

November 4, 2009  
**Federal Salary Council**  
1900 E Street NW.  
Washington, DC 20415-8200

**MEMORANDUM FOR: THE PRESIDENT'S PAY AGENT  
HONORABLE HILDA L. SOLIS  
HONORABLE PETER ORSZAG  
HONORABLE JOHN BERRY**

**SUBJECT: Level of Comparability Payments for January 2011 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 2011.

**Bureau of Labor Statistics (BLS) Surveys and Pay Gap Methodology**

We reviewed comparisons of GS and non-Federal pay calculated using BLS salary survey data collected under the National Compensation Survey (NCS) program in 2007 and 2008. Office of Personnel Management (OPM) staff updated BLS data to March 2009 and compared them to GS pay data as of the same date. The change in non-Federal pay as measured by the nationwide Employment Cost Index (ECI) was used to update the BLS data from the survey reference date to March 2009. All of the pay gaps (percentage difference between base GS rates and non-Federal pay for the same levels of work) we reviewed were calculated using the same general weighting and aggregation methods in use since 1994. The BLS survey data cover establishments of all employment sizes.

BLS data this year include all of the survey improvements designed for the NCS program, including about 64 percent of the data leveled using the new four-factor grade leveling system. BLS continues to phase in the grade leveling system, covering about 20 percent of the total sample each year, and the phase in will be completed by the data delivery in 2011. BLS also provided data both with and without incentive pay this year. Last year, incentive pay data proved to be problematic because of a pay anomaly in the Rest of U.S. (RUS) survey where a GS-12 administrative job in a single establishment receiving incentive payments in excess of \$1 million heavily skewed the overall survey results for the RUS locality pay area. The anomaly remains this year. However, as we explained last year, if "full" pay comparability (FEPCA permits a 5 percent remaining gap) with the non-Federal sector in 2002 had been achieved, as contemplated in the pay statute, the Council would be more concerned about the potential instability to the pay gap measures introduced by this incentive pay. However, since we are far from full comparability and never implement the rates indicated by the survey results, we do not

believe this data anomaly is a critical issue. We do believe that pay setting for Federal employees should be a transparent process and we recommend using the data as delivered by BLS, as the Council does not feel it is appropriate to make ad hoc decisions about which data are suitable and which are not.

### **Locality Rates for 2011**

Based on OPM staff's calculations, in taking a weighted average of the locality pay gaps as of March 2009, the overall gap between base GS average salaries (excluding any add-ons such as special rates and existing locality payments) and non-Federal average salaries surveyed by BLS was 50.94 percent. The amount needed to reduce the pay disparity to 5 percent (the target gap) averages 43.75 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 2009, including the current average locality rate of 19.40 percent, is 26.42 percent. The calculation is  $(150.94/119.40-1) \times 100$ .

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 43.75 percent for 2011. We cannot calculate the percentage increase over the average of the rates authorized for 2010 at this time because the 2010 rates have not yet been set. The proposed comparability payments for 2011 for each locality pay area are 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, wages and salaries, private industry workers, increased between September 2008 and September 2009. The ECI increased 1.4 percent which would result in a 0.9 percent across-the-board increase in 2011.

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

As in 2008, one impact of high incentive pay in the RUS survey is that some separate pay areas have pay gaps below that for the RUS locality pay area. The pay gaps in Buffalo, Cincinnati, Cleveland, Columbus, Dayton, Huntsville, Indianapolis, Milwaukee, Pittsburgh, Raleigh, and Richmond are below that for the RUS locality pay area. We recommend that these locality pay areas be retained for review again next year but have averaged the 2009 pay gaps for these 11 areas with that for the RUS locality pay area in a cost-neutral fashion for computing locality pay in 2011. This is the same process we have used in the past when a separate locality pay area dipped below RUS and would continue the practice of the RUS rate as the lowest locality pay rate.

