



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

The Director

Tuesday, December 21, 2004

**MEMORANDUM FOR: THE PRESIDENT**

FROM: The President's Pay Agent

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 2006 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 2006. You do not need to make a decision on the 2006 rates at this time.

Our plans for locality pay area boundaries in 2006 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 National Compensation Survey program, and we have approved the Council's recommendations to merge three existing locality pay areas with the Rest of U.S. locality pay area and create three new locality pay areas in 2006. The Office of Personnel Management will publish a notice in the Federal Register in 2005 to explain the proposed changes and solicit public comments before these changes are implemented in January 2006.

Although we support the proposed changes in locality pay areas, 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:

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Secretary of Labor

Joshua B. Bolten  
Director, Office of  
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Kay Coles James  
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View the Full Report at [www.opm.gov/oca/payagent/2004/](http://www.opm.gov/oca/payagent/2004/)