REPORT ON
LOCALITY-BASED COMPARABILITY
PAYMENTS FOR THE
GENERAL SCHEDULE

ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
FOR LOCALITY PAY IN 2023

The President's Pay Agent

Washington, DC
December 15, 2022

MEMORANDUM FOR THE PRESIDENT

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

Section 5304 of title 5, United States Code, requires the President's Pay Agent to submit a report to the President each year showing the locality-based comparability payments we would recommend for General Schedule (GS) employees *if the adjustments were to be made as specified in the statute*. To fulfill this obligation, this report shows the adjustments that would be required in 2023 under section 5304, absent overriding legislation or exercise of your alternative plan authority to control locality pay. Section 5304 stipulated that by January 2002 locality rates would not be less than the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent, and the pay disparities in this report fulfill the statutory requirement to submit a report each year showing the locality-based comparability payments the Pay Agent would recommend for GS employees if the adjustments were made as specified in the statute. However, the statutory formula for locality adjustments has not been followed since January 1994 because of budgetary and methodological concerns.

Regarding budgetary concerns, this report includes an estimated cost of $19.2 billion for reducing disparities as intended by the statute, and that cost is a significant consideration. However, it is also important to emphasize that the underlying methodology for locality pay of relying on one singular locality rate covering a locality pay area has lacked credibility since the beginning of locality pay in 1994 to such a degree that the statutory formula for closing pay gaps has been overridden either by Congress or by successive Presidents each and every year since that first year.

The Federal Salary Council contributes substantial advice to the administration of the locality pay program, and we appreciate the Council's public deliberations and recommendations for the administration of locality pay for the Government's 1.5 million employees who are paid under the General Schedule. The Council's recommendations for locality pay in 2023 are included in Appendix I of this report. We acknowledge that the methods the Council used to calculate the locality pay rates that would go into effect in January 2023 absent another provision of law are appropriate. We also tentatively approve, pending appropriate rulemaking, certain changes to locality pay areas as detailed in this report, including the establishment of four new locality pay areas for locations that have met the pay disparity criterion approved for use in the locality pay program; use of the definitions of metropolitan statistical areas and combined statistical areas defined in OMB Bulletin 20-01 as the basis of locality pay area geographic boundaries; and certain changes to the criteria used for defining areas of application.

We agree with the Council that locality pay areas should continue to be defined by consistently applying standard criteria to all locations throughout the country. However, we also agree with the Council that stakeholder input regarding criteria used to define and establish locality pay areas can be helpful to the Council as it continues to consider what criteria are best to apply consistently for all locations throughout the country for purposes of establishing locality pay area boundaries.

We look forward to continuing to provide staff support for the Council's future deliberations on locality pay under your Administration. However, as has been noted in earlier Pay Agent reports and discussed in other venues, we believe there is a need to consider major legislative reforms of the white-collar Federal pay system, which continues to utilize a process requiring 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. The current pay comparison methodology used in the locality pay program ignores the fact that non-Federal pay in a local labor market may be very different between different occupational groups. As currently applied, locality payments in a local labor market may leave some mission-critical occupations significantly underpaid while overpaying others.

The President's Pay Agent:

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Secretary of Labor

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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 location-based pay adjustments. The policy contained in 5 U.S.C. 5301 for setting GS pay 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 pay 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. However, the schedule for reducing pay disparities by establishing locality pay adjustments under FEPCA has not been followed through successive Administrations since 1994.

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 U.S. 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, individual members of the Council, and employee organizations.

The President's Pay Agent consists of the Secretary of Labor and the respective Directors of the Office of Management and Budget (OMB) and Office of Personnel Management (OPM). This report fulfills the Pay Agent's responsibility under 5 U.S.C. 5304(d) and recommends locality pay adjustments that would occur for 2023 only if such adjustments were to be made as specified under 5 U.S.C. 5304 (i.e., to leave no more than a 5-percent remaining pay gap in each locality pay area). That formula for pay gap closure has not been followed since 1994.

ACROSS-THE-BOARD AND LOCALITY ADJUSTMENTS

Under FEPCA, GS salary adjustments, as of January 1994, consist of two components: (1) a general increase linked to the ECI and applicable to the General Schedule, Foreign Service pay schedules, and certain pay schedules established under title 38, United States Code, for Veterans Health Administration employees; and (2) a GS locality adjustment that applies only to specific areas of the U.S. 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 2023 increase is the 12-month period ending September 2021. During that period, the ECI wage and salary component, private industry workers, increased by 4.6 percent. Therefore, the January 2023 general increase would be 4.1 percent (4.6 percent minus 0.5 percentage points). (Note that on August 31, 2022, President Biden issued an alternative pay plan for January 2023 pay increases, whereby absent another provision of law the across-the-board base pay increase will be 4.1 percent and locality pay increases will average 0.5 percent, resulting in an overall average increase of 4.6 percent for civilian Federal employees.)

The locality component of the pay adjustment under FEPCA was to be phased in over a nine-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). 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 underlying law authorized the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent. However, as stated above, the schedule for reducing pay disparities by establishing locality pay adjustments under FEPCA has not been followed through successive Administrations since 1994.

LOCALITY PAY SURVEYS

FEPCA requires the use of non-Federal salary survey data collected by the U.S. Bureau of Labor Statistics (BLS) to set locality pay. BLS uses information from two of its programs to provide the data. Data from the National Compensation Survey (NCS) are used to estimate how salaries vary by level of work from the occupational average, and Occupational Employment and Wage Statistics (OEWS) data are used to estimate average salaries by occupation in each locality pay area.[1] The process used to combine the data from the two sources is referred to as the *NCS/OEWS model*. The March 2021 non-Federal salary estimates are based on the 2018 version of the Standard Occupational Classification (SOC) codes.

BLS surveys used for locality pay include collection of salary data from establishments of all employment sizes in private industry and State and local governments. The NCS provides comprehensive measures of employer costs for employee compensation, compensation trends, the incidence of employer-provided benefits among workers, and the provisions of selected employer-provided benefits plans. These statistics are available for selected metropolitan areas, regions, and the Nation. An important component of the NCS is an evaluation of jobs to determine a "work level" or grade for the NCS/OEWS model. The NCS collects data from a total of 11,400 establishments.

