NCS program.
- NCS random samples may miss key high-paying jobs that are not common in non-Federal establishments.
- Between 32 and 81 percent of the GS weighted data in the NCS program are modeled. A review of the BLS model in 2002 indicated that it tends to underestimate pay for high-paying jobs. (The OCSP model also tended to underestimate pay for certain jobs.) We had actual survey data for about 70 percent of the OCSP jobs and modeled about 30 percent of that data, but OCSP survey jobs directly represented only about 30 percent of the Federal workforce, so actual data under OCSP represented only about 21 percent of the Federal workforce—a little less than the 29 percent of jobs represented by actual data under the NCS program.
- Job definitions under OCSP were written to match specific Federal jobs, while the SOC crosswalk used in the NCS program has some more generic matches.

We also note that the pay gaps measured with NCS data increased by more than 5 percentage points in 5 locality pay areas and changed by more than 2 points (up or down) in 16 locality pay areas (including the 5). These changes could reflect sizable increases in non-Federal pay over the last year or could be due to changes in Federal employment weights, but are most likely due to BLS sample rotation. BLS replaced 1/5 of the establishments sampled in 10 of these 16 areas. If sample rotation does affect the results to this magnitude, a significant increase in survey sample size may be desirable to achieve more stable results.

⁶ If non-Federal pay, on average, increased by 3 percent each year since 1996, a location where pay increased by only 2 percent each year would be overestimated by about 7 percent in 2003.

⁷ Under OCSP, the Technical category was represented by Computer Operator, Drafter, and Engineering Technician, while under the NCS program, all Technical jobs are surveyed including Nursing Assistants and Licensed Practical Nurses. These jobs were lost from OCSP when the BLS Hospital survey was cancelled.

⁸ The Accountant level VI job in the last OCSP survey of Detroit represented only 50 non-Federal workers. Likewise, Attorney I represented 63 workers, Budget Analyst I represented 14 workers, Personnel Supervisor II represented 55 workers, and Civil Engineering Technician I represented 35 workers.

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 pay⁹ 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 OCSP, non-Federal pay is represented by a survey of 115 jobs distributed over 26 occupations (as listed in Table 1). Each of the 115 surveyed jobs has been equated to a GS occupational definition and grade level and classified among five broad “PATCO” categories—professional (P), administrative (A), technical (T), clerical (C), and protective officer (O). 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 of the 2002 Pay Agent’s report.

Non-Federal rates are estimated on a sample basis by BLS area surveys under both survey programs. 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 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 under both OCSP and NCS. 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 2003 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.¹⁰

Since 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

⁹ 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 a special rate under section 403 of FEPCA, but exclusive of a special rate under 5 U.S.C. 5305, a special law enforcement adjusted rate under subpart C of 5 CFR part 531, and a locality rate under subpart F of 5 CFR part 531.

¹⁰ OCSP surveys are now 7 to 9 years old and had to be aged over an extended period. NCS surveys used in this report had reference dates between December 2001 and October 2002. See Appendix VIII.

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.

Table 2.
Number of OCSF Survey Jobs by Grade and PATCO Category

Grade	P	A	T	C	O	Total
GS-1				1		1
GS-2				3		3
GS-3			3	5		8
GS-4			4	5		9
GS-5	4	4	4	4	2	18
GS-6			2	1	1	4
GS-7	5	4	4	1	1	15
GS-8			1	1		2
GS-9	6	5	2			13
GS-11	6	5	2			13
GS-12	5	5				10
GS-13	4	4				8
GS-14	3	3				6
GS-15	3	2				5
Totals	36	32	22	21	4	115

Table 2, above, summarizes the distribution of OCSF survey jobs by PATCO category and grade. The 115 OCSF jobs are distributed among 35 category levels, which are in turn distributed among 14 grade levels (there is no OCSF survey job at grade 10). For example under OCSF, grade GS-1 is represented by only one job in the clerical category (General Clerk I). By contrast, grade GS-5 is represented by 18 jobs distributed among all 5 categories, including 4 in the professional category (Accountant I, Engineer I, Scientist I, and Contracting Specialist I), 4 in the administrative category (Budget Analyst I, Computer Programmer I, Personnel Specialist I, and Tax Collector I), etc. Under the NCS program, all PATCO grade cells with Federal incumbents are represented.

