Federal Salary Council

1900 E Street, NW.
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May 2, 2019

MEMORANDUM FOR: THE PRESIDENT'S PAY AGENT
HONORABLE R. ALEXANDER ACOSTA
HONORABLE MICK MULVANEY
HONORABLE MARGARET M. WEICHERT

SUBJECT: Level of Comparability Payments for January 2020 and Other Matters Pertaining to the Locality Pay Program

<u>Executive Summary.</u> As authorized by the Federal Employees Pay Comparability Act of 1990 (FEPCA) and detailed below, this constitutes the Federal Salary Council's 2018 Report to the President's Pay Agent, setting forth recommendations to the Pay Agent for Calendar Year (CY) 2020, and other matters. Specifically, as detailed below, the Report proposes (1) the level of comparability payments for CY 2020, effective beginning in January of that year under FEPCA absent some other provision of law, (2) the establishment or modification of certain specified pay localities; (3) the coverage of salary surveys conducted by the Bureau of Labor Statistics (BLS) for use in the locality pay program; and (4) the process of comparing General Schedule (GS) pay and other matters to non-Federal employers. As a general matter, the recommendations contained herein represent a consensus of Council Members; however, in other instances, where the Council could not reach a consensus, the Report so states and thereafter provides the views of individual Council Members.

Note that this Report is later than we hoped, due in part to the recent lapse in appropriations, which resulted in a furlough affecting Office of Personnel Management (OPM) staff who provide technical and administrative support for this Council. In addition, when the President appointed this Council in 2018 there was a backlog of Council business, and our first priority last year was to address and make recommendations with respect to those time-sensitive matters. Those recommendations, primarily concerning locality pay rates and other matters for CY 2019, were included in our Report to the Pay Agent dated July 10, 2018, which is available at https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/federal-salary-council/recommedation17.pdf.

This Report addresses matters with respect to CY 2020 and other methodological issues that are of a policy nature. In that regard, the Council stated in a public meeting held on April 10, 2018, (and subsequently reiterated in its July 10, 2018, Report to the Pay Agent) that it intended to review and, if appropriate, make recommendations with respect to the current salary survey methodology and the criteria for establishing areas of application, in addition to other matters dealing with locality pay rates and areas for CY 2020. To that end, the Council subsequently convened five Working Group meetings and, with the able assistance of the staffs of OPM and BLS, undertook a thorough review of the salary survey methodology and the criteria for areas of application while also discussing normal Council business regarding locality pay in 2020. Thereafter, the Council held a public meeting on November 13, 2018, to discuss those matters, and those discussions are the basis for the recommendations presented below.

The Council's recommendations are summarized and detailed below. The Pay Agent should note that the Council was not in unanimous agreement with regard to Recommendations 5 and 7 below. However, Council Chairman Sanders stated in this Council's April 2018 public meeting that, in such cases, he would allow individual Members, or groups of Members, to express their respective views on any matter before the Council. Thus, while the Council would continue to seek a consensus in matters before it, as is its tradition, no Member or group of Members should feel constrained from providing their position on a matter if they choose to do so. That is the case in this Report, and where appropriate, it summarizes the disparate views of Council Members with respect to certain Council recommendations.

- **Recommendation 1**: That the Pay Agent adopt the estimated locality pay rates set forth in Attachment 1 as those that, absent some other provision of law, would go into effect under FEPCA in January 2020. Regarding this recommendation, however, the Pay Agent should note that the Council, in accordance with its statutory charter, has undertaken a thorough review and discussion of the salary survey methodology used in the locality pay program. Based on that review, as further explained below, certain Council Members recommend that the Pay Agent consider, establish, and fund alternatives to the current salary survey methodology and/or, alternatively, sponsor a more in-depth study of alternative methodologies to measure the disparity between Federal and non-Federal compensation and its resulting impact.

- **Recommendation 2**: That the Pay Agent defer on any decision to adopt the revised Office of Management and Budget (OMB) definitions of Metropolitan Statistical Areas and Combined Statistical Areas contained in OMB Bulletin No. 18-04 (issued September 14, 2018) for use in the locality pay program, pending further study by OPM staff and the Council.