The OEWS survey measures occupational employment and wage rates of wage and salary workers in non-farm establishments in the 50 States and the District of Columbia. Guam, Puerto Rico, and the U.S. Virgin Islands are also surveyed. About 8 million in-scope establishments are stratified within their respective States by sub-state area, size, and industry. Sub-state areas include all officially defined metropolitan statistical areas and, for each State, one or more residual balance-of-State areas. The North American Industry Classification System is used to stratify establishments by industry.

For OEWS, BLS selects semiannual probability samples, referred to as panels, of approximately 180,000 to 185,000 business establishments, and pools those samples across three years (or six panels) for a total sample of 1.1 million business establishments, in order to have sufficient sample sizes to produce estimates for small estimation cells. Responses are obtained by mail, Internet or other electronic means, email, telephone, or personal visit. For most establishments, OEWS survey data are placed into 12 wage intervals. The Standard Occupational Classification (SOC) System is used to define occupations. Estimates of occupational employment and occupational wage rates are based on a rolling six-panel (or three-year) cycle.

The industry scope of the data provided to the Pay Agent includes private goods-producing industries (mining, construction, and manufacturing); private service-providing industries (trade; transportation and utilities; information; financial activities; professional and business services; education and health services; leisure and hospitality; and other services); and State and local

[1] In the spring of 2021, the Occupational Employment Statistics (OES) program began using the name Occupational Employment and Wage Statistics (OEWS) to better reflect the data available from the program. Therefore, the President's Pay Agent has begun using the program's new name in this report.

governments. The Federal Government, private households, and most of the agriculture, forestry, fishing, and hunting sectors were excluded.

Occupational Coverage

BLS surveys all jobs in establishments for the OEWS program and selects a sample of jobs within establishments for the NCS program. The jobs from the NCS and OEWS samples are weighted to represent all non-Federal occupations in the location and, based on the crosswalk published in Attachment 4 of the Federal Salary Council's April 2020 recommendations for locality pay in 2021, also represent virtually all GS employees. OPM provided the crosswalk between GS occupational series and the SOC system used by BLS to group non-Federal survey jobs. OPM also provided March 2020 GS employment counts for use in weighting survey job data to higher aggregates.

Matching Level of Work

BLS collects information on level of work in the NCS program. 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 take too long to gather all the information needed and would place an undue burden on survey participants.

To conduct work leveling under the NCS program, OPM developed a simplified four-factor leveling system with 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 GS Factor Evaluation System. The four factors are knowledge, job controls and complexity, contacts, and physical environment. The factors were validated against a wide variety of GS positions and proved to replicate grade levels expressed in written GS position classification standards. We find the work level comparison aspect of the current methodology to be a critically important area for further examination.

The job family guides cover the complete spectrum of white-collar work found in the Government. Appendix VI of the 2002 Pay Agent's report contains the job family leveling guides. BLS does not collect level of work in the OEWS program. Rather, the impact of grade level on salary is derived from the NCS/OEWS model.

Combining OEWS and NCS Data for Locality Pay

In 2008, the Federal Salary Council asked BLS to explore the use of additional sources of pay data so that the Council could better evaluate the need for establishing additional pay localities, especially in areas where the NCS program could not provide estimates of non-Federal pay. In response, a team of BLS research economists investigated the use of data from the OEWS program in conjunction with NCS data. After careful investigation, the BLS team recommended a regression method combining NCS and OEWS data as the best approach to producing the non-Federal pay estimates required to compute area pay gaps with OEWS data. The President's Fiscal Year (FY) 2011 budget proposed replacing the NCS with the NCS/OEWS model for measuring pay gaps, the Federal Salary Council recommended using the new method in 2012, and the President's Pay Agent adopted the new approach in its May 2013 report for locality pay in 2014.

Regression Method

This section provides a non-technical description of the NCS/OEWS model. Appendix II of this report contains a BLS paper that provides technical details.

To calculate estimates of pay gaps, the Pay Agent asks BLS to calculate annual wage estimates by area, occupation, and grade level. These estimates are then weighted by National Federal employment to arrive at wage estimates by broad occupation group and grade for each pay area.

There are five broad occupational groups collectively referred to as "PATCO" categories: Professional (P), Administrative (A), Technical (T), Clerical (C), and Officer (O).

OEWS data provide wage estimates by occupation for each locality pay area, but do not have information by grade level. The NCS has information on grade level, but a much smaller sample with which to calculate occupation-area estimates. To combine the information from the two samples, a regression model is used. The model assumes that the difference between a wage observed in the NCS for a given area, occupation, and grade level, and the corresponding area-occupation wage from the OEWS, can be explained by a few key variables, the most important of which is the grade level itself. The model then predicts the extent to which wages will be higher, on average, for higher grade levels. It is important to note that the model assumes the relationship between wages and levels is the same throughout the Nation. While this assumption is not likely to hold exactly, the NCS sample size is not large enough to allow the effect of grade level on salary to vary by area.

Once estimated, the model is used to predict the hourly wage rate for area-occupation-grade cells of interest to the Pay Agent. This predicted hourly wage rate is then multiplied by 2,080 hours (52 weeks x 40 hours per week) to arrive at an estimate of the annual earnings for that particular cell. The estimates from the model are then averaged, using Federal employment levels as weights, to form an estimate of annual earnings for PATCO job family and grade for each area.

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 base GS pay rates of workers paid under the General Schedule pay plan in a geographic area to the annual rates generally paid to non-Federal workers for the same levels of work in the same geographic area. Under the NCS/OEWS model, BLS models salaries for most non-Federal jobs deemed to match GS positions using the crosswalk published in Attachment 4 of the Federal Salary Council's April 2020 recommendations for locality pay in 2021.

Non-Federal pay rates are estimated on a sample basis by BLS area surveys. The pay 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 pay of all full-time, permanent, year-round GS workers in the relevant group.

The reference dates of OEWS data vary over the survey cycle for non-Federal salaries. To ensure that local pay disparities are measured as of one common date, it is necessary to "age" the OEWS survey data to a common reference date before comparing it to GS pay data of the same date. March 2021 is the common reference and comparison date used in this report for 2023 pay adjustments. For the calculation of the salary estimates delivered to the Pay Agent, BLS used appropriate ECI factors to adjust OEWS salary data from past survey reference periods to March 2021.