Because of variations in local industry mix, labor force size, and other factors, BLS was not able to publish rates for all 115 OCSF jobs in any area surveyed. On average, an area survey resulted in published pay data for about 59 percent of the 115 jobs, ranging from a low of 39 jobs in the

Richmond survey to a high of 94 in the Rest of U.S. survey. Salary data for unpublished jobs was substituted from alternative sources, as explained below in the section on “Publishability and Substitute Data.”

Under OCSP, the non-Federal rates from the BLS data are averaged in three stages. In the first stage, job rates are averaged within PATCO category by grade level. The jobs surveyed at each grade represent directly the Federal workers in equivalent job classifications (e.g., engineers) and indirectly other Federal workers in the same PATCO category (e.g., other professionals) at that grade. At grade 5, for example, the four job rates in the professional category are averaged to one rate for the GS-5 professional category. In the same manner, job rates are averaged within the administrative, technical, clerical, and protective officer categories at grade 5. For averaging within category, each job rate is weighted by the CONUS¹¹ full-time permanent year-round employment in GS positions that match the job.¹² The reason for CONUS weighting in the first stage is explained below.

Under the NCS program, BLS averages survey estimates (actual or modeled) for each non-Federal job within PATCO categories and grades using national GS employment weights provided by OPM. This weighting is the same as under OCSP, except that the GS employment data are from March 2002 instead of March 2003 to afford time for BLS to do the calculations and deliver the results. The NCS program covers all white-collar jobs, not just the 26 occupations at 115 work levels included in OCSP.

When the first stage averages are complete under OCSP, grade 5 is represented by 5 category rates in lieu of its original 18 job rates. Similarly, grades 1 and 2 are each represented by one category rate, grades 3 and 4 each by two category rates, grade 6 by three category rates, and so on. Under the NCS program, all PATCO/grade categories with Federal incumbents are represented.

In the second stage, the category rates are averaged by grade level to one grade level rate for each grade represented. Thus, at grade 5 the five category rates in OCSP are averaged to one GS-5 rate. For averaging by grade, each category rate is weighted by the local full-time permanent year-round GS employment in the category at the grade. This procedure is exactly the same under the NCS program except that all PATCO categories are represented.

In the third stage under OCSP, the 14 grade rates are weighted by the corresponding local full-time permanent year-round GS grade level employment and averaged to a single overall non-

¹¹ Continental United States, comprising the 48 contiguous States plus the District of Columbia.

¹² Five of the OCSP survey jobs match Federal series in two PATCO categories. Buyer I and II each match a Federal technical as well as a professional classification. Accounting Clerk III and IV and Word Processor III each match a technical and a clerical classification. Each of the five job rates is averaged under both categories in the first stage averaging, with appropriate weighting.

Federal rate for the locality. This overall non-Federal average is the non-Federal rate to which the overall average GS rate is compared. Under the NCS program, all 15 GS grades are 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 under either survey program.¹³

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.

The methodology employed by the Pay Agent under OCSP 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 published survey job whose Federal counterpart has no local GS incumbents will “drop out” in stage one and have no effect on the overall average. This might be appropriate if the survey job represented only those GS workers in the Federal counterpart job; but in the second stage of averaging, each survey job represents part or all of a broader PATCO category level, and in the third stage each PATCO category level represents part or all of a broader grade level. If a job is allowed to drop out due to zero local GS employment, some GS incumbents of other classifications in the same PATCO category level—not represented by a specific survey job—will be unrepresented.

For this reason, national or CONUS weights are used in the first stage of averaging OCSP data. CONUS weights are used only where retention of each published OCSP survey observation is most important—at the job level or stage one. Local weights are used at all other stages.

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

¹³ 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 grade level GS employment. 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.

unpublished. Under the NCS program, PATCO and grade weights would not be necessary, since all white-collar jobs at all grades are represented and weighted by CONUS GS employment separately. However, the Pay Agent concludes 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.

Publishability and Substitute Data

Under OCSP, BLS was never able to publish data for all survey jobs. The fact that the set of published 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 published.

