

THE FEDERAL SALARY COUNCIL

Minutes of October 22, 2001

MEETING NO. 01-2

The Federal Salary Council (FSC) held its second meeting of 2001 on Monday, October 22, 2001. Chairman William J. Sheffield called the meeting to order at 10:09 a.m. in Room 5H09 of the Office of Personnel Management (OPM).

Present

The following members attended: Governor William J. Sheffield, Chairman; Jim Davis (substituted for Richard Brown); Margaret A. Coil; Colleen M. Kelley; and Peter A. Tchirkow. Donald Winstead was the designated Federal official.

Twelve members of the public attended, including Federal employees representing western Massachusetts; Barnstable County, MA; San Francisco, CA; Winchester, VA; and the Greater Boston Federal Executive Board. Staff from the office of Senator John Kerry also attended.

The following is a summary of the Council's discussions:

Chairman Sheffield welcomed Jim Davis, who would substitute for Richard Brown and represent the National Federation of Federal Employees.

The Council approved the minutes of its July 23, 2001, meeting. Chairman Sheffield turned the floor over to Ms. Coil, who presented the Report of the Federal Salary Council Methodology Working Group on locality pay for 2003. The report is summarized below.

Report of the Federal Salary Council Working Group on Locality Pay for 2003

The Working Group met on October 12, 2001, and prepared the following recommendations:

1. The Working Group continues to believe that salary surveys conducted under the National Compensation Survey (NCS) program are not currently suitable for use in the locality pay program. There were no surveys conducted using the approved Occupational Compensation Survey Program (OCSP) methodology this year because the Bureau of Labor Statistics (BLS) discontinued that survey program in October 1996. Given the lack of current OCSP data, the most recent OCSP data for each location should be aged to March 2001, using the change in the nationwide Employment Cost Index since the reference date of the survey. The pay gaps should then be recalculated using March 2001 GS employment data. The Working Group hopes NCS program data will be usable by next year, when most of the planned improvements will have been implemented.
2. The overall average of locality rates in 2003 should be 27.59 percent. (Under 5 U.S.C. 5304(a)(3)(1), the percentage of comparability payments due in January 2003 would be not less than the full amount of the target gap—i.e., the amount

needed to reduce the pay disparity to 5 percent. According to OPM calculations, the target gap averages 27.59 percent as of March 2001. (Document FSC-01-2-2 contains detailed information on the pay gaps.)

3. Funds available for locality pay in 2002 should be allocated based on the size of the pay gap in each locality, instead of applying a uniform phase-in factor--across-the-board--to all localities. Under this method, areas with larger gaps than the average target gap (25.90 percent based on 2000 data for 2002 payments) would get larger increases than those resulting from application of the uniform phase-in factor, while areas with smaller gaps than the average would get smaller increases. (Attachment 3 of document FSC-01-2-2 shows the locality rates for 2002 based on the Working Group's recommended approach.)
4. Although Huntsville, Indianapolis, and Kansas City have pay gaps below the RUS locality pay area, the Working Group recommends that they not be dropped as locality pay areas at this time. The Council previously had recommended that locations with low publishability and pay gaps 2/10 of a percentage point or more below the Gap for RUS locality pay area, or below the gap for the RUS locality pay area for three surveys, be dropped from the BLS surveys, with the resources redirected to survey new locations. However, it is not feasible to reallocate survey resources; using a nationwide rate of change to adjust the RUS salary data may have overstated non-Federal pay levels in the RUS pay area; and part of the relative drop in the pay gaps in these areas probably is due to Federal workforce adjustments instead of changes in non-Federal pay. Instead of dropping the three pay areas, we recommend that their pay gaps be combined with that of the RUS locality pay area in a cost-neutral fashion for the 2003 locality payments.
5. For areas of application, the Working Group recommended that BLS survey data from areas of application be used in the pay gap calculations whenever possible. This involves combining data from Santa Barbara with data from Los Angeles and data from New London with data from Hartford. No BLS survey data are available for the other locations. General Schedule (GS) employment data used in the pay gap calculations also reflect the recommended geographic coverage.
6. New London, CT; Santa Barbara, CA; and Edwards Air Force Base, CA, no longer meet the area of application criteria of 2,000 GS employees for counties or 1,000 GS employees for installations. However, the Working Group recommends that they continue as areas of application to their respective locality pay areas at least until new census data are available for evaluation and new metropolitan areas are defined in 2003.
7. The Working Group does not recommend any modifications to pay area boundaries until it has the opportunity to review empirical data on population and commuting patterns from the 2000 census. We believe the law provides other flexibilities for agencies to deal with recruitment or retention problems in these areas without the necessity of providing exceptions to the pay area boundaries. These flexibilities