## Surveys in New Cities

In 2003, we recommended that surveys be expanded in six metropolitan areas then in RUS where limited BLS data indicated relatively high pay. Buffalo, Phoenix, and Raleigh were made separate locality pay areas in 2006. BLS informed us last year that it had completed its survey redesign in the three remaining cities and there will be no additional sample in the future. The pay gaps for the remaining three cities and RUS are shown in the table below.

Location	Location pay gap	Compared to RUS
Austin, TX	25.53%	-15.72
Louisville, KY	29.69%	-14.56
Memphis, TN	25.85%	-15.40
RUS	41.25%	

The pay gaps in Austin and Memphis have been below that for the RUS area every year since we began reviewing them in 2004 with the exception of 2008 for Austin and 2004 for Memphis. Pay gaps for Louisville have been above those for RUS in three of the six years we reviewed data but by less than 1 percentage point in two of those years.

Last year, OPM staff asked BLS if it was feasible to reallocate the survey resources from surveys in Austin, Louisville, and Memphis to survey other locations. BLS responded that there are only limited possibilities for reallocating resources between areas since they would not want to affect the quality of the estimates for their on-going publications. We also asked BLS if it had enough data from its RUS surveys to model and provide data separately for six other areas currently in RUS with more than 2,500 GS employees, a large non-Federal workforce, and above average pay relatives as measured by data compiled by the Economic Research Institute (ERI). BLS replied that it had sufficient data to model and produce estimates for Charlotte and New Orleans but did not have sufficient data and did not anticipate being able to produce sufficient data for Albany, Fresno, Las Vegas, or Madison.

We conclude that Austin and Memphis should not be made separate locality pay areas and do not warrant additional review at this time. We recommend that the Pay Agent ask BLS to produce data files using the locality pay methodology for Charlotte, Louisville, and New Orleans for next year's data delivery. BLS has sufficient data to model these locations and they all have significant Federal employment, a relatively large non-Federal workforce, and above average pay as measured by ERI pay relatives or limited BLS data.

## **Requests to be Included in Existing Pay Areas or to Establish New Locality Pay Areas**

OPM staff had contacts from employees in 31 locations by email, telephone, or letter since 2008:

Albany, NY	Aspen, CO	Atlantic City, NJ
Austin, TX	Battle Creek, MI	Berkshire County, MA
Clallam and Jefferson Counties, WA	Claremont-Lebanon, NH-VT CSA (White River Junction)	Flagstaff, AZ
Franklin, PA	Fresno, CA	Gillette, WY
Grand Rapids, MI	Gulfport, MI	Harrisburg, PA
Humboldt County, CA	Kern County, CA	Lancaster, PA
Lansing, MI	Laredo, TX	Las Vegas, NV
Modesto, CA	Nantucket, MA	New Orleans, LA
Polk County, TX	Portland, ME	Savannah, GA
San Luis Obispo, CA	Santa Fe, NM	Susanville, CA
Vergennes, VT		

We also received detailed letters or petitions from employees or groups representing Albany, NY; Berkshire County, MA; Clallam and Jefferson Counties, WA; Portland, ME; Santa Fe, NM; and White River Junction, VT (Claremont CSA). Representatives of Albany and Berkshire provided oral testimony at our meeting of October 19, 2009.

None of these locations meets the current criteria to be included in an existing locality pay area and there are no plans or resources to expand the number of locations surveyed by BLS as separate locality pay areas.

We note that BLS has been studying how Occupational Employment Statistics (OES) data might be used in the locality pay program. These data represent a much larger sample of non-Federal employers and cover more metropolitan areas than available under the National Compensation Survey (NCS) program. However, the OES program does not collect level of work information which is required under FEPCA for the locality pay program. Since our meetings in 2008, BLS has developed a prototype model for estimating pay gaps by pooling NCS data with OES data. BLS briefed our Working Group on its model which is still under development and review. More work is needed on the model and we have requested a full briefing on this work within 45 days of the Administration filling vacant seats on the Council. We note that if the model proves accurate in estimating pay gaps and if such a model meets the requirement in statute that locality pay be based on a comparison of Federal and non-Federal pay for the same levels of work, it could potentially be applied to a number of metropolitan areas currently included in the RUS locality pay area. We will continue to work with BLS to investigate appropriate methods for using OES data for locality pay purposes.