For OCSP, the Council and the Pay Agent agreed to use data from an earlier survey to fill in missing values where available, but also developed estimates of non-Federal pay produced by a multiple regression model to estimate salaries for jobs not published by BLS. OPM staff developed the model to estimate local non-Federal pay differentials for the survey jobs. It 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—and it accounted for about 96 percent¹⁴ of the variation in the pay rates published by BLS. The use of the model was endorsed by the Federal Salary Council. A technical report on the OPM model was provided in Appendix II of the 1994 Report, and a summary of subsequent years' models appeared in Appendix 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 model predict pay as a function of location, occupation, and grade level.¹⁵ The NCS model accounts for about 82 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 in the locality pay program since 1994. The models used in both survey programs 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 crosswalk shown in Appendix VII of the 2002 Pay

14 The OCSP model used survey averages by area to model missing values. Much of the variability in non-Federal pay was masked because averages were used. The NCS model developed by BLS uses all the individual survey estimates. Hence, the R squared values between the two models cannot be readily compared.

15 Both 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.

Agent's report were included in developing the model, with the exception of a handful of jobs for which BLS had no data.

However, the Federal Salary Council has 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 71 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 81 percent modeled in Dayton to a low of 32 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 32 percent modeled at GS-4 to an average of 98 percent modeled at GS-15. The Pay Agent shares the Council's concerns about the amount of modeled data.

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 2005. This recommendation was transmitted to the Pay Agent in a memorandum dated October 28, 2003. (See **Appendix I**.)

Pay Disparities Below the RUS Pay Disparity

The Council recommended that we drop Kansas City, Orlando, and St. Louis as separate locality pay areas because the weighted average of the OCSP and NCS pay disparities for each of those locations is below that for the RUS locality pay area and the disparity has been close to or below that for the RUS locality pay area under either survey for the last 2 years as shown below:

Table 3.
Locations with Pay Gaps below that for the Rest of U.S. Locality Pay Area

Location	Survey	2002	2003
Kansas City	NCS	15.63	20.86
	OCSP	27.77	27.24
Orlando	NCS	16.62	15.39
	OCSP	29.00	25.76
St. Louis	NCS	19.85	17.30
	OCSP	29.65	29.17
RUS	NCS	22.45	22.78
	OCSP	28.71	28.69

The Council also recommended that BLS reallocate survey resources from these metropolitan areas to increase the sample size in several metropolitan areas currently surveyed by BLS as part of the RUS locality pay area. The Council selected metropolitan areas to be surveyed in rank order by GS employment, provided the metropolitan area has at least 2,500 GS employees, at least 375,000 nonfarm workers, and non-Federal pay levels 5 percent or more higher than the RUS area based on the BLS model described in **Appendix II**. (The last criterion automatically excludes any area in RUS that is not currently surveyed by BLS.) The Pay Agent approves this recommendation of the Federal Salary Council and asks BLS to discontinue salary surveys in Kansas City, Orlando, and St. Louis for locality pay purposes as soon as feasible and begin augmenting existing surveys in as many of the following areas as possible:

Table 4.
Locations Currently in RUS to be Surveyed if Resources Become Available

Location	GS Employment	Pay Differential with RUS
Phoenix-Mesa-Scottsdale, AZ MSA	8,062	10.23%
Memphis, TN-MS-AR MSA	8,018	8.70%
Austin-Round Rock, TX MSA	6,081	5.93%
Louisville-Elizabethtown-Scottsburg, KY-IN CSA	5,213	10.10%
Buffalo-Cheektowaga-Tonawanda, NY MSA	4,672	10.36%
Raleigh-Durham-Cary, NC CSA	4,497	9.84%

The Pay Agent also asks that BLS formulate a survey plan and report to the Pay Agent in August 2004 on how many of the new areas could be surveyed for locality pay purposes and under what timeline. BLS should submit data to the Pay Agent that includes any locations shown in the above table which BLS plans to survey separately for locality pay purposes under its survey plan as a prospective separate locality pay area. The data submitted in 2004 for areas shown above and included in the survey plan should be reported in a separate computer data file with model fills and GS employment weighting, and each affected area should be included in the 2004 BLS pay model as a separate locality pay area. (BLS may continue to use the data from any or all of these areas in its RUS estimates, if needed, until such time as the geographic scope of the RUS surveys is revised.)