include the use of special salary rates up to 60 percent above the base General Schedule, recruitment and relocation bonuses of up to 25 percent of basic pay, and retention allowances of up to 25 percent of basic pay.

8. While it recommends no changes in pay areas at this time, the Working Group believes that 2003 might be the year to consider significant changes in the structure of the locality pay program. New census data and new metropolitan area definitions will be available. It might be suitable also to consider other aspects of the program at that time, including how many locality pay areas are feasible, what constitutes a meaningful difference in locality rates, the relative precision of the pay gaps and locality rates, and how to treat areas that cannot be surveyed separately.
9. If significant changes are made in the locality pay program, we believe it would be prudent to include the views of all stakeholders in the examination of all aspects of the program. We would urge the Pay Agent to provide a forum for such discussions at an appropriate date.
10. In July, the Council recommended that the Pay Agent not use commercial salary surveys to set Federal pay and that the Pay Agent use small NCS surveys of Austin, Louisville, and Raleigh to make those locations locality pay areas in 2002. However, because the Pay Agent has not yet made a decision on this matter or submitted its report to Congress, we have not yet recommended locality rates in Austin, Louisville, or Raleigh. If the Pay Agent approves any of these locations, the Working Group should express its views to the Pay Agent staff concerning what adjustments should be made in our recommendations for allocating locality pay increases in 2002 and the level of comparability payments to recommend for these areas in 2003. (Mr. Winstead stated that the report was still under review by the Administration and that the delay was probably attributable in part to the events of September 11. He said OPM anticipated that the report would be submitted to Congress in the near future.)
11. We believe the Council should continue to monitor NCS survey results and review implementation of the improvements. We hope the impact of the improvements will be reflected in the survey results next year. (FSC document 01-2-2 contains information concerning the status of NCS improvements).

Discussion of the Federal Salary Council Working Group Report

Chairman Sheffield thanked Ms. Coil for her presentation of the Working Group report and announced that the next item on the agenda would be discussion of the report.

Mr. Tchirkow said that the Working Group strongly believed that it would be prudent to wait for empirical data from the Census Bureau and the new metropolitan area definitions from the Office of Management and Budget (OMB) before making wholesale changes in the locality pay program. He said that 2003 might be the time for major changes in the locality pay program, but that an open forum for interested parties nationwide should precede any such changes.

Ms. Kelly said that it is unfortunate that the Council does not already have 2000 census data and new metropolitan area definitions. She said that, while the Council would prefer not to wait until 2003 to improve the locality pay program, waiting for the new data would be in the best interest of the program.

Mr. Davis said he understood the frustration that results from having to wait for new data. He added that a piecemeal approach would likely lead to more problems and not result in an overall improvement of the locality pay program. He advocated a comprehensive evaluation of the entire program to help all areas, not just one or two, and recommended basing the evaluation on new census data and metropolitan area definitions.

Mr. Tchirkow said he wanted to urge agencies to take advantage of existing flexibilities, such as the use of special salary rates up to 60 percent above the base General Schedule, recruitment and relocation bonuses of up to 25 percent of basic pay, and retention allowances of up to 25 percent of basic pay.