Each non-Federal rate is estimated by BLS using the OEWS mean salary for the occupation/location and factors for level of work derived from the NCS/OEWS model as shown in the following example:

Table 1
Example of NCS/OEWS Model Estimates—Procurement Clerks—Washington, DC

Data type	OEWS Average	GS-4 model estimate	GS-5 model estimate	GS-6 model estimate	GS-7 model estimate	GS-8 model estimate	GS-9 model estimate
Hourly Wage	$25.70	$21.40	$23.70	$26.50	$30.90	$33.80	$36.90
Ratio to OEWS Average	100%	83%	92%	103%	120%	132%	144%

Because 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, job categories, and grades are weighted by Federal GS employment in equivalent classifications. Weighting by Federal 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.

We use a three-stage weighted average in the pay disparity calculations. In the first stage, job rates from the NCS/OEWS model are averaged within PATCO category by grade level. The NCS/OEWS model covers virtually all GS jobs. The model produces occupational wage information for jobs found only in the OEWS sample for an area. For averaging within PATCO category, each job rate is weighted by the nationwide full-time, permanent, year-round employment[2] in GS positions that match the job. BLS combines the individual occupations within PATCO-grade cells and sends OPM average non-Federal salaries by PATCO-grade categories. The reason for National weighting in the first stage is explained below.

When the first stage averages are complete, each grade is represented by up to five PATCO category rates in lieu of its original job rates. Under the NCS/OEWS model, all PATCO-grade categories with Federal incumbents are represented, except where BLS had no data for the PATCO-grade cell in a location.

In the second stage, the PATCO category rates are averaged by grade level to one grade level rate for each grade represented. Thus, at grade GS-5, which has Federal jobs in all five PATCO categories, the five PATCO category rates are averaged to one GS-5 non-Federal pay rate. For averaging by grade, each PATCO category rate is weighted by the local full-time, permanent, year-round GS employment in the category at the grade.

In the third stage, the grade averages are weighted by the corresponding local, full-time, permanent, year-round GS grade level employment and averaged to a single overall non-Federal pay rate for the locality. This overall non-Federal average salary is the non-Federal rate to which the overall average GS rate is compared. Under the NCS/OEWS model, all 15 GS grades can be 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.

[2] Employment weights include employees in the United States and its territories and possessions.

Finally, the pay disparity is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate.[3] See Appendix III for more detail on pay gaps using the NCS/OEWS model.

As indicated above, at the first stage of averaging the non-Federal data, the weights represent National 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 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 survey job whose Federal counterpart has no local GS incumbents will "drop out" in stage one and have no effect on the overall average. For this reason, National weights are used in the first stage of averaging data. National weights are used only where retention of each survey observation is most important—at the job level or stage one. Local weights are used at all other stages.

[3] 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 GS employment by grade level. 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.

LOCALITY PAY AREAS

Federal Salary Council Recommendations Regarding Locality Pay Areas

The Council made recommendations on seven issues related to locality pay area boundaries for 2023:

1. The Council recommends establishing 10 locations as new Rest of US research areas and continuing to work with BLS to determine whether NCS/OEWS salary estimates can be provided for additional locations with fewer than 2,500 GS employees.[4]

2. The Council recommends establishing Fresno, CA; Reno, NV; Rochester, NY; and Spokane, WA, as new locality pay areas. Those four Rest of US research areas have met the pay disparity criterion for such establishment using data from the salary survey methodology that the Pay Agent has approved for use in the locality pay program.

3. The Council recommends applying the updates to the delineations of the metropolitan statistical areas and combined statistical areas reflected in Office of Management and Budget (OMB) Bulletin No. 20-01 as such updates were applied with adoption of OMB Bulletin No. 18-03, which contains the delineations of MSAs and CSAs currently used in the locality pay program.

4. The Council recommends the following criteria be used for evaluating core-based statistical areas (CBSAs) or counties that are adjacent to the basic locality pay area as potential areas of application; note that this recommendation would eliminate the GS employment criteria for areas of application:

    - For a CBSA (includes single-county CBSAs other than single-county micropolitan areas) adjacent to a basic locality pay area: an employment interchange rate of at least 7.5 percent with the basic locality pay area.

    - For a county that is not part of a CBSA or comprises a single-county micropolitan area and is adjacent to a basic locality pay area: an employment interchange rate of at least 20 percent with the basic locality pay area.

    - For a county that is adjacent to multiple locality pay areas and does not meet the 20 percent employment interchange threshold with respect to any single locality pay area: a sum of employment interchange rates of at least 20 percent with the adjacent basic locality pay areas. Such a county would be added to the locality pay area with which it has the greatest degree of employment interchange.

[4] Rest of U.S. research areas are metropolitan areas the Council monitors for possible establishment as new locality pay areas based on pay disparities calculated using the current salary survey methodology.

5. The Council recommends that Emporia city, VA—a U.S. county-equivalent surrounded geographically by Greensville County, VA—be added to the Richmond, VA, locality pay area because otherwise it would be completely surrounded by the Richmond, VA, locality pay if Greensville County is added to the Richmond locality pay area as the Council recommends.

6. The Council recommends that the following locations that would be bordered only by water and higher-paying locality pay areas under the Council's recommendations be included in higher-paying locality pay areas because in our view they are similar to locations completely bordered by land that is included in higher-paying locality pay areas:

   - Dukes and Nantucket Counties, MA, which would be included in the Boston locality pay area as areas of application;

   - Huron County, MI, which would be included in the Detroit locality pay area as an area of application; and

   - Pacific and San Juan Counties, WA, which would be included in the Seattle locality pay area as areas of application.

7. The Council recommends that, for purposes of defining locality pay areas, the same applicable criteria should apply for all locations throughout the country, and exceptions to use of such criteria should not be made on a case-by-case basis.

   The Pay Agent addresses these Council recommendations below.

1. *We agree with the Council that 10 locations should be established as new Rest of US research areas and that the Council should continue to work with BLS to determine whether NCS/OEWS salary estimates can be provided for additional locations with fewer than 2,500 GS employees.*

   As the Council explained, the following 10 locations were selected by the Council under the previous Administration to study as potential Rest of US research areas: Asheville, NC; Brownsville, TX; Dothan, AL; Kalamazoo, MI; Lincoln, NE; Parkersburg, WV; Reno, NV; Rochester, NY; Scranton, PA; and Shreveport, LA. The PATCO estimates for these locations have met BLS's validation criteria for use in the locality pay program.