For the purpose of calculating pay disparities for this report, we have combined the pay disparities for Kansas City, Orlando, and St. Louis with that for the RUS locality pay area as shown below:

Combining Areas with Pay Gaps Below RUS

<u>Area</u>	<u>OCSP/NCS Weighted Average Pay Disparity</u>	<u>GS Payroll</u>
Kansas City	22.46%	\$ 772,753,084
Orlando	17.98%	230,418,434
St. Louis	20.27%	575,736,718
RUS	<u>24.26%</u>	<u>22,909,110,915</u>
AVERAGE\TOTAL	24.05%	\$24,488,019,151

Defining Locality Pay Areas

In 1993, the Council recommended and the Pay Agent approved using Metropolitan Statistical Areas (MSAs) defined by the Office of Management and Budget (OMB) as the basis for defining locality pay areas. MSAs in the 1990s were based on population size and density and commuting patterns. The Council also recommended and the Pay Agent approved criteria for evaluating adjacent areas for inclusion in MSA-based locality pay areas.

In June 2003, OMB redefined MSAs using new criteria and 2000 census data. The redesigned MSAs also include changes in nomenclature. For example, OMB discontinued Consolidated Metropolitan Statistical Areas (CMSAs) and added Combined Statistical Areas (CSAs) and Micropolitan Statistical Areas. CSAs are similar in concept to CMSAs, as they are formed by combining adjacent MSAs with a high level of commuting. Micropolitan Statistical Areas are a new classification consisting of locations with smaller population cores.

The Council, after considerable review, recommended that the Pay Agent adopt the new MSAs and CSAs as the basis for defining locality pay areas in 2005. The Council reached this conclusion because counties are added to MSAs based on the level of commuting between the county and the core of the MSA. In the Council's view, Federal agencies in any county where 25 percent or more of the resident workers commute to the MSA or 25 percent or more of the workers employed in the county commute from the MSA would experience serious recruitment or retention problems if the county were excluded from the locality pay area. While CSAs are established using somewhat different criteria and commuting rates than used for adding outlying counties to MSAs, commuting rates are still the primary factor in establishing CSAs, and the Council recommended that CSA definitions be used whenever possible. The Council also recommended that we use county-based MSAs in New England in lieu of town-based MSAs. Finally, the Council recommended new criteria for evaluating areas adjacent to an MSA-based locality pay area.

Under the Council's recommendations, 76 counties (or partial counties in New England) with about 5,300 GS employees would be added to existing locality pay areas as a result of changes in MSA definitions. (This total excludes 12 counties that would be added to the Kansas City, Orlando, and St. Louis areas if those areas were to remain as separate locality pay areas. There are 34,000 GS employees currently in these three locality pay areas.) The counties that would be added to MSA-based locality pay areas are show in Attachment 2 of **Appendix I**.

The Council also recommended the following new criteria for evaluating areas adjacent to MSA-based locality pay areas:

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.
4. **For counties currently included in an MSA-based locality pay area that would be excluded under the new MSA and CSA definitions:** To continue to be included in the locality pay area, any county (or portion of a county in the case of York County, ME, where the full county was never in the adjacent locality pay area), must have an employment interchange rate of at least 15 percent.

The Council recommended that the Employment Interchange Measure be used as the basis for calculating commuting rates. The Employment Interchange Measure is used by the Office of Management and Budget in combining adjacent MSAs and is defined as--

A measure of the ties between two adjacent entities. The employment interchange measure is 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.

Implementation of these criteria would result in the following areas being added to or retained in existing MSA-based locality pay areas:

1) **Adjacent MSAs and CSAs:**

**Table 5.
MSA-Based Areas of Application**

MSA	Include in	Counties in MSA	4-Quarter Avg. GS Employment	Commuting Rate
Providence-New Bedford-Fall River, RI-MA	Boston	Bristol, MA and all five counties in Rhode Island	3,672	18.4%
Fort Collins-Loveland, CO	Denver	Larimer, CO	1,703	12.1%

MSA	Include in	Counties in MSA	4-Quarter Avg. GS Employment	Commuting Rate
Springfield, MA	Hartford	Franklin, Hampden, and Hampshire, MA	1,503	8.4%
Santa Barbara-Santa Maria-Goleta, CA	Los Angeles	Santa Barbara, CA	2,030	8.3%
Salinas, CA	San Jose-San Francisco	Monterey, CA	2,383	15.1%
Hagerstown-Martinsburg, MD-WV	Washington, DC	Washington, MD, and Berkeley and Morgan, WV	2,276	30.6%