Chairman Sheffield said that, while he believed the Working Group had done well in its analysis and preparation of the Working Group Report, he was not happy with the current state of the locality pay program. He said that the Council recognizes the need for improvement, but such changes take time. He said he agreed that a piecemeal approach would likely lead to even more problems. He then opened up the floor for any new information or further testimony from interested parties.

Barnstable County Locality Pay Working Group

Mr. Frank Almeida of the National Oceanic and Atmospheric Administration, National Marine Fisheries, representing the Barnstable County Locality Pay Working Group, addressed the Council. (For a description of his group's proposal to add Barnstable County to the Boston locality pay area, see the minutes from the July 23, 2001, Council meeting.) Mr. Almeida said that, while he understood the process and current criteria for evaluating requests to modify existing pay localities, he doubted that new census data would help his cause. He said that Barnstable County had about 700 GS employees and would probably not have 2000 in the foreseeable future. He said he believed the 700 employees' situation to be "particularly egregious," and he asked the Council to take another vote.

Mr. Tchirkow informed the Barnstable County Working Group that its report and documentation were done very well. However, he added that the Working Group still firmly believes any wholesale changes to the locality pay program should be made based on new census data and new metropolitan area definitions from OMB. He said it would not be advisable to make changes based on anecdotal evidence. He said changes now might have to be reversed to the detriment of the program if analysis of new data warrants major structural changes. However, he reminded Mr. Almeida that the Council's recommendations were not the final answer and that the Pay Agent could reach different conclusions. He added that Barnstable County was not alone in its frustration and that a number of other areas throughout the country believe they should be added as areas of application to an adjoining locality pay area.

Ms. Coil said Mr. Almeida should not assume that the current criteria for areas of application would be retained. She said the Council would broadly evaluate the locality pay program once it has new census data and metropolitan area definitions. The current criteria might not be retained.

Mr. Davis agreed with Ms. Coil. He said having the new data would allow the Council to take a fresh look at the entire program and possibly make a number of beneficial changes. He reiterated his earlier point that comprehensive evaluation would be better for the program than piecemeal remedies, which might lead to more problems.

Chairman Sheffield assured the Barnstable County Locality Pay Working Group that it had a commitment from the Council and OPM to work diligently to improve the entire locality pay program. He then asked if other interested parties cared to comment on the Working Group Report.

Federal Executive Association of Western Massachusetts

Representing the Federal Executive Association (FEA) of Western Massachusetts, Mr. Jeffrey Anliker of the U.S. Department of Agriculture and Mr. Bruce Sylvia of the Department of Veterans Affairs (VA) addressed the Council. For a description of the FEA's proposal to add 21 towns in Hampden and Hampshire Counties to the Hartford, CT, locality pay area, see the minutes of the July 23, 2001, Council meeting.

Mr. Anliker thanked the Council for the opportunity to appear and respond to the Working Group report. He introduced Ms. Heather Higginbottom of Senator John Kerry's office and Ms. Kim Ainsworth of the Greater Boston Federal Executive Board. He expressed his disappointment with the Working Group findings and provided anecdotal evidence, as he had in the July 23, 2001, Council meeting, to support his proposal. He was particularly concerned about the high cost of living in the Connecticut River Valley area. He urged the Working Group to reconsider its evaluation of the FEA proposal. He then turned the floor over to Mr. Sylvia.

Mr. Sylvia also thanked the Council for the opportunity to appear and respond to the Working Group report. He assured the Council that he understood it was in a difficult position. However, he expressed his disappointment and provided anecdotal evidence, as he had in the July 23, 2001, Council meeting, to support his proposal. He urged the Working Group to reconsider its evaluation of the FEA proposal. He also responded to a question the Council had asked about the proposal in the July 23 meeting: How had the FEA chosen the 21 towns included in its proposal?