Our Working Group also reviewed the current criteria for adding adjacent locations to an existing locality pay area. We previously recommended these criteria, you approved them, and we have modified them over the years. The current criteria are based on the number of

employees covered by the General Schedule pay system and the level of commuting to/from the adjacent area and the MSA/CSA comprising the locality pay area.

Current Council members believe that commuting is the most relevant criterion and measures the degree of economic linkage among areas. While the GS employment criterion certainly is an indicator of whether the area represents a big problem or a smaller problem in terms of Government-wide employment, it does not give us a measure of the economic linkage among areas. Our Working Group discussed dropping the GS criterion entirely and reviewed data on what impact such a recommendation would have on locality pay areas.

Based on data provided by OPM staff, if we drop the GS employment criterion, 15 metropolitan areas and 157 adjacent counties would be eligible for inclusion in one of the 31 separate metropolitan locality pay areas. We believe that any decision on whether to recommend such a change in the existing criteria for defining locality pay areas should be deferred until the Administration fills the vacant seats on the Council.

### **Locality Pay Areas for 2011**

We recommend the existing locality pay areas be maintained pending our recommendations on the use of OES data in the locality pay program and our recommendations on what criteria should be used to define locality pay areas, which will be submitted once the Council has a full complement of members. It is unfortunate that the evaluation of OES data for use in the locality pay program could not be completed in time for inclusion in the November 30, 2009 Pay Agent's report to the President on locality pay for 2011. If using OES data proves feasible, the Council recommends that the Pay Agent seek a legislative waiver to permit additional pay areas in 2011 that could not be included in the 2009 report to the President.

### **Locality Pay in Nonforeign Areas**

Since our meeting on October 19, 2009, Congress has passed legislation to gradually replace the nonforeign area cost-of-living allowance (COLA) paid in Alaska, Hawaii, Guam, Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands with locality pay. BLS currently conducts salary surveys in Honolulu, HI, for its NCS program, and had surveyed Anchorage, AK, in 2005. BLS does not conduct NCS surveys in any other COLA area, but does cover most of these areas in its Occupational Employment Statistics surveys. BLS produced NCS data for Anchorage and Honolulu using our procedures and we reviewed the results. Based on the current methodology, the pay gap between GS and non-Federal pay in Anchorage is 54.98 percent and the pay gap in Honolulu is 38.41 percent. We note that the Honolulu pay gap is below that for the RUS locality pay area this year due to the impact of incentive pay on the RUS pay gap. Since BLS has canceled its survey of Anchorage, AK, and reduced its sample of establishments in Honolulu, the Anchorage survey should be reinstated and the Honolulu sample increased. We urge the Pay Agent to insure that BLS has sufficient resources to make these survey enhancements.

We note that OPM received several letters from employees in Alaska requesting the Council insure that locality pay in Alaska be at least as high as locality pay in Washington, DC, and that a higher locality rate be authorized outside of the main cities in Alaska. Under the bill, the Council has no authority to take either action.

**Joint Base McGuire-Dix-Lakehurst**

On September 28, 2009, OPM published an interim rule in the *Federal Register* including all of Joint Base McGuire-Dix-Lakehurst in the New York locality pay area effective with the first day of the first applicable pay period beginning on or after October 1, 2009. This action was taken under our existing criteria for evaluating Federal facilities that cross locality pay area boundaries and the Council endorses the Pay Agent's action.