2) **Adjacent counties that are not part of a multi-county MSA or CSA:**

**Table 6.
County-Based Areas of Application**

County	Include in	4-Quarter Avg. GS Employment	Commuting Rate
Barnstable, MA	Boston	703	17.24%
Grant, IN	Indianapolis	491	8.34%
Kent, DE	Philadelphia	812	18.98%
King George, VA	Washington, DC	1,241	78.84%
Monroe, FL	Miami	463	10.51%
Monroe, PA	New York	1,102	24.46%
New London, CT	Hartford	1,278	24.04%
Carson City, NV	Sacramento	407	21.62%
San Joaquin, CA	San Francisco	887	17.96%

3) **Federal facilities that cross locality pay area boundaries:**

That portion of Edwards Air Force Base in Kern County, CA.

4) **Counties currently included in an MSA-based locality pay area which would be excluded under the new MSA and CSA definitions:**

Table 7.
Areas Retained in MSA-Based Locality Pay Areas

County	Include in	Commuting Rate
Atlantic, NJ	Philadelphia	23.50%
Cape May, NJ	Philadelphia	15.87%
Culpeper, VA	Washington, DC	52.43%
Lenawee, MI	Detroit	28.61%
Marion, OR	Portland	19.77%
Polk, OR	Portland	16.17%
Warren, NJ	New York	68.78%
Weld, CO	Denver	30.65%
Part of York, ME	Boston	
Berwick town		71.63%
Eliot town		61.43%
Kittery town		76.35%
South Berwick town		60.39%
York town	46.01%	

The Pay Agent tentatively agrees with the Council's analysis and recommendations on defining locality pay areas and asks that OPM publish a proposed rule in the *Federal Register* on its behalf. After the Pay Agent has considered public comments on this proposal, OPM will publish a final rule in time for implementation in January 2005.

The Council also recommended that locations added to locality pay areas need not be reevaluated each year for continued inclusion in the locality pay area. The Pay Agent approves this recommendation of the Council.

In its recommendations this year, the Council expressed its intent to adopt specific criteria for groups seeking to have their area added to an existing locality pay area. The Pay Agent endorses the Council's plan and will consider adopting a similar approach by regulation.

Locality Pay Areas for 2005

The Pay Agent will continue the following 29 locality pay areas in 2005 but with modified boundaries, as discussed above:

- 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) Chicago-Naperville-Michigan City, IL-IN-WI Combined Statistical Area;

- 4) Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area;
- 5) Cleveland-Akron-Elyria, OH Combined Statistical Area;
- 6) Columbus-Marion-Chillicothe, OH Combined Statistical Area;
- 7) Dallas-Fort Worth, TX Combined Statistical Area;
- 8) Dayton-Springfield-Greenville, OH Combined Statistical Area;
- 9) Denver-Aurora-Boulder, CO Combined Statistical Area, **plus** the Ft. Collins Loveland, CO Metropolitan Statistical Area and Weld County, CO;
- 10) Detroit-Warren-Flint, MI Combined Statistical Area, **plus** Lenawee County, MI;
- 11) Hartford-West Hartford-Willimantic, CT Combined Statistical Area, **plus** the Springfield, MA Metropolitan Statistical Area and New London County, CT;
- 12) Houston-Baytown-Huntsville, TX Combined Statistical Area;
- 13) Huntsville-Decatur, AL Combined Statistical Area;
- 14) Indianapolis-Anderson-Columbus, IN Combined Statistical Area, **plus** Grant County, IN;
- 15) Los Angeles-Long Beach-Riverside, CA Combined Statistical Area, **plus** the Santa Barbara-Santa Maria-Goleta, CA Metropolitan Statistical Area and all of Edwards Air Force Base, CA;
- 16) Miami-Fort Lauderdale-Miami Beach, FL Metropolitan Statistical Area, **plus** Monroe County, FL;
- 17) Milwaukee-Racine-Waukesha, WI Combined Statistical Area;
- 18) Minneapolis-St. Paul-St. Cloud, MN-WI Combined Statistical Area;
- 19) New York-Newark-Bridgeport, NY-NJ-CT-PA Combined Statistical Area, **plus** Monroe County, PA, and Warren County, NJ;
- 20) Philadelphia-Camden-Vineland, PA-NJ-DE-MD Combined Statistical Area, **plus** Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
- 21) Pittsburgh-New Castle, PA Combined Statistical Area;
- 22) Portland-Vancouver-Beaverton, OR-WA Metropolitan Statistical Area, **plus** Marion County, OR, and Polk County, OR;
- 23) Richmond, VA Metropolitan Statistical Area;
- 24) Sacramento--Arden-Arcade--Truckee, CA-NV Combined Statistical Area, **plus** Carson City, NV;
- 25) San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area;
- 26) San Jose-San Francisco-Oakland, CA Combined Statistical Area, **plus** the Salinas, CA Metropolitan Statistical Area and San Joaquin County, CA;
- 27) Seattle-Tacoma-Olympia, WA Combined Statistical Area;
- 28) Washington-Baltimore-Northern Virginia Combined Statistical Area, **plus** the Hagerstown-Martinsburg, MD-WV Metropolitan Statistical Area, Culpeper County, VA, and King George County, VA; and
- 29) 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 4 of OMB Bulletin 03-04 available on the Internet at: <http://www.whitehouse.gov/omb/bulletins/b03-04.html>.