Mr. Sylvia said the FEA had chosen the 21 towns in its proposal after being encouraged by some Council members to modify its proposal to be more consistent with the Council's criteria for partial-county areas of application for New England; that due to the State Legislature's 1998 decision to abolish the county-based form of government, counties no longer served a viable purpose in Massachusetts; that the FEA had selected all communities with existing Federal agencies or offices; and that the FEA had included all areas likely to receive a solicitation

package when existing Federal leases expire. He said the FEA's revisions of its proposed area of application show increased commuting rates that significantly exceed the commuting criterion.

Mr. Sylvia addressed the GS employment criterion, saying he believes the 25 percent downsizing in the Federal Government over the last 8-10 years warrants a corresponding adjustment in the GS employment criterion. This would result in the western Massachusetts area meeting the GS employment criterion.

Mr. Sylvia then provided other examples of recruitment and retention difficulties. He asked the Working Group to reconsider its findings regarding the FEA's proposal.

Chairman Sheffield thanked Mr. Sylvia for his comments and asked Mr. Sylvia how many GS employees were in western Massachusetts. Mr. Sylvia said there were 1557, which means that western Massachusetts would satisfy the GS employment criterion if it were adjusted to correspond to the 25 percent downsizing he said the Federal Government had experienced over the last 8-10 years.

Chairman Sheffield then asked Mr. Sylvia to revisit the commuting data issue. Mr. Sylvia said that, when he had met with OPM staff early this year, he had discussed narrowing his proposal to capture the areas with the highest commuting into Hartford. Mr. Sylvia projected that a large subset of Hampden and Hampshire Counties would have a very high level of commuting into the Hartford area. Mr. Sylvia said that, when the FEA modified its proposal accordingly, the commuting rate increased from about 2 percent to about 8 percent.

Mr. Tchirkow asked whether the new commuting rate was for commuting into the core of the Hartford Metropolitan Statistical Area (MSA). Mr. Sylvia said that he thought that it was actually for commuting into the locality pay area rather than the core MSA.

Mr. Winsted said that the commuting criterion of 5 percent was for commuting into the core of the MSA. OPM staff had reviewed the FEA proposal, measured commuting from the 21 townships into the Hartford core, and found a commuting rate of approximately 4 percent.

Mr. Sylvia said that, even if accurate, the 4 percent rate was based on 1990 data. He said that commuting into the core had increased significantly since 1990 and that the commuting rate for the proposed area into the Hartford core surely would now exceed 5 percent.

Chairman Sheffield asked whether there were any other comments from interested parties. Kim Ainsworth, of the Greater Boston Federal Executive Board (FEB), addressed the Council.

Ms. Ainsworth said that, as a representative of the entire New England region, she could sympathize with the Council. She said that, like the Council, the Greater Boston FEB received many proposals. She said that she nevertheless wished to express her frustration for the record. Employers throughout the Federal Government face a human capital crisis, which is likely to be compounded in the years ahead by telecommuting. She said management flexibilities intended to remedy recruitment and retention problems simply aren't working and that agencies are not using those flexibilities because they lack the financial resources to do so.

Ms. Coil asked how agencies lacking the financial resources to use existing pay flexibilities could afford to pay higher locality rates. Ms. Ainsworth said the need was there, but that many requests for such flexibilities had been turned down.

Mr. Sylvia said that, while he appreciated Ms. Ainsworth's support, he disagreed that agencies weren't using existing flexibilities. He said available remedies were simply inadequate. He said the seriousness of the problem is illustrated by housing costs, which are as much as three times higher in western Massachusetts than in some other RUS areas.

Mr. Tchirkow said OPM staff had looked at federal quit rates in western Massachusetts and did not find them significantly above average. Ms. Coil said many private sector organizations would envy the low Federal quit rates. Mr. Anliker pointed out that OPM's quit rate data did not account for transfers between agencies.

Mr. Tchirkow asked Mr. Sylvia if, when he talked about the "pay gap" in western Massachusetts, he could really say there was a pay gap at all GS grade levels. Mr. Sylvia said a study had just been disseminated from FEA's headquarters that showed "a very large pay gap in terms of specialists." He said the study would probably provide data by location and might be helpful to the Council.