   Only 10 locations were selected because BLS had informed the Council that current BLS resources would permit providing estimates for only 10 locations at that time. The 10 locations selected were the top 10 with respect to GS employment at the time of selection.

   As the Council noted, establishment of Rest of US research areas historically has not been on a case-by-case basis in response to stakeholder requests. When the Council began using the NCS/OES (now NCS/OEWS) model in 2012, selection of Rest of US research areas was limited to MSAs and CSAs having 2,500 or more GS employees. The Council has now begun to request that BLS deliver NCS/OEWS estimates for areas with fewer than 2,500 GS employees, and so far BLS resources have allowed for delivery of NCS/OEWS estimates for 10 such statistical areas. It should also be noted that BLS has said it is not feasible for the NCS/OEWS model to produce reliable salary estimates for micropolitan statistical areas or rural counties.

The Pay Agent looks forward to hearing of future progress on increasing the capacity to monitor pay disparities in more areas but also urges the Council to continue proceeding with caution on this work to ensure pay disparity data for any additional MSAs or CSAs are as accurate as possible in the context of current methodology.

2. *We tentatively agree with the Council's recommendation that Fresno, CA; Reno, NV; Rochester, NY; and Spokane, WA, should be established as new locality pay areas. Those four Rest of US research areas have met the pay disparity criterion for such establishment using data from the salary survey methodology that the Pay Agent has approved for use in the locality pay program.*

As detailed in the Council's recommendations for 2023, over the 3-year period 2019-2021, the pay disparities for the Fresno, CA; Reno, NV; Rochester, NY; and Spokane, WA research areas exceeded that for the Rest of US locality pay area by more than 10 percentage points on average. This Council recommendation was based on the same pay disparity criterion—pay disparities using the NCS/OEWS data and exceeding the Rest of US pay gap by 10 or more percentage points over a multi-year period—used to select the 20 locality pay areas established based on pay disparities since 2016.[5] We appreciate the Council applying a systematic approach for recommending new locality pay areas using the NCS/OEWS model. Thus, we tentatively agree that, after appropriate rulemaking, separate locality pay areas should be established for the four locations listed above. Accordingly, BLS should deliver data separately for those four locations and exclude them from the Rest of US computations for future data deliveries to OPM staff.

However, establishment of these new locality pay areas would require appropriate rulemaking. The timing of such rulemaking has not yet been determined, but the earliest new locality pay areas can go into effect at this point would be in January 2024.

3. *We agree with the Council that updates to the delineations of the metropolitan statistical areas and combined statistical areas reflected in Office of Management and Budget (OMB) Bulletin No. 20-01 should be applied in the locality pay program as such updates were*

[5] Use of the NCS/OEWS Model (formerly named the NCS/OES Model) began in 2012, and in the first few years of its use the Council recommended and the Pay Agent approved averaging pay disparities over a 4-year period to identify areas that should be considered for proposal as new locality pay areas in the regulatory process used to define locality pay areas. However, in its December 2016 report, the Pay Agent approved a December 2015 Council recommendation to switch to use of a 3-year period, and use of the 3-year period continues.

applied with adoption of OMB Bulletin No. 18-03, which contains the delineations of MSAs and CSAs currently used in the locality pay program.

As explained in the December 2021 Pay Agent report, OMB-defined metropolitan areas have been the basis for locality pay area boundaries since locality pay was implemented in 1994. However, OMB does not delineate MSAs and CSAs specifically for use in the locality pay program or any other non-statistical program and has cautioned other agencies to review MSA and CSA delineations carefully before using them for non-statistical purposes—such as administering the locality pay program.

In that same Pay Agent report, the Pay Agent asked the Federal Salary Council to take a fresh look at the issue of whether the delineations of MSAs and CSAs in OMB Bulletin No. 20-01 should be adopted for use in the locality pay program as in the past. After considering this issue carefully, the Council recommended use of the updated MSAs and CSAs as such updates were applied when the Pay Agent adopted the MSAs and CSAs delineated in OMB Bulletin No. 18-03 for use in the locality pay program.

We appreciate the Council noting that some observers over the years have suggested splitting an MSA or CSA between locality pay areas or studying pay in only a portion of an MSA or CSA in the Rest of US. As the Council noted, the Pay Agent has not previously supported the idea of splitting a MSA or CSA comprising a basic locality pay area between two separate locality pay areas and has indicated doing so would be a significant change requiring careful study. For example, in 80 FR 65607 (a final rule defining pay areas) the Pay Agent wrote the following: "Departing from the practice of defining basic locality pay areas based on OMB-defined metropolitan areas or splitting those metropolitan areas into separate locality pay areas would be a significant change, and the implications would have to be carefully considered. Individuals interested in recommending alternatives to defining basic locality pay areas based on entire OMB-defined metropolitan areas may provide testimony to the Federal Salary Council."

We agree that the Council should consider any future stakeholder input on this issue. However, as the Council notes, interested stakeholders should keep in mind that so far in its history, the locality pay program uses standard criteria applied consistently for all locations throughout the country.

4. *We tentatively agree with the Council that the following criteria should be used for evaluating core-based statistical areas (CBSAs) or counties that are adjacent to the basic locality pay area as potential areas of application and that the GS employment criteria currently used in evaluating such locations should be eliminated:*

   - *For a CBSA (includes single-county CBSAs other than single-county micropolitan areas) adjacent to a basic locality pay area: an employment interchange rate of at least 7.5 percent with the basic locality pay area.*

- *For a county that is not part of a CBSA or comprises a single-county micropolitan area and is adjacent to a basic locality pay area: an employment interchange rate of at least 20 percent with the basic locality pay area.*
- *For a county that is adjacent to multiple locality pay areas and does not meet the 20 percent employment interchange threshold with respect to any single locality pay area: a sum of employment interchange rates of at least 20 percent with the adjacent basic locality pay areas. Such a county would be added to the locality pay area with which it has the greatest degree of employment interchange.*

As it recommended during the Obama Administration, in its recommendations for locality pay in 2023, the Council once again recommended eliminating the GS employment criteria for evaluating adjacent areas. In support of that recommendation, the Council reminded the Pay Agent that the Council had previously examined the economic literature on local labor markets and concluded that GS employment is not a useful criterion for establishing local labor markets. The Council also resubmitted its recommendation made during the Obama Administration to raise the employment interchange criterion for adjacent single counties, from 7.5 percent to 20 percent, except for single-county metropolitan statistical areas, which under this recommendation would have the same employment interchange criterion as multi-county metropolitan areas (7.5 percent or greater). In addition, the Council also resubmitted the recommendation it made during the Obama Administration to treat multi-county micropolitan areas the same in the locality pay program as MSAs for purposes of defining areas of application.