LOCAL PAY DISPARITIES AND COMPARABILITY PAYMENTS

Table 8, below, lists the pay disparities for 32 localities under OCSP and the NCS program and the weighted average of the two pay disparities. Table 8 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2005 based on the weighted average disparities, and it shows the disparities that would remain if the recommended payments were adopted.

Table 8 includes three locations with NCS/OCSP pay disparities below the Rest of U.S. pay disparity. The Pay Agent has adopted the Federal Salary Council's recommendation to discontinue these locations as separate locality pay areas and to combine their average pay disparities with that for the RUS locality pay area. The adjusted RUS pay disparity is the weighted average of the pay disparities for RUS, Kansas City, Orlando, and St. Louis, or 24.05 percent, using the GS base payroll in each area for weights. The "RUS-adjusted disparity" column contains the adjusted RUS pay disparity for all four locations.

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 not later than the year 2002 (5 U.S.C. 5304(a)(3)(I)). The "Disparity to Close" shown in the table 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. (Note: Since FEPCA contemplated that the target pay disparity would be closed by 2002, the amounts shown in columns 5 and 6 are the same.) The last column shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Atlanta, the 34.15 percent NCS/OCSP pay disparity would be reduced to 5.00 percent if the locality rate were increased to 27.76 percent ($(134.15/127.76-1) \times 100 = 5.00$ percent).

The actual remaining pay disparity as of January 2005 may differ from the calculations above for two reasons. First, Federal pay will have increased by the amount of the general increases effective in January 2004 and 2005. Second, non-Federal pay will have increased by some amount from March 2003 to January 2005. For the purpose of this report, we assume that future changes in Federal and non-Federal pay will substantially cancel each other out and that the pay disparities will remain about the same.