THE FEDERAL SALARY COUNCIL:

SIGNED \_\_\_\_\_  
J. David Cox  
American Federation of Government Employees

SIGNED \_\_\_\_\_  
Colleen M. Kelley  
National Treasury Employees Union

SIGNED \_\_\_\_\_  
Frank Ferris  
National Treasury Employees Union

SIGNED \_\_\_\_\_  
James Pasco  
Fraternal Order of Police

Attachment

## Locality Pay Rates for 2011

Locality Pay Area	March 2009 Base GS Payroll	2009 Pay Gap	Adjusted RUS Pay Gap	Locality Rate (target pay gap)
ATLANTA	\$1,513,534,276	48.08%	48.08%	41.03%
BOSTON	\$1,346,522,448	55.81%	55.81%	48.39%
BUFFALO	\$264,195,795	34.22%	40.46%	33.77%
CHICAGO	\$1,211,856,694	49.85%	49.85%	42.71%
CINCINNATI	\$436,138,828	37.48%	40.46%	33.77%
CLEVELAND	\$537,495,670	39.28%	40.46%	33.77%
COLUMBUS	\$436,327,578	37.38%	40.46%	33.77%
DALLAS	\$1,053,172,432	48.17%	48.17%	41.11%
DAYTON	\$356,947,748	30.29%	40.46%	33.77%
DENVER	\$1,109,868,785	45.54%	45.54%	38.61%
DETROIT	\$706,355,543	44.75%	44.75%	37.86%
HARTFORD	\$227,033,686	57.66%	57.66%	50.15%
HOUSTON	\$802,671,881	48.31%	48.31%	41.25%
HUNTSVILLE	\$571,518,083	40.86%	40.46%	33.77%
INDIANAPOLIS	\$415,265,828	34.58%	40.46%	33.77%
LOS ANGELES	\$1,870,467,489	53.80%	53.80%	46.48%
MIAMI	\$734,909,263	47.42%	47.42%	40.40%
MILWAUKEE	\$195,804,575	39.34%	40.46%	33.77%
MINNEAPOLIS	\$406,807,193	47.80%	47.80%	40.76%
NEW YORK	\$2,812,307,956	61.51%	61.51%	53.82%
PHILADELPHIA	\$1,463,467,221	46.49%	46.49%	39.51%
PHOENIX	\$476,219,618	43.10%	43.10%	36.29%
PITTSBURGH	\$373,020,698	39.14%	40.46%	33.77%
PORTLAND	\$571,782,065	48.12%	48.12%	41.07%
RALEIGH large est. only	\$627,799,035	31.08%	40.46%	33.77%
REST OF U.S.	\$25,147,802,014	41.25%	40.46%	33.77%
RICHMOND	\$407,445,621	34.31%	40.46%	33.77%
SACRAMENTO	\$355,968,294	52.15%	52.15%	44.90%
SAN DIEGO	\$905,954,309	53.71%	53.71%	46.39%
SAN FRANCISCO	\$1,397,915,035	69.36%	69.36%	61.30%
SEATTLE	\$1,213,365,785	50.31%	50.31%	43.15%
WASHINGTON DC	\$16,058,371,231	68.24%	68.24%	60.23%
Averages	\$66,008,312,677	50.94%	50.94%	43.75%

### Adjustments for Locations Below the Rest of U.S. Pay Gap

Location	Payroll	Pay Gap
BUFFALO	\$264,195,795	34.22%
CINCINNATI	\$436,138,828	37.48%
CLEVELAND	\$537,495,670	39.28%
COLUMBUS	\$436,327,578	37.38%
DAYTON	\$356,947,748	30.29%
HUNTSVILLE	\$571,518,083	40.86%
INDIANAPOLIS	\$415,265,828	34.58%
MILWAUKEE	\$195,804,575	39.34%
PITTSBURGH	\$373,020,698	39.14%
RALEIGH	\$627,799,035	31.08%
RICHMOND	\$407,445,621	34.31%
REST OF U.S.	\$25,147,802,014	41.25%
Adjusted RUS Gap	\$29,769,761,473	40.46%