



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

October 21, 2004

MEMORANDUM FOR: THE PRESIDENT'S PAY AGENT

FROM: Federal Salary Council 1900 E Street NW Washington, DC 20415-8200

Subject: Level of Comparability Payments for January 2006 and Other Matters
Pertaining to the Locality Pay Program

As authorized by the Federal Employees Pay Comparability Act of 1990 (FEPCA), we present our recommendations for the establishment or modification of pay localities, the coverage of salary surveys conducted by the Bureau of Labor Statistics (BLS) for use in the locality pay program, the process of comparing General Schedule (GS) pay to non-Federal pay, and the level of comparability payments for January 2006.

Bureau of Labor Statistics Surveys and Pay Gap Methodology

As we have done for the last several years, the Council reviewed comparisons of Federal and non-Federal pay calculated by using both BLS' old survey data collected under the Occupational Compensation Survey Program (OCS) in 1994-1996 and newer BLS survey data collected under the National Compensation Survey (NCS) program in 2002 and 2003. All BLS data were updated to March 2004 and compared to Federal pay data as of the same date. The change in non-Federal pay as measured by the nationwide Employment Cost Index was used to update the BLS data. All of the pay gaps we reviewed were calculated using the same general weighting and aggregation methods in use since 1994. As in 2002 and 2003, three of the five improvements designed for the National Compensation Survey program are included in the surveys we reviewed this year.

BLS is now introducing the grade leveling guides (with the four-factor grade leveling system) and new methods for grading supervisory jobs in the NCS program. Implementation of the new four-factor grading system in all survey establishments will require 5 years to complete because of BLS' sampling cycle. BLS conducts full-scale survey interviews only when it first adds an establishment to the survey sample, and it replaces only 1/5 of the survey sample each year. Surveys delivered in 2006 will contain some data which reflect all five of the survey improvements.

Since this is the third year that BLS has incorporated three of the NCS improvements, we can now compare NCS survey results (including modeled data) over 3 years. The NCS pay gaps continue to appear to be more stable now than before the improvements were made. Overall, the absolute value of change, the minimum and maximum changes, and the range of change are less extreme than before the improvements were implemented, as illustrated by the following table:

Changes in Pay Gaps from Year to Year with NCS Data				
	1999 to 2000	2000 to 2001	2002 to 2003	2003 to 2004
Average Absolute Value of Change	2.86	3.69	2.17	1.64
Minimum Change	-12.15	-6.68	-2.68	-3.95
Maximum Change	8.87	8.94	6.19	5.37
Range of Change	21.02	15.62	8.87	9.32

(Note: Values are not shown for 1997 to 1998 nor 1998 to 1999 because OPM did not calculate pay gaps with NCS data in 1998. Values are not shown for 2001 to 2002 because three of the five improvements were introduced in 2002, causing a sizable amount of change.)

The pay gap based on NCS data increased by more than 3 points since 2003 in three locality pay areas and by more than 2 points in nine locality pay areas. These results may be due to sampling error and/or changes in non-Federal pay. Large changes in BLS survey results and pay gaps can also be caused by the use of Federal employment weights, especially when BLS finds little data for a job with many Federal incumbents.

This is the second set of NCS data to reflect BLS' 20 percent (1/5) sample rotation. BLS replaced 1/5 of the establishment sample in some of the 32 locality pay areas for the surveys delivered this year. Increasing the establishment sample size may be needed if sizeable fluctuations in pay gaps are due to sample rotation.

In 2002, the Council agreed to begin phasing in the NCS survey results, and we recommended locality payments based on the average of the OCSP and NCS pay gaps for each area. In 2003, the Council supported a 75 percent NCS and 25 percent OCSP phase-in. The Council stated that continued use of NCS data in the locality pay program should be contingent on BLS proceeding with plans to implement the remaining improvements. We also requested that BLS and the Pay Agent explore ways to augment the NCS sample to improve the quality of the surveys and reduce our reliance on modeled data. BLS has continued its implementation schedule for the improvements but has not been able to augment any samples. In fact, the samples for surveys to be delivered in 2005 have been reduced because of a budget reduction at BLS.