Table 8. Local Pay Disparities and 2005 Comparability Payments

Locality	-1- OCSP Disparity (percent)	-2- NCS Disparity (percent)	-3- Wtd. Avg. Pay Disparity (percent)	-4- RUS Adj. Disparity (percent)	-5- Disparity to Close (percent)	-6- Locality Payment (percent)	-7- Remaining Disparity (percent)
Atlanta	30.72	35.29	34.15	34.15	27.76	27.76	5.00
Boston	39.61	39.75	39.72	39.72	33.07	33.07	5.00
Chicago	42.42	37.00	38.36	38.36	31.77	31.77	5.00
Cincinnati	38.20	23.67	27.30	27.30	21.24	21.24	5.00
Cleveland	32.51	29.60	30.33	30.33	24.12	24.12	5.00
Columbus	31.10	22.20	24.43	24.43	18.50	18.50	5.00
Dallas	33.27	33.25	33.26	33.26	26.91	26.91	5.00
Dayton	31.04	22.03	24.28	24.28	18.36	18.36	5.00
Denver	39.64	36.44	37.24	37.24	30.70	30.70	5.00
Detroit	42.64	33.98	36.15	36.15	29.67	29.67	5.00
Hartford	40.55	43.85	43.03	43.03	36.22	36.22	5.00
Houston	49.87	40.24	42.65	42.65	35.86	35.86	5.00
Huntsville	26.47	26.50	26.49	26.49	20.47	20.47	5.00
Indianapolis	26.25	25.48	25.67	25.67	19.69	19.69	5.00
Kansas City*	27.24	20.86	22.46	24.05	18.14	18.14	5.00
Los Angeles	45.67	40.80	42.02	42.02	35.26	35.26	5.00
Miami	37.65	32.00	33.41	33.41	27.06	27.06	5.00
Milwaukee	33.44	25.81	27.72	27.72	21.64	21.64	5.00
Minneapolis	36.77	32.62	33.66	33.66	27.30	27.30	5.00
New York	42.35	44.82	44.20	44.20	37.33	37.33	5.00
Orlando*	25.76	15.39	17.98	24.05	18.14	18.14	5.00
Philadelphia	36.30	36.03	36.10	36.10	29.62	29.62	5.00
Pittsburgh	29.39	25.70	26.62	26.62	20.59	20.59	5.00
Portland	37.07	32.41	33.58	33.58	27.22	27.22	5.00
Richmond	31.30	27.78	28.66	28.66	22.53	22.53	5.00
Sacramento	36.80	35.23	35.62	35.62	29.16	29.16	5.00
St. Louis*	29.17	17.30	20.27	24.05	18.14	18.14	5.00
San Diego	39.04	40.54	40.17	40.17	33.50	33.50	5.00
San Francisco	54.59	55.61	55.36	55.36	47.96	47.96	5.00
Seattle	38.16	37.29	37.51	37.51	30.96	30.96	5.00
Washington, DC	34.69	36.62	36.14	36.14	29.66	29.66	5.00
Rest of U.S.	28.69	22.78	24.26	24.05	18.14	18.14	5.00

* The location has been combined with RUS.

Average Locality Rate

The average locality comparability rate using the basic GS payroll as of March 2003 with revised pay area definitions to weight the individual rates would be 25.54 percent in 2005 under the methodology used for this report. The average rate authorized in 2003 was 12.12 percent.

Overall Remaining Pay Disparities

The pay disparities contained in this report average 31.71 percent using the basic GS payroll and pay area definitions as of March 2003 to weight the local pay disparities (31.82 percent using area definitions proposed for 2005). However, this calculation excludes existing locality payments. When the existing locality payments (i.e., those paid in 2003) are included in the comparison, the overall remaining pay disparity as of March 2003 was $(131.71/112.12-1) \times 100$, or about 17.5 percent. Table 4, below, shows the overall remaining pay disparity in each of the 29 locality pay areas established by the Pay Agent.

Table 9.
Remaining Pay Disparities in 2003

Locality Pay Area	Remaining Disparity	Locality Pay Area	Remaining Disparity
Atlanta	21.02%	Miami	17.22%
Boston	21.50%	Milwaukee	14.86%
Chicago	19.12%	Minneapolis	18.45%
Cincinnati	12.22%	New York	23.43%
Cleveland	16.89%	Philadelphia	19.99%
Columbus	11.32%	Pittsburgh	14.57%
Dallas	18.88%	Portland	18.24%
Dayton	12.30%	Richmond	16.17%
Denver	19.58%	Sacramento	19.71%
Detroit	17.10%	San Diego	22.88%
Hartford	23.77%	San Francisco	28.31%
Houston	18.35%	Seattle	21.57%
Huntsville	14.93%	Washington, DC	20.76%
Indianapolis	14.42%	Rest of U.S.	13.36%
Los Angeles	20.65%	Average	17.48%

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 rates and geographic adjustments for law enforcement officers (LEOs). This amount is estimated using OPM records of all Federal employees with duty stations within the continental United States (CONUS) as of March 2003 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 8. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in CONUS in 2005 will not differ from the number and distribution in March 2003. The estimate includes about \$73 million attributable to adding locations to locality pay areas but 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 and LEO geographic adjustments are determined for each employee. (These rates are adjusted to include an assumed 1.5 percent across-the-board increase in 2004 and the 2.5 percent across-the-board increase that would go into effect in 2005 under current law.) Both annual rates are converted to expected annual earnings by multiplying each by an appropriate work schedule factor.¹⁶ The “gross locality payment” is computed for each employee by multiplying expected annual earnings from the scheduled annual rate by the 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 and LEO geographic adjustments.