If approved, the changes the Council recommended for evaluating adjacent areas as potential areas of application would add a number of multi-county metropolitan areas and single counties to existing locality pay areas. The locations that would be added, and their GS employment, are shown in Attachments 7 through 10 of the Council's recommendations for locality pay in 2023, which are available in Appendix I of this report.

While the Council made this recommendation several times during the Obama Administration and the Pay Agent did not approve it at that time, we now tentatively agree with this Council recommendation based on the recent increase in agency use of remote work arrangements to advance agency mission and service delivery. While the Pay Agent continues to believe that, with the exception of locations completely or almost completely surrounded by higher locality pay, an area of application should not be established unless there is substantial employment interchange between a basic locality pay area and the adjacent location under consideration, the Pay Agent believes the recent increased agency use of remote work arrangements may warrant elimination of the GS employment criteria used to establish areas of application. Based on that same consideration, the Pay Agent now believes that, for purposes of establishing areas of application, it may be warranted now to treat multi-county micropolitan areas the same in the locality pay program as MSAs.

However, any changes to the definitions of locality pay areas based on such criteria would require appropriate rulemaking. The timing of such rulemaking has not yet been determined, but the earliest such changes can go into effect at this point would be in January 2024.

5. *We agree with the Council that Emporia city, VA—a U.S. county equivalent surrounded geographically by Greensville County, VA—would be completely surrounded by Richmond, VA, locality pay if Greensville County is added to the Richmond locality pay area as the Council recommends. Thus, should Greensville County be added to the Richmond locality pay area as the Council recommends, during the regulatory process that change would require we would also propose including Emporia city, VA, in the Richmond locality pay area as an area of application.*

Regarding completely surrounded Rest of US locations, in the past the Pay Agent has tentatively agreed with the Council's recommendation to include such locations in the locality pay area having the highest level of commuting between the completely surrounded location and the basic locality pay area. Accordingly, in this case the Pay Agent would plan on proposing Emporia city as an area of application to the Richmond locality pay area during the regulatory process referred to above for other tentatively approved Council recommendations regarding the boundaries of locality pay areas.

6. *We tentatively agree with the Council that the following locations bordered only by water and higher-paying locality pay areas should be included in higher-paying locality pay areas because we share the Council's view that they are similar to locations completely bordered by land that is included in higher-paying locality pay areas:*

- *Dukes and Nantucket Counties, MA, which would be included in the Boston locality pay area as areas of application;*
- *Huron County, MI, which would be included in the Detroit locality pay area as an area of application; and*
- *Pacific and San Juan Counties, WA, which would be included in the Seattle locality pay area as areas of application.*

This Council recommendation makes sense to the Pay Agent, and this change can be proposed during the regulatory process that would be required for the other possible changes in locality pay area boundaries discussed in this report.

In making this recommendation, the Council noted its awareness that future analysis of additional Rest of US locations that are partially surrounded by higher locality pay may be warranted. The Council added that such locations should be evaluated carefully considering such factors as those listed in the Council's December 2015 report: "We still believe it is unclear at what point being bordered by higher-paying areas constitutes a problem. Hence, the Council continues to believe that the Pay Agent should evaluate additional partially surrounded locations on a case-by-case basis, considering such factors as the size of the area, distance to the pay area, transportation facilities among the areas, quit rates, retention rates, and similar factors."

During the comment period that will be included during the next regulatory process defining the boundaries of locality pay areas, members of the public may provide input focused on factors such as those listed in the Council's December 2015 report and also may propose other factors for the Pay Agent to consider. In addition, such input can be provided to the Federal Salary Council through OPM staff.

7. *We agree with the Council that, for purposes of defining locality pay areas, the same applicable criteria should apply for all locations throughout the country, and exceptions to use of such criteria should not be made on a case-by-case basis.*

While the Pay Agent is open to new ideas for standard criteria to use in the locality pay program, it is important to apply the same criteria for all locations throughout the country. This principle is reflected in Council recommendations and Pay Agent decisions going back to the beginnings of the locality pay program in the 1990s.

If additional partially surrounded locations are evaluated as potential areas of application, such evaluation should cover all similarly situated locations and include application of a common set of factors. Like the Council, the Pay Agent also anticipates the Council will continue to benefit from stakeholder input regarding criteria used to define and establish locality pay areas. Such input can be helpful to the Council as it considers what criteria are best to apply consistently for all locations throughout the country.

Locality Pay Areas for 2023

The changes in locality pay areas tentatively approved above will not be made until appropriate rulemaking to make those changes is complete. As noted above, the timing of such rulemaking has not yet been determined, but the earliest the changes in locality pay area boundaries discussed above can go into effect at this point would be in January 2024.

On behalf of the Pay Agent, OPM has also proposed two other changes in locality pay area boundaries this year—i.e., establishing Carroll County, IL, as an area of application to the Davenport-Moline, IA-IL locality pay area and Brooks County, TX, as an area of application to the Corpus Christi-Kingsville-Alice, TX, locality pay area. Until the regulatory process is complete to make those changes, locality pay areas will continue to be defined as in the list below. Note that component counties of the metropolitan statistical areas and combined statistical areas (MSAs and CSAs) comprising basic locality pay areas are listed in OMB Bulletin No. 18-03.