Overall, the pay gaps based on NCS data are 1.71 points below those based on OCSP data this year. Last year, NCS results were 2.63 points below OCSP, and in 2002, NCS was 4.08 points below OCSP results, on average. While the overall averages are drawing closer, substantial differences still exist for individual areas that are masked by these averages. For example, the pay gap for Cincinnati is 10.46 points lower under NCS than under updated OCSP data this year. The pay gaps in 25 of the 32 locality pay areas are lower under NCS than under OCSP. Eleven of the 32 locality pay areas are lower by more than 5 points under NCS. We do not know whether

these differences are the result of changes in the local economy over the last decade (OCSP surveys were done in 1994-1996) or the result of anomalies in one survey or the other.

Because the NCS improvements are not fully implemented and because there are substantial differences in survey results among areas, we continue to recommend a gradual phase in of NCS results while BLS continues to implement the improvements. This should be done by combining the pay gap for each area under NCS with the corresponding OCSP pay gap. For locality pay in 2006, we recommend weighting NCS results by 90 percent and OCSP results by 10 percent. The attachment shows the pay gaps as of March 2004 for both the OCSP surveys and the NCS surveys and the recommended weighted averages of the OCSP and NCS pay gaps.

Locality Rates for 2006

Based on calculations provided by Office of Personnel Management staff in taking a weighted average of the two sets of pay gaps, the overall gap between base General Schedule (GS) average salaries (excluding any add-ons such as special rates and existing locality payments) and non-Federal average salaries surveyed by BLS was 32.13 percent as of March 2004. The amount needed to reduce the pay disparity to 5 percent (the target gap) averages 25.84 percent.

We calculate the pay gaps excluding existing locality payments because locality pay is paid on top of the base General Schedule rates. The overall average pay gap in 2004, including the current average locality rate of 13.85 percent, is 16.06 percent. The calculation is $(132.13/113.85-1) \times 100$.

Under 5 U.S.C. 5304(a)(3)(I), after the 9-year phase-in period, the percentage of comparability payments due in January 2002 and any year thereafter may not be less than the full amount of the target gap. Therefore, we recommend overall average locality rates of 25.84 percent for 2006. We cannot calculate the percentage increase over the average of the rates authorized for 2005 at this time because the 2005 rates have not yet been set. However, we point out that these rates are only 0.3 points above the 25.54 percent average rate we recommended for 2005. The proposed comparability payments for 2006 for each recommended pay area are also shown in the attachment.

These locality rates would be in addition to the increase in General Schedule base rates under 5 U.S.C. 5303(a). This provision calls for increases in basic pay equal to one-half of one percentage point less than the percentage by which the Employment Cost Index (ECI), wages and salaries, private industry workers, increased between September 2003 and September 2004. The ECI for September 2004 will not be published until October 29, so the amount is not known at this time.

Locations with Pay Gaps Below the Rest of U.S. (RUS) Pay Area

The Council previously had recommended that, under the OCSP program, locations with little data available in BLS surveys and pay gaps 2/10 of a percentage point or more below the RUS pay area or below the RUS pay area for three surveys be dropped from the BLS surveys, with the resources redirected to survey new locations. Under OCSP, the pay gaps in Huntsville, Indianapolis, Kansas City, and Orlando are below that for the RUS locality pay area again this year. Under NCS, pay gaps for Kansas City, Orlando, and St. Louis are below that for RUS this

year, while the NCS pay gaps for Columbus and Dayton, which were below RUS last year, have risen above that for RUS. With the weighted averages of NCS and OCSP, Kansas City, Orlando, and St. Louis are still below RUS.