- **Recommendation 3**: That the Pay Agent establish Des Moines, IA, as a new locality pay area.

- **Recommendation 4**: That the Pay Agent establish Imperial County, CA, as an area of application to the Los Angeles locality pay area.

- **Recommendation 5**: According to staff analysis, the "Rest of U.S." areas listed in Attachment 5 do not meet the established criteria for designation as a locality pay area or area of application, and the Council Working Group unanimously agreed that the Pay Agent should take no action with respect to these remaining "Rest of U.S." areas. However:

    - Notwithstanding this conclusion, in this Council's public meeting held on November 13, 2018, Council Member Cox, joined by Members Simon, Erwin, and Reardon, moved that the Council recommend establishing Pine County, MN, as an area of application to the Minneapolis locality pay area, as an exception to those standards. In responding to that motion, Chairman Sanders and Council Members Nelson and Bullock recommended that no exception be granted for Pine County. The matter remained in dispute and is referred to the Pay Agent for a final decision.

    - Chairman Sanders and Council Members Nelson and Bullock believe that in the case of Pine County (and any other proposed locality pay area or area of application that does not meet the established statistical tests for such designation), the Council should examine other "human capital indicators" in determining whether an exception should be recommended. Recommendation 6 below explains and examines this issue in greater detail.

- **Recommendation 6**: Notwithstanding Recommendation 5, the Council recommends that, when considering the designation of locality pay areas or areas of application, the Council—and upon the Council's recommendation, the Pay Agent—consider exceptions to the GS employment criteria used in determining areas of application if (1) additional human capital indicators (HCIs) submitted by the relevant organization(s) reveal extraordinary recruiting and/or retention difficulties that may not otherwise be evident from pay disparities as currently estimated or application of the criteria for areas of application, and (2) the organization(s) claiming such extraordinary difficulties can show that they persist despite the application of other applicable personnel flexibilities to address the situation.[1] Such HCIs should include:

    - The number of authorized GS positions at the beginning and end of the current and preceding two fiscal years;
    - Retention data for the same period, including the number of voluntary separations, including voluntary resignations and retirements, as well the number of retirement-eligible incumbents, etc.;
    - Recruitment data for the same period, including the number of vacant GS positions for the period in question and the length of time required to fill them, as well as the number of offers made compared to the number of offers accepted in any given vacancy;
    - The extent to the which relevant personnel flexibilities (seehttp://www.opm.gov/policy-data-oversight/pay-leave/pay-and-leave-flexibilities-for-recruitment-and-retention) have been applied, and the results of such application;
    - The extent to which direct hire and/or other expedited appointing authorities have been employed; and
    - Results of the Federal Employee Viewpoint Survey for the period in question showing the degree of employee satisfaction with pay and other pay-related matters (that is, Question 70).

- **Recommendation 7**: As noted above, in its April 10, 2018, public meeting, the Council agreed that it would review the current salary survey methodology employed by BLS and OPM to determine if it should recommend improvements to the Pay Agent, consistent with Executive Order 12764.[2] In that regard, the Council specifically noted that its review was not intended as a criticism of the current methodology, or of either BLS or OPM; rather, as Chairman Sanders noted, the current methodology was "the best that BLS's budget could buy" but that with additional resources, that methodology could always be improved. Accordingly, the Council devoted five Working Group meetings over the course of 7 months

[1] Pine County, MN, is an example of an area that meets the employment interchange criterion, does not meet the GS employment criterion, and for which HCIs could be considered.

[2] As explained in Attachment 2, the current salary survey methodology uses National Compensation Survey (NCS) data to assess the impact of level of work on occupational earnings, and applies factors derived from the NCS sample to occupational average salaries from Occupational Employment Statistics (OES) data to estimate occupational earnings by level of work in each locality pay area. This measurement process is called the *NCS/OES model*.

to consider alternatives to the current methodology. The Council Working Group identified alternatives and evaluated those alternatives in terms of market sensitivity, grade sensitivity, and occupational sensitivity, while also considering cost and implementation issues. (Based on those discussions, the Working Group developed the "Council Working Group Evaluation of Alternative Salary Survey Methodologies" table provided in Attachment 6.)