(1) Alaska—consisting of the State of Alaska;

(2) Albany-Schenectady, NY-MA—consisting of the Albany-Schenectady, NY CSA and also including Berkshire County, MA;

(3) Albuquerque-Santa Fe-Las Vegas, NM—consisting of the Albuquerque-Santa Fe-Las Vegas, NM CSA and also including McKinley County, NM;

(4) Atlanta—Athens-Clarke County—Sandy Springs, GA-AL—consisting of the Atlanta—Athens-Clarke County—Sandy Springs, GA CSA and also including Chambers County, AL;

(5) Austin-Round Rock, TX—consisting of the Austin-Round Rock, TX MSA;

(6) Birmingham-Hoover-Talladega, AL—consisting of the Birmingham-Hoover-Talladega, AL CSA and also including Calhoun County, AL;

(7) Boston-Worcester-Providence, MA-RI-NH-ME—consisting of the Boston-Worcester-Providence, MA-RI-NH-CT CSA, except for Windham County, CT, and also including Androscoggin County, ME, Cumberland County, ME, Sagadahoc County, ME, and York County, ME;

(8) Buffalo-Cheektowaga, NY—consisting of the Buffalo-Cheektowaga, NY CSA;

(9) Burlington-South Burlington, VT—consisting of the Burlington-South Burlington, VT MSA;

(10) Charlotte-Concord, NC-SC—consisting of the Charlotte-Concord, NC-SC CSA;

(11) Chicago-Naperville, IL-IN-WI—consisting of the Chicago-Naperville, IL-IN-WI CSA;

(12) Cincinnati-Wilmington-Maysville, OH-KY-IN—consisting of the Cincinnati-Wilmington-Maysville, OH-KY-IN CSA and also including Franklin County, IN;

(13) Cleveland-Akron-Canton, OH—consisting of the Cleveland-Akron-Canton, OH CSA and also including Harrison County, OH;

(14) Colorado Springs, CO—consisting of the Colorado Springs, CO MSA and also including Fremont County, CO, and Pueblo County, CO;

(15) Columbus-Marion-Zanesville, OH—consisting of the Columbus-Marion-Zanesville, OH CSA;

(16) Corpus Christi-Kingsville-Alice, TX—consisting of the Corpus Christi-Kingsville-Alice, TX CSA;

(17) Dallas-Fort Worth, TX-OK—consisting of the Dallas-Fort Worth, TX-OK CSA and also including Delta County, TX;

(18) Davenport-Moline, IA-IL—consisting of the Davenport-Moline, IA-IL CSA;

(19) Dayton-Springfield-Sidney, OH—consisting of the Dayton-Springfield-Sidney, OH CSA and also including Preble County, OH;

(20) Denver-Aurora, CO—consisting of the Denver-Aurora, CO CSA and also including Larimer County, CO;

(21) Des Moines-Ames-West Des Moines, IA—consisting of the Des Moines-Ames-West Des Moines, IA CSA;

(22) Detroit-Warren-Ann Arbor, MI—consisting of the Detroit-Warren-Ann Arbor, MI CSA;

(23) Harrisburg-Lebanon, PA—consisting of the Harrisburg-York-Lebanon, PA CSA, except for Adams County, PA, and York County, PA, and also including Lancaster County, PA;

(24) Hartford-West Hartford, CT-MA—consisting of the Hartford-West Hartford, CT CSA and also including Windham County, CT, Franklin County, MA, Hampden County, MA, and Hampshire County, MA;

(25) Hawaii—consisting of the State of Hawaii;

(26) Houston-The Woodlands, TX—consisting of the Houston-The Woodlands, TX CSA and also including San Jacinto County, TX;

(27) Huntsville-Decatur-Albertville, AL—consisting of the Huntsville-Decatur-Albertville, AL CSA;

(28) Indianapolis-Carmel-Muncie, IN—consisting of the Indianapolis-Carmel-Muncie, IN CSA and also including Grant County, IN;

(29) Kansas City-Overland Park-Kansas City, MO-KS—consisting of the Kansas City-Overland Park-Kansas City, MO-KS CSA and also including Jackson County, KS, Jefferson County, KS, Osage County, KS, Shawnee County, KS, and Wabaunsee County, KS;

(30) Laredo, TX—consisting of the Laredo, TX MSA;

(31) Las Vegas-Henderson, NV-AZ—consisting of the Las Vegas-Henderson, NV-AZ CSA;

(32) Los Angeles-Long Beach, CA—consisting of the Los Angeles-Long Beach, CA CSA and also including Imperial County, CA, Kern County, CA, San Luis Obispo County, CA, and Santa Barbara County, CA;

(33) Miami-Fort Lauderdale-Port St. Lucie, FL—consisting of the Miami-Fort Lauderdale-Port St. Lucie, FL CSA and also including Monroe County, FL;

(34) Milwaukee-Racine-Waukesha, WI—consisting of the Milwaukee-Racine-Waukesha, WI CSA;

(35) Minneapolis-St. Paul, MN-WI—consisting of the Minneapolis-St. Paul, MN-WI CSA;

(36) New York-Newark, NY-NJ-CT-PA—consisting of the New York-Newark, NY-NJ-CT-PA CSA and also including all of Joint Base McGuire-Dix-Lakehurst;

(37) Omaha-Council Bluffs-Fremont, NE-IA—consisting of the Omaha-Council Bluffs-Fremont, NE-IA CSA;

(38) Palm Bay-Melbourne-Titusville, FL—consisting of the Palm Bay-Melbourne-Titusville, FL MSA;

(39) Philadelphia-Reading-Camden, PA-NJ-DE-MD—consisting of the Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA, except for Joint Base McGuire-Dix-Lakehurst;

(40) Phoenix-Mesa-Scottsdale, AZ—consisting of the Phoenix-Mesa-Scottsdale, AZ MSA;

(41) Pittsburgh-New Castle-Weirton, PA-OH-WV—consisting of the Pittsburgh-New Castle-Weirton, PA-OH-WV CSA;

(42) Portland-Vancouver-Salem, OR-WA—consisting of the Portland-Vancouver-Salem, OR-WA CSA;

(43) Raleigh-Durham-Chapel Hill, NC—consisting of the Raleigh-Durham-Chapel Hill, NC CSA and also including Cumberland County, NC, Hoke County, NC, Robeson County, NC, Scotland County, NC, and Wayne County, NC;

(44) Richmond, VA—consisting of the Richmond, VA MSA and also including Cumberland County, VA, King and Queen County, VA, and Louisa County, VA;

(45) Sacramento-Roseville, CA-NV—consisting of the Sacramento-Roseville, CA CSA and also including Carson City, NV, and Douglas County, NV;

(46) San Antonio-New Braunfels-Pearsall, TX—consisting of the San Antonio-New Braunfels-Pearsall, TX CSA;