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 and LEO geographic adjustments exceeds the expected annual earnings from the scheduled annual rate. This second amount is the “cost” of any special rate or LEO geographic adjustment. If the gross locality payment is less than or equal to the cost of any special rate or LEO geographic adjustment, the net locality payment is set to zero. In this case, the locality payment is completely offset. If the gross locality payment is greater than the cost of any special rate or LEO adjustment, the net locality payment is equal to the gross locality payment minus the cost of any special rate or LEO geographic adjustment. 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 and LEO geographic adjustments (i.e., the cost of any special rate or LEO geographic adjustment 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.

¹⁶ 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.

Estimated Cost of Locality Payments in 2005

Table 10, below, compares the cost of 2004 locality rates to those that would be authorized in 2005 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 8. For the purpose of this cost estimate, we have assumed that there will be a 1.5 percent across-the-board increase in January 2004 and that the locality rates contained in the President's Alternative Plan submitted on August 27, 2003 will be in effect in 2004. If Congress provides a 4.1 percent overall increase in 2004 and if that amount is allocated as recommended by the Federal Salary Council in Attachment 3 of Appendix I of this report, the estimated net cost of new locality payments in 2005 would be \$595 million less than shown in the table. The "2004 Baseline" cost would be the cost of locality pay in 2005 if the assumed 2004 locality rates were not increased, i.e., the percentage locality payments in 2005 on top of base pay increased by the 1.5 percent across-the-board adjustment in January 2004 and the 2.5 percent adjustment in January 2005.

The "100 Percent of Target in 2005" columns show what the total locality payments would be and the net increase in 2005. The "2005 Increase" column shows the 2005 total payment minus the 2004 baseline—i.e., the increase in locality pay in 2005 attributable to higher locality pay rates. Based on the assumptions outlined above, we estimate the total cost of the net pay increases attributable to the locality rates that otherwise would be required by current law to be about \$8.0 billion on an annual basis. This amount does not include the cost of benefits or the cost of the 2.5 percent increase in rates of basic pay that would take effect in January 2005 under current law.

This cost estimate excludes 1,223 records of white-collar workers, which were unusable because of errors. Many of these employees may receive locality pay. Including these records would add about \$7.5 million to the net cost of locality payments. The cost estimate covers only the General Schedule and employees in pay plans who 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 raises often are capped based on the increase in locality rates for white-collar workers; pay raises for employees of the Federal Aviation Administration and other agencies which have independent authority to set pay; and pay raises for employees covered by various demonstration projects.

Table 10.
Cost of Local Comparability Payments in 2005 (in millions of dollars)

Cost Component	2004 Baseline	100% of Target in 2005	
		Total Payments	2005 Increase
Gross locality payments	\$8,475	\$16,732	\$8,257
Special rates offsets	738	983	245
LEO geographic adjustments offsets*	151	151	0
Net locality payments	\$7,586	\$15,598	\$8,012

*LEO geographic adjustments are pay adjustments to which law enforcement officers are entitled in certain metropolitan areas.

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 their 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 organizations not represented on the Council. These organizations were asked to send comments for inclusion in this report. These comments appear in **Appendix VII**.

The Pay Agent would like to recognize the many contributions made by Mr. Bobby L. Harnage, Sr., and Mr. Peter A. Tchirkow of the American Federation of Government Employees during their terms as members of the Federal Salary Council.

FUTURE SURVEYS

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 was used to estimate salaries for jobs not randomly selected in the surveys. 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 new 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 new crosswalk and March 2002 GS employment data to weight the NCS data used in this report.

- (3) Excluding randomly selected jobs that would be classified above GS-15 in the 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 still under development and will not be introduced into the surveys until early in 2004. These are:

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

Progress: OPM has designed and tested a four-factor evaluation system for use in the surveys, and BLS has 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. Pay Agent and BLS staff plan to phase the new approach into BLS surveys beginning in early 2004. 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.

- (2) Assigning GS grades to randomly selected survey jobs with supervisory duties.

Progress: BLS has 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 Pay Agent and BLS staff plan to fully incorporate the new approach into BLS surveys with the next survey cycle beginning in 2004.

The last two improvements in NCS surveys will begin to affect data delivered in 2005. We encourage BLS and Pay Agent staff to expedite completion of these last two improvements in the NCS program.