Our recommendation to drop locations with pay gaps more than 2/10 of a percentage point below the RUS pay area was intended to reallocate survey resources to survey new cities where the pay gaps might be above the RUS pay gap. We have actually surveyed and dropped (or not made a separate pay area) nine areas since locality pay began in 1994 (Albuquerque, Memphis, New Orleans, Norfolk, Phoenix, Oklahoma City, Salt Lake City, San Antonio, and Tampa).

While the NCS methodology was under development, the Council concluded that it would not be prudent to drop any current locality pay areas. Last year, the second year that we had used NCS data, we recommended that Kansas City, Orlando, and St. Louis be merged with the Rest of U.S. locality pay area and the survey resources used elsewhere. While the Pay Agent tentatively agreed with this recommendation, it has since reconsidered and has asked the Council to review pay data from these locations again this year.

Pay Gaps under NCS in Three Areas Compared to RUS						
	2002	Compared to RUS	2003	Compared to RUS	2004	Compared to RUS
Kansas City	15.63%	-6.82%	20.86%	-1.92	20.83	-1.56
Orlando	16.62	-5.83%	15.39	-7.39	17.10	-5.29
St. Louis	19.85	-2.60%	17.30	-5.48	19.50	-2.89
Rest of U.S.	22.45		22.78		22.39	

The pay gaps in these three locations have all been below RUS since the improvements were introduced in NCS in 2002. Of the three, only St. Louis is above RUS based on OCSP data, which were collected in 1996. Kansas City has been below RUS based on OCSP data since 1996, and Orlando was below RUS using OCSP data in 4 of the last 8 years and never above RUS by more than 0.31 points. In response to its budget cut, and based on our recommendation in 2003, BLS cut the survey establishment sample size in Kansas City from 515 to 235, the Orlando sample from 316 to 203, and the St. Louis sample from 497 to 295. (BLS intends to keep small scale-surveys in these three areas for its nationwide publications and for possible use in our RUS data.)

Based on this review, the Council concludes that we must respond to the Pay Agent's request based on the data, which do not support continuing these three locality pay areas. We could find no reason to back away from our 2003 recommendation and believe we do not have much choice

but to recommend that these three areas be merged with RUS in 2006. Even though there are about 35,000 GS employees in these three areas, we regretfully conclude that the areas should be discontinued as separate locality pay areas in 2006. A delay in doing so would interfere with BLS' plans to survey six new areas.

(Note: BLS included Kansas City, Orlando, and St. Louis data in the RUS data this year. The RUS data likely are slightly lower as a result of this inclusion, and there is no need to merge the results for these three areas with RUS, since they are already included in the RUS data.)

Surveys in New Cities

Last year, we recommended that surveys be expanded in six metropolitan areas currently in RUS where limited BLS data indicated relatively high pay. While BLS has not yet expanded its sample in these areas, BLS has indicated that it plans to do so and has included them in its pay model this year. The pay gaps are shown in the table below.

NCS Pay Gaps in New Metropolitan Areas (Percent)		
Location	NCS Pay Gap	Compared to RUS
Austin, TX	21.21	-1.18
Buffalo, NY	27.33	4.94
Louisville, KY	21.86	-0.53
Memphis, TN	23.22	0.83
Phoenix, AZ	25.86	3.47
Raleigh, NC	30.74	8.35

While these are small-scale surveys and the proportion of modeled data tends to be above that found in existing locality pay areas, the Council recommends that three of these six areas be made locality pay areas in 2006. The pay gaps in Buffalo, Phoenix, and Raleigh are 3.47 to 8.35 points above that for RUS. The pay gaps for Austin and Louisville, on the other hand, are below RUS based on the small surveys. The pay gap for Memphis is only 0.83 points above that for RUS, and, in our view, is too close to the RUS pay gap to be made a separate locality pay area based on a small-scale survey. We urge the Pay Agent to instruct BLS to continue its plans to expand the surveys in all six of these areas in the future. We also note that BLS cancelled its existing small-scale survey of Raleigh as part of its budget cut and that we will have to age this year's data for use in 2005. We have adjusted the RUS pay gap shown in the attachment to remove Buffalo, Phoenix, and Raleigh from the RUS pay gap in a cost neutral fashion.