(47) San Diego-Carlsbad, CA—consisting of the San Diego-Carlsbad, CA MSA;

(48) San Jose-San Francisco-Oakland, CA—consisting of the San Jose-San Francisco-Oakland, CA CSA and also including Monterey County, CA;

(49) Seattle-Tacoma, WA—consisting of the Seattle-Tacoma, WA CSA and also including Whatcom County, WA;

(50) St. Louis-St. Charles-Farmington, MO-IL—consisting of the St. Louis-St. Charles-Farmington, MO-IL CSA;

(51) Tucson-Nogales, AZ—consisting of the Tucson-Nogales, AZ CSA and also including Cochise County, AZ;

(52) Virginia Beach-Norfolk, VA-NC—consisting of the Virginia Beach-Norfolk, VA-NC CSA;

(53) Washington-Baltimore-Arlington, DC-MD-VA-WV-PA—consisting of the Washington-Baltimore-Arlington, DC-MD-VA-WV-PA CSA and also including Kent County, MD, Adams County, PA, York County, PA, King George County, VA, and Morgan County, WV; and

(54) Rest of U.S.—consisting of those portions of the United States and its territories and possessions as listed in 5 CFR 591.205 not located within another locality pay area.

PAY DISPARITIES AND COMPARABILITY PAYMENTS

It is important to emphasize that the underlying methodology for locality pay of relying on one singular locality rate covering a locality pay area has lacked credibility since the beginning of locality pay in 1994 to such a degree that the statutory formula for closing pay gaps has been overridden either by Congress or by successive Presidents each and every year since that first year. However, the pay disparities listed below fulfill the statutory requirement to submit a report each year showing the locality-based comparability payments the Pay Agent would recommend for GS employees if the adjustments were made as specified in the statute.

Table 2 below lists the pay disparity based on the current NCS/OEWS model for each current locality pay area. Table 2 also shows the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2023 based on the pay disparities, as well as the pay disparities that would remain if the recommended payments were adopted.

The law requires comparability payments only in localities where the pay disparity exceeds 5 percent. The goal in 5 U.S.C 5304(a)(3)(I) was to reduce local pay disparities to no more than 5 percent over a nine-year period. The “Disparity to Close” shown in Table 2 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. The last column shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Alaska, the 65.25 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 57.38 percent (165.25 / 157.38 - 1 rounds to 5 percent).

Table 2
Local Pay Disparities and 2023 Comparability Payments

Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity	Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity
Alaska	65.25%	57.38%	5.00%	Indianapolis	32.90%	26.57%	5.00%
Albany	48.85%	41.76%	5.00%	Kansas City	39.55%	32.90%	5.00%
Albuquerque	38.52%	31.92%	5.00%	Laredo	50.72%	43.54%	5.00%
Atlanta	41.15%	34.43%	5.00%	Las Vegas	40.33%	33.65%	5.00%
Austin	43.54%	36.70%	5.00%	Los Angeles	80.71%	72.10%	5.00%
Birmingham	41.57%	34.83%	5.00%	Miami	40.82%	34.11%	5.00%
Boston	66.91%	58.96%	5.00%	Milwaukee	40.59%	33.90%	5.00%
Buffalo	44.90%	38.00%	5.00%	Minneapolis	60.20%	52.57%	5.00%
Burlington	45.16%	38.25%	5.00%	New York	76.41%	68.01%	5.00%
Charlotte	41.91%	35.15%	5.00%	Omaha	41.47%	34.73%	5.00%
Chicago	54.75%	47.38%	5.00%	Palm Bay	31.99%	25.70%	5.00%
Cincinnati	39.91%	33.25%	5.00%	Philadelphia	61.41%	53.72%	5.00%
Cleveland	41.07%	34.35%	5.00%	Phoenix	45.69%	38.75%	5.00%
Colorado Springs	45.97%	39.02%	5.00%	Pittsburgh	40.76%	34.06%	5.00%
Columbus	44.89%	37.99%	5.00%	Portland	50.85%	43.67%	5.00%
Corpus Christi[6]	29.39%	25.14%	3.40%	Raleigh	40.69%	33.99%	5.00%
Dallas	53.59%	46.28%	5.00%	Rest of U.S.	31.40%	25.14%	5.00%
Davenport	43.37%	36.54%	5.00%	Richmond	49.93%	42.79%	5.00%
Dayton	46.81%	39.82%	5.00%	Sacramento	65.35%	57.48%	5.00%
Denver	64.57%	56.73%	5.00%	St. Louis	47.83%	40.79%	5.00%
Des Moines	41.53%	34.79%	5.00%	San Antonio	42.40%	35.62%	5.00%
Detroit	50.38%	43.22%	5.00%	San Diego	73.30%	65.05%	5.00%

[6] As the Federal Salary Council noted in its recommendations for 2023, the pay disparity for the Corpus Christi locality pay area is now below the pay disparity for the Rest of US. When a pay disparity for a separate locality pay area falls below that for the Rest of US, the Rest of US locality rate is applicable for that locality pay area.

Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity	Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity
Harrisburg	45.50%	38.57%	5.00%	San Jose	94.37%	85.11%	5.00%
Hartford	59.18%	51.60%	5.00%	Seattle	75.24%	66.90%	5.00%
Hawaii	50.79%	43.61%	5.00%	Tucson	43.59%	36.75%	5.00%
Houston	56.70%	49.24%	5.00%	Virginia Beach	46.85%	39.86%	5.00%
Huntsville	42.69%	35.90%	5.00%	Washington, DC	68.24%	60.23%	5.00%

Average Locality Rate

The average locality comparability rate in 2023, using the basic GS payroll as of March 2021 to weight the individual rates, would be 44.97 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2021 was 23.59 percent using 2021 payroll weights.[7] The locality rates included in this report would represent a 17.30 percent average pay increase over 2021 locality rates.

Overall Remaining Pay Disparities

The full pay disparities contained in this report average 52.22 percent using the basic GS payroll to weight the local pay disparities. However, this calculation excludes existing locality payments. When the existing locality payments (i.e., those paid in 2021) are included in the comparison, the overall remaining pay disparity as of March 2021 was (152.22/123.59-1), or 23.17 percent. Table 3 below shows the overall remaining pay disparity in each of the 54 current locality pay areas as of March 2021.