- Those alternatives are summarized in the table below, according to whether they could be implemented administratively, or whether they would require a change in law. And as detailed below, the Council was split in its recommendations with respect to those alternatives, with Chairman Sanders and Council Members Nelson and Bullock recommending that the Pay Agent consider alternatives such as those listed below and in so doing, commission BLS and OPM to conduct an in-depth study of the most cost-effective alternatives to better measure the disparity between Federal and non-Federal pay and other relevant elements of employee compensation. These three Council Members believe that such alternatives are worth considering, especially in light of the specific guidance of the Pay Agent to the Council in its November 2018 Report.[3]
- However, Council Members Cox, Simon, Erwin, and Reardon did not support that recommendation and advocated the continued use of the current NCS/OES methodology; their specific views are summarized below in the "Background and Rationale for Council Recommendations" section of this document and detailed in Attachment 7.
- The specific views of Chairman Sanders and Council Members Nelson and Bullock on Recommendation 7 are summarized below in the "Background and Rationale for Council Recommendations" section of this document and detailed in Attachment 8.

Alternative Survey Methodologies	
Options Not Requiring a Change in Law	Option 1: Maintain the Status Quo – Continue use of the current salary survey methodology (NCS/OES Model).
	Option 2: Modify the Existing Methodology – Modify the existing salary survey methodology to improve the validity of its statistical modeling.
	Option 3: Verify the Results of the Methodology – Validate the results of the modeling methodology by examining a set of human capital indicators (HCIs), such as attrition data, to quantitatively and qualitatively assess the effects of the statistically modeled salary estimates.
Options Requiring a Change in Law	Option 4: Assess the Total Compensation Gap – In addition to comparing Federal and non-Federal salary, develop a method for comparing the cost of major benefits such as health insurance and pensions in order to assess disparities in total Federal and non-Federal compensation.
	Option 5: Establish a Commission to Periodically Review Federal Civilian Compensation – Conduct a comprehensive, periodic review of total compensation for white-collar Federal civilians, patterned after DOD's most recent Quadrennial Review of Military Compensation.

[3] In its November 30, 2018, report, the Pay Agent wrote, "Under prior Administrations, the Pay Agent has expressed major methodological concerns about the underlying model used to estimate the pay gaps cited in this report. We share those concerns. The value of employee benefits is completely excluded from the pay comparisons, which take into account only wages and salaries. Also, the comparisons of Federal vs. non-Federal wages and salaries fail to reflect the reality of labor market shortages and excesses. They also require the calculation of a single average pay gap in each locality area, without regard to, for example, the differing labor markets for major occupational groups."

List of Attachments to These Council Recommendations

Below is a more detailed discussion and background and rationale for each of the recommendations listed above. Attachments referred to in this document are listed below.

BACKGROUND AND RATIONALE FOR COUNCIL RECOMMENDATIONS

Recommendation 1: The Council recommends that the Pay Agent adopt the estimated locality pay rates set forth in Attachment 1 as those that, absent some other provision of law, would go into effect under FEPCA in January 2020. Regarding this recommendation, however, the Pay Agent should note that the Council, in accordance with its statutory charter, has undertaken a thorough review and discussion of the salary survey methodology used in the locality pay program. Based on that review, as further explained below, certain Council Members recommend that the Pay Agent consider, establish, and fund alternatives to the current salary survey methodology and/or, alternatively, sponsor a more in-depth study of alternative methodologies to measure the disparity between Federal and non-Federal compensation and its resulting impact.