OPM staff are evaluating adjacent areas in the vicinity of Buffalo, Phoenix, and Raleigh for possible inclusion in the pay area using our recommended criteria. Any adjacent area that passes the Council's criteria for areas of application should be included in the new locality pay area.

Proposed Rule to Implement New Locality Pay Area Definitions

On September 22, 2004, OPM published a proposed rule in the Federal Register on behalf of the Pay Agent. The proposed rule would implement the revisions in pay area boundaries the Council recommended last year. The notice provides for a 45-day comment period ending on November 8, 2004. OPM anticipates that the proposed changes in locality pay area boundaries will become effective in time for the January 2005 pay adjustments.

The Council recommended that GS employment be one criterion used to evaluate areas adjacent to locality pay areas for possible inclusion in the pay area. GS employment has grown in the York-Hanover-Gettysburg, PA CSA since we made our recommendation in 2003 and now exceeds the 1,500 GS employee criterion. The York area also passes the 7.5 percent commuting criterion. Since the comment period is still open on proposed changes in locality pay area boundaries in 2005, we recommend that the Pay Agent include the York, PA CSA (Adams and York Counties, PA) in the Washington-Baltimore locality pay area in 2005, rather than waiting until 2006, even though the CSA did not pass the criteria when reviewed last year.

Requests to be Included in a Locality Pay Area

OPM staff has had contacts from employees in 14 areas since 2003:

- Charlottesville, VA
- Crawford County, OH
- Cumberland County, ME
- El Paso County, CO
- Fort Dix, NJ
- Jefferson County, TX
- Kern County, CA
- Mendocino County, CA
- Richland County, OH
- San Juan County, WA
- San Luis Obispo, CA
- Western Colorado (along I-70—Aspen, Beaver Creek, Breckenridge, Glenwood, Vail, etc.)
- York County, ME
- Yuba and Sutter Counties, CA

One Federal Executive Association, representing Beale Air Force Base in Yuba County, CA, submitted a petition to the Council. The petition covers both Yuba and Sutter Counties, which comprise the Yuba City, CA MSA. There are 494 GS employees in Yuba County and 45 in Sutter County as of March 2004, for a total of 539 in the MSA. The MSA has a 24.54 percent employment interchange measure with the Sacramento area. The Department of Defense employs most GS employees in the MSA, with the Department of the Air Force having 417,

other Department of Defense with 34, the Forest Service with 44, and the Social Security Administration with 23. Most Federal employees in the MSA work at Beale Air Force Base (AFB), which is in Yuba County but crosses over into Nevada County. While Nevada County is being added to the Sacramento locality pay area in 2005, the information we reviewed indicated that no employees at the base are stationed in the Nevada County portion.

The petition states that Beale AFB has high turnover, partially attributable to employees originally from McClellan AFB obtained from the DOD Priority Placement Program relocating back to Sacramento as soon as they have the opportunity. The petition also indicates a 20 percent vacancy rate at the base that has not improved with increased usage of recruitment, relocation, and retention allowances. While the petition provides some information the Council requested on its general format for such petitions, not all the requested information was submitted. For example, we asked for documentation that the headquarters of agencies support the proposal. While OPM received an email from one DOD command supporting the proposal, we have no indication that DOD, Agriculture, or Social Security Administration headquarters support the proposal.

Under the area of application criteria we proposed last year, Yuba and Sutter Counties, or the Yuba City MSA, would be evaluated under the multi-county MSA criteria. Those criteria require that the MSA have 1,500 or more GS employees and an employment interchange measure of at least 7.5 percent. The Yuba City MSA fails the GS employment criterion, with 539 GS employees.