Table 3
Remaining Pay Disparities in 2021

Locality	Remaining Disparity	Locality	Remaining Disparity
Alaska	27.44%	Kansas City	19.14%
Albany	26.27%	Laredo	26.78%
Albuquerque	18.72%	Las Vegas	19.25%
Atlanta	15.55%	Los Angeles	36.48%
Austin	21.47%	Miami	14.02%
Birmingham	21.77%	Milwaukee	16.23%
Boston	29.28%	Minneapolis	28.51%
Buffalo	20.55%	New York	31.67%
Burlington	24.19%	Omaha	21.61%
Charlotte	20.84%	Palm Bay	13.07%
Chicago	20.34%	Philadelphia	28.06%
Cincinnati	16.06%	Phoenix	21.29%
Cleveland	16.76%	Pittsburgh	17.89%
Colorado Springs	23.93%	Portland	21.91%
Columbus	20.72%	Raleigh	16.76%
Corpus Christi	11.01%	Rest of U.S.	13.32%
Dallas	22.89%	Richmond	24.99%
Davenport	22.50%	Sacramento	30.85%
Dayton	23.18%	St. Louis	25.65%
Denver	29.45%	San Antonio	21.95%
Des Moines	22.06%	San Diego	33.54%
Detroit	18.11%	San Jose	37.42%
Harrisburg	24.15%	Seattle	37.96%
Hartford	22.93%	Tucson	22.53%

[7] In its August 5, 2022, recommendations for locality pay in 2023, the Federal Salary Council cited 24.29 percent as the average of existing locality pay rates. That is the average of 2022 locality pay rates. For this report, which has a statutory deadline of November 30, 2021, the average locality pay percentage for 2021 is used.

Locality	Remaining Disparity	Locality	Remaining Disparity
Hawaii	26.12%	Virginia Beach	26.04%
Houston	17.54%	Washington, DC	28.94%
Huntsville	19.06%	**Average**	**23.17%**
Indianapolis	13.67%		

COST OF LOCALITY PAYMENTS

Estimating the Cost of Locality Payments

We estimate the cost of locality payments using OPM records of Federal employees in locality pay areas as of March 2021 who are covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 2 above. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in 2023 will not differ substantially from the number and distribution in March 2021. The estimate 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. It also accounts for cost offsets in the non-foreign areas where cost-of-living allowance payments are reduced as locality pay is phased in and for the impact of statutory pay caps on payable rates.

Cost estimates are derived as follows. First, we determine either the regular GS base rate or any applicable special rate as of 2021 for each employee. These rates were adjusted for the 2.2 percent across-the-board base GS increase in January 2022, plus a 4.1 percent across-the-board base GS increase that would take effect in January 2023 absent another provision of law. Annual rates are converted to expected annual earnings by multiplying each annual salary by an appropriate work schedule factor.[8] The "gross locality payment" is computed by multiplying expected annual earnings from the GS base rate by the proposed locality payment percentage for the employee's locality pay area and applying the applicable locality pay cap if necessary. The sum of these gross locality payments is the cost of locality pay before offset by special rates.

For employees receiving a special rate, the gross locality payment is compared to the amount by which the special rate exceeds the regular rate. This amount is the "cost" of any special rate. If the gross locality payment is less than or equal to the cost of any special rate, the net locality payment is zero. In this case, the locality payment is completely offset by an existing special rate. If the gross locality payment is greater than the cost of any special rate, the net locality payment is equal to the gross locality payment minus the special rate. In this case, the locality payment is partially offset. The sum of the net locality payments is the estimated cost of local comparability payments.

Estimated Cost of Locality Payments in 2023

Table 4 below compares the cost of estimated baseline 2021 locality pay rates to those that would be authorized in 2023 under 5 U.S.C. 5304(a)(3)(I), as identified above in Table 2. The "2022 Baseline" cost would be the cost of locality pay rates in 2023 if the locality percentages were not increased.

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[8] 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.

The “2023 Locality Pay” columns show what the total locality payments would be and the net increase in 2023. The “2023 Increase” column shows the 2023 total payment minus the 2022 baseline—i.e., the increase in locality payments in 2023 attributable to higher locality pay percentages. Based on the assumptions outlined above, we estimate the total cost attributable to the locality rates shown in Table 2 over rates currently in effect to be about $19.207 billion on an annual basis. This amount does not include the cost of benefits affected by locality pay raises.

This cost estimate excludes 3,674 records (out of 1.5 million) of white-collar workers which were unusable because of errors. Many of these employees may receive locality payments. Including these records would add about $48 million to the net cost of locality payments. The cost estimate also excludes a locality pay cost of about $434 million net of cost-of-living allowance offsets for white-collar employees in Alaska, Hawaii, and the other non-foreign areas under the Non-Foreign Area Retirement Equity Assurance Act of 2009 that extended locality pay to employees in the non-foreign areas.

The cost estimate covers only GS employees and employees covered by pay plans that receive locality pay by action of the Pay Agent. However, the cost estimate excludes members of the Foreign Service because the U.S. Department of State no longer reports these employees to OPM. The estimate also 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 pay raises often are capped or otherwise affected by increases in locality rates for white-collar workers; pay raises for employees of the Federal Aviation Administration, and other agencies that have independent authority to set pay; and pay raises for employees covered by various demonstration projects. The cost estimate also excludes the cost of benefits affected by pay raises.

Table 4
Cost of Local Comparability Payments in 2023 (in billions of dollars)

Cost Component	2022 Baseline	2023 Locality Pay	
		Total Payments	2023 Increase
Gross locality payments	$25.250	$45.108	$19.858
Special rates offsets	$1.309	$1.960	$0.651
Net locality payments	$23.941	$43.148	$19.207

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 developed in the August 5, 2022, Council meeting appear in Appendix I of this report. The members of the Council at that meeting were:

Dr. Stephen E. Condrey	Chairman
Ms. Janice R. Lachance	Expert
Dr. Jared J. Llorens	Expert
Mr. Randy Erwin	Employee Organization Representative National Federation of Federal Employees
Mr. Anthony M. Reardon	Employee Organization Representative National Treasury Employees Union
Ms. Jacqueline Simon	Employee Organization Representative American Federation of Government Employees

The Council's recommendations were provided to a selection of organizations not represented on the Council. Those organizations were asked to send comments for inclusion in this report. Comments received appear in Appendix IV of this report.