- <u>Background and Rationale.</u> As in previous years, this year the Federal Salary Council reviewed comparisons of General Schedule (GS) and non-Federal pay based on data from two BLS surveys, the National Compensation Survey (NCS) and the Occupational Employment Statistics (OES) program. As explained in previous Council documents, BLS uses NCS data to assess the impact of level of work on occupational earnings, and applies factors derived from the NCS sample to occupational average salaries from OES to estimate occupational earnings by level of work in each locality pay area. Taken together, this is referred to as the *NCS/OES model*. (A further explanation of the NCS/OES model and pay disparity calculations is provided in Attachment 2.) Based on that model, OPM staff calculated a weighted average of the estimated locality pay disparities as of March 2018.[4]

- According to those calculations, the estimated overall disparity between (1) base GS average salaries and (2) non-Federal average salaries as estimated by BLS in locality pay areas was 60.17 percent. In theory, therefore, the amount needed to reduce the pay disparity to 5 percent (the target disparity established by FEPCA) averages 52.54 percent. Thus, when existing locality pay rates (averaging 22.35 percent of the average GS salary) are taken into account, the overall remaining pay disparity is estimated at 30.91 percent. Accordingly, using estimated data from the salary survey and the pay comparison methodology described above, we recommend the Pay Agent adopt the estimated locality pay rates set forth in Attachment 1 as those that, absent some other provision of law, would go into effect under FEPCA in January 2020.

- Note that these locality pay rates would be in addition to the increase in GS base salary rates under 5 U.S.C. 5303(a). This provision calls for increases in basic pay equal to the percentage increase in the Employment Cost Index (ECI) for wages and salaries of private industry workers, between September 2017 and September 2018, less half a percentage point. The ECI increased 3.1 percent during that period, so the base GS increase in 2020 would be 2.6 percent.

Recommendation 2: The Council recommends that the Pay Agent defer on any decision to adopt the revised Office of Management and Budget (OMB) definitions of Metropolitan Statistical Areas (MSAs) and Combined Statistical Areas (CSAs) contained in OMB Bulletin

[4] Those calculations excluded such additions as GS special rates and existing locality payments.

No. 18-04 (issued September 14, 2018) for use in the locality pay program, pending further study by OPM staff and the Council.

- Background and Rationale. On September 14, 2018, OMB updated its definition and designation of MSAs and CSAs. The Council typically uses MSAs and CSAs, as delineated by OMB, as the basis of locality pay area boundaries. While OMB does not establish these definitions specifically for use in the Federal Government's locality pay program and cautions agencies to review them carefully before using them for non-statistical purposes, it has been the Council's practice to consider those definitions for use in the locality pay program, both in defining new and existing basic locality pay areas and in evaluating "Rest of U.S." locations as potential areas of application. (The terms *basic locality pay area* and *area of application* are defined in Attachment 3. Those terms also have been used in past Council documents, which have discussed associated issues extensively.)

- In terms of potential impact on the locality pay program, we understand from OMB staff that the September 2018 OMB update is considered a "mid-decade revision" that is more significant than previous updates over the past few years. Use of the updated MSAs and CSAs in the locality pay program could result in "Rest of U.S." locations moving to separate locality pay areas and locations in separate locality pay areas moving to the "Rest of U.S." locality pay area. In addition, if updated MSAs and CSAs are to be recommended for use in the locality pay program, the geographic specifications provided by OPM to BLS for producing the non-Federal pay estimates could also be significantly affected.

- Accordingly, the Council recommends that it work with OPM to conduct a careful analysis of the potential impact of the revised OMB definitions on locality pay areas before making a recommendation regarding this matter to the Pay Agent.

Recommendation 3: The Council recommends that the Pay Agent establish Des Moines, IA, as a new locality pay area.

- Background and Rationale. The Council is now monitoring pay disparities in 39 research areas not approved for establishment as separate locality pay areas. We studied pay disparities for these areas, compared to the "Rest of U.S." pay disparity, over a 3-year period (2016-2018), and the results are shown in Attachment 4.

- The pay disparity for the Des Moines research area exceeded that for the "Rest of U.S." locality pay area by more than 10 percentage points on average over the 3-year period studied, which is the standard established by the Council to trigger its recommendation to establish a research area as a new locality pay area.

Recommendation 4: The Council recommends that the Pay Agent establish Imperial County, CA, as an area of application to the Los Angeles locality pay area.

- Background and Rationale. In the Federal Salary Council meetings on April 10, 2018, and November 13, 2018, the Council heard testimony regarding Imperial County, CA, currently considered a "Rest of U.S." location that is adjacent to both the Los Angeles and San Diego basic locality pay areas that has approximately 1,840 GS employees receiving a "Rest of

U.S." locality pay adjustment. Imperial County is unusual in that it is adjacent to two current locality pay areas and also shares a long border with the country of Mexico.

- As mentioned previously, current criteria for areas of application are listed in Attachment 3. The applicable criteria for Imperial County are those applied for locations evaluated as single counties. To meet those criteria, Imperial County would need 400 or more GS employees and an employment interchange rate of 7.5 percent or more with the Los Angeles or San Diego basic locality pay areas. With 1,840 GS employees, Imperial County meets the GS employment criterion; however, it does not meet the requisite employment interchange rate for either the Los Angeles basic locality pay area (4.67 percent) or the San Diego basic locality pay area (3.03 percent).

- However, while both of those employment interchange rates are below 7.5 percent, the sum of the two employment interchange rates is 7.70 percent. We regard the situation with respect to Imperial County as comparable to a single-county location that would otherwise qualify as an area of application by virtue of being adjacent to only one basic locality pay area with an employment interchange rate of 7.5 percent or more.

- Based on an analysis by OPM staff, Imperial County is currently the only single-county location that meets both the applicable GS employment criterion and the target employment interchange rate (7.5 percent or more), if the adjacent basic locality pay areas are combined to provide a combined employment interchange rate.

- Accordingly, the Council recommends that the Pay Agent establish Imperial County as an area of application to the Los Angeles locality pay area. As indicated above, the county's employment interchange rate with the Los Angeles basic locality pay area is greater than that for the San Diego basic locality pay area. The employment interchange data indicate Imperial County has a greater degree of economic integration with the Los Angeles locality pay area than with the San Diego locality pay area.

Recommendation 5: According to staff analysis, the "Rest of U.S." areas listed in Attachment 5 do not meet the established criteria for designation as a locality pay area or area of application, and the Council Working Group unanimously agreed that the Pay Agent should take no action with respect to these remaining "Rest of U.S." areas. However:

- Notwithstanding this conclusion, in this Council's public meeting held on November 13, 2018, Council Member Cox, joined by Members Simon, Erwin, and Reardon, moved that the Council recommend establishing Pine County, MN, as an area of application to the Minneapolis locality pay area, as an exception to those standards. In responding to that motion, Chairman Sanders and Council Members Nelson and Bullock recommended that no exception be granted for Pine County. The matter remained in dispute and is referred to the Pay Agent for a final decision.

- Chairman Sanders and Council Members Nelson and Bullock believe that in the case of Pine County (and any other proposed locality pay area or area of application that does not meet the established statistical tests for such designation), the Council should examine other "human capital indicators" in determining whether an exception should be recommended. Recommendation 6 below explains and examines this issue in greater detail.

- Background and Rationale. In the Federal Salary Council meeting on November 13, 2018, the Council heard testimony regarding Pine County, MN, currently a "Rest of U.S." location that is adjacent to the Minneapolis basic locality pay area with approximately 203 GS employees receiving "Rest of U.S." locality pay.

- Pine County would need 400 or more GS employees and an employment interchange rate of 7.5 percent or more with the Minneapolis basic locality pay area. However, while it meets the requisite employment interchange standard (with an interchange rate of 34.35 percent), Pine County does not meet the applicable GS employment criterion.

- Notwithstanding this finding, Council Members Cox, Simon, Erwin, and Reardon recommended that the Pay Agent make an exception for Pine County based on its substantial employment interchange rate and the testimony regarding its recruitment and retention difficulties, as presented by Mr. Michael Weber in the November 13, 2018, Council meeting.

- However, Chairman Sanders and Council Members Nelson and Bullock opposed that recommendation without further supporting empirical evidence (see Recommendation 6 below); in so doing, they noted that an exception for Pine County would set a problematic precedent, in that a number of other locations—including some locations that had petitions similar to Pine County's pending before the Council—could meet one criterion or the other (for example, the employment interchange criterion or the applicable GS employment standard), but not both, as heretofore required by the Council.

- In such cases and others, those three Council members recommended that the Council should supplement its evaluation with an examination of other "human capital indicators," such as those discussed in Recommendation 6 below, before recommending an exception to existing standards for Pine County and/or other similarly situated locations.

Recommendation 6: Notwithstanding Recommendation 5, the Council recommends that, when considering the designation of locality pay areas or areas of application, the Council—and upon the Council's recommendation, the Pay Agent—consider exceptions to the GS employment criteria used in determining areas of application if (1) additional human capital indicators (HCIs) submitted by the relevant organization(s) reveal extraordinary recruiting and/or retention difficulties that may not otherwise be evident from pay disparities as currently estimated or application of the criteria for areas of application, and (2) the organization(s) claiming such extraordinary difficulties can show that they persist despite the application of other applicable personnel flexibilities to address the situation.[5]

- Background and Rationale. In its July 10, 2018, recommendations to the Pay Agent, the Council stated that it intended to review and discuss the criteria for establishing locality pay areas of application. In so doing it noted that the Pay Agent had not approved proposed changes to those criteria recommended by previous Council reports, but in its most recent report to the President, the Pay Agent had indicated a willingness to consider alternatives to the current criteria. Accordingly, the Council undertook a review of those criteria.

[5] Pine County, MN, is an example of an area that meets the employment interchange criterion, does not meet the GS employment criterion, and for which HCIs could be considered.

- Based on that review, the Council recommends that the Pay Agent continue to use the standard established for employment interchange rates as the primary criterion used for designating locations as locality pay areas of application. However, the Council stated that the ability of Federal agencies to recruit and retain talent in any given location may be relevant when making recommendations regarding locality pay area boundaries. As a consequence, it determined that when considering such matters, petitioning organizations in areas which do not meet the established criteria should also be required to submit additional empirical evidence—in the form of various HCIs—showing extraordinary and persistent recruiting and/or retention difficulties, before it would recommend such a designation. Such HCIs should include:

  - The number of authorized GS positions at the beginning and end of the current and preceding two fiscal years;
  - Retention data for the same period, including the number of voluntary separations, including voluntary resignations and retirements, as well the number of retirement-eligible incumbents, etc.;
  - Recruitment data for the same period, including the number of vacant GS positions for the period in question and the length of time required to fill them, as well as the number of offers made compared to the number of offers accepted in any given vacancy;
  - The extent to the which relevant personnel flexibilities (seehttp://www.opm.gov/policy-data-oversight/pay-leave/pay-and-leave-flexibilities-for-recruitment-and-retention) have been applied, and the results of such application;
  - The extent to which direct hire and/or other expedited appointing authorities have been employed; and
  - Results of the Federal Employee Viewpoint Survey for the period in question showing the degree of employee satisfaction with pay and other pay-related matters (that is, Question 70).

Recommendation 7: As noted above, in its April 10, 2018, public meeting, the Council agreed that it would review the current salary survey methodology employed by BLS and OPM to determine if it should recommend improvements to the Pay Agent, consistent with Executive Order 12764.[6] In that regard, the Council specifically noted that its review was not intended as a criticism of the current methodology, or of either BLS or OPM; rather, as Chairman Sanders noted, the current methodology was "the best that BLS's budget could buy" but that with additional resources, that methodology could always be improved. Accordingly, the Council devoted five Working Group meetings over the course of 7 months to consider alternatives to the current methodology. The Council Working Group identified alternatives and evaluated those alternatives in terms of market sensitivity, grade sensitivity, and occupational sensitivity, while also considering cost and implementation issues.

[6] As explained in Attachment 2, the current salary survey methodology uses National Compensation Survey (NCS) data to assess the impact of level of work on occupational earnings, and applies factors derived from the NCS sample to occupational average salaries from Occupational Employment