Since none of the 14 locations listed above pass the applicable criteria for inclusion in a pay area recommended just last year by the Council, we recommend that the Pay Agent not consider making any changes based on these contacts.

Locality Pay Areas for 2006

We recommend continuation of 29 of the 32 existing locality pay areas and the creation of 3 new locality pay areas in 2006, as follows:

Atlanta-Sandy Springs-Gainesville, GA-AL Combined Statistical Area

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 Buffalo-Niagara-Cattaraugus, NY Combined Statistical Area

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

Cincinnati-Middletown-Wilmington, OH-KY-IN Combined Statistical Area

Cleveland-Akron-Elyria, OH Combined Statistical Area

Columbus-Marion-Chillicothe, OH Combined Statistical Area

Dallas-Fort Worth, TX Combined Statistical Area

Dayton-Springfield-Greenville, OH Combined Statistical Area

Denver-Aurora-Boulder, CO Combined Statistical Area, plus the Ft. Collins
 Loveland, CO Metropolitan Statistical Area and Weld County, CO
 Detroit-Warren-Flint, MI Combined Statistical Area, plus Lenawee County, MI
 Hartford-West Hartford-Willimantic, CT Combined Statistical Area, plus the Springfield,
 MA Metropolitan Statistical Area and New London County, CT
 Houston-Baytown-Huntsville, TX Combined Statistical Area
 Huntsville-Decatur, AL Combined Statistical Area
 Indianapolis-Anderson-Columbus, IN Combined Statistical Area, plus Grant County, IN
 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
 Miami-Fort Lauderdale-Miami Beach, FL Metropolitan Statistical Area, plus
 Monroe County, FL
 Milwaukee-Racine-Waukesha, WI Combined Statistical Area
 Minneapolis-St. Paul-St. Cloud, MN-WI Combined Statistical Area
 New York-Newark-Bridgeport, NY-NJ-CT-PA Combined Statistical Area, plus Monroe
 County, PA, and Warren County, NJ
 Philadelphia-Camden-Vineland, PA-NJ-DE-MD Combined Statistical Area, plus Kent
 County, DE, Atlantic County, NJ, and Cape May County, NJ
 Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area
 Pittsburgh-New Castle, PA Combined Statistical Area
 Portland-Vancouver-Beaverton, OR-WA Metropolitan Statistical Area, plus Marion County,
 OR, and Polk County, OR
 Raleigh-Durham-Cary, NC Combined Statistical Area
 Richmond, VA Metropolitan Statistical Area
 Sacramento--Arden-Arcade--Truckee, CA-NV Combined Statistical Area, plus Carson City,
 NV
 San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area
 San Jose-San Francisco-Oakland, CA Combined Statistical Area, plus the Salinas, CA
 Metropolitan Statistical Area and San Joaquin County, CA
 Seattle-Tacoma-Olympia, WA Combined Statistical Area
 Washington-Baltimore-Northern Virginia, DC-MD-VA-WV Combined Statistical Area, plus
 the Hagerstown-Martinsburg, MD-WV Metropolitan Statistical Area, the York-Hanover-
 Gettysburg, PA Combined Statistical Area, Culpeper County, VA, and King George County,
 VA; and

Rest of U.S.--consisting of those portions of the continental United States not located within another locality pay area.

Allocating Locality Pay in 2005

At this point, we do not know what pay raise will be provided in 2005. Presently, the Congress has draft appropriations bills that would set the total increase at 3.5 percent. If that amount is approved, the Council recommends that 2.5 percent be allocated for the across-the-board pay raise (the same as would occur under existing law) and that 1.0 percent be used for locality pay raises, distributed so that locations with the largest pay gaps receive the largest increases. While we believe the details of the distribution should be left to the President to determine, we recommend that employees in each locality pay area receive at least some portion of the 1.0 percent of payroll we recommend for locality pay raises.

By direction of the Council:

Terri Lacy
Chairman

Attachments:

Attachment 1