Mr. Davis said he would like to point out that many Federal managers do not use existing flexibilities to deal with recruitment and retention problems. He said he had been continually frustrated by agencies' failure to take full advantage of such flexibilities.

Mr. Sylvia said that the VA had used existing flexibilities successfully to deal with staffing problems, particularly for pharmacists. Mr. Davis pointed out that FEA's proposal said a staffing problem existed for pharmacist positions. Mr. Sylvia responded that only the transmittal letter had been updated since the proposal had first been presented to the Council and that the pharmacist situation had changed since the proposal was written.

Mr. Tchirkow told the FEA that it had done "a great job" on its proposal and presentation. He said the Council would like to decrease all pay gaps nationwide. He said part of the difficulty in allocating locality pay lies in the political process inherent in the system and that it is "tough to split a little pie that tends to get smaller."

Chairman Sheffield thanked the FEA for its presentation and asked if there were any public comments. Mary Delmege, Western Regional Director for the U.S. Commercial Service, Department of Commerce, briefly addressed the Council. She cited some of the problems discussed in document FSC-01-2-15 and said her main concern was the high turnover rate for International Trade Specialists (GS-11 40) at GS-9 through GS-13. She said that, prior to the Council meeting, she had spoken to OPM staff about this staffing problem and arranged to follow up with OPM.

Chairman Sheffield said all Council members could probably relate to everything that was said about staffing problems. He said staffing problems can develop very quickly, and it was

questionable whether the current locality pay system and its underlying rules and regulations could react quickly enough to such changes.

Chairman Sheffield said the Council needed to vote on the Working Group report. The Council voted to adopt the Working Group report recommendations, except for the portions concerning areas of application. Chairman Sheffield said the Council would vote on areas of application after the Council broke for a short caucus.

Chairman Sheffield asked whether there were any more public comments before the break. Ms. Chris Hinton-Lee of the Army Corps of Engineers, Winchester, VA, addressed the Council. She asked whether she could have a copy of the Working Group report. Chairman Sheffield told her OPM staff would provide a copy as soon as the Council fully approved the document. She said that employees in her area were surrounded by a locality pay area. She asked whether it was too late to make a proposal to the Council. Chairman Sheffield told her it would be too late for this year, but certainly not for next year. OPM staff informed Ms. Hinton-Lee that her area was on the list of areas requesting to be added as areas of application. Ms. Hinton-Lee thanked the Council.

The Council broke for a caucus at 11:55 a.m. It reconvened at 12:20 p.m. Chairman Sheffield said the Council had a productive caucus. He said the Council would vote shortly on its recommendations to the Pay Agent concerning areas of application.

Chairman Sheffield reported that census data would be available in 2002 and new metropolitan area definitions would be available in 2003. He said that when the Council had the new data, it would perform a comprehensive evaluation of the locality pay structure. He said major changes in the locality pay system probably would not occur until 2004.

Chairman Sheffield said the Council does not make rules but makes only recommendations, and that it was with some frustration that the Council would vote on the Working Group's recommendations today. Ms. Coil moved to adopt the Working Group recommendations concerning areas of application. Mr. Tchirkow seconded the motion, and the motion passed.

Chairman Sheffield again thanked the Barnstable County Locality Pay Working Group and the FEA of Western Massachusetts for their presentations.

Ms. Coil added that part of the challenge in adding an area of application is coming up with the verbiage to explain and justify such a change to the rest of the country. Mr. Sylvia said he did not agree that the Council owed an explanation to the rest of the country. Ms. Coil then reminded him that there were 48 other areas that had requested to be added as areas of application, and any not added would want to know how those that were added had managed to qualify.

Chairman Sheffield said the Council would now adjourn if there was no more public comment. The Council adjourned at 12:26 p.m.

Approved: SIGNED , Federal Salary Council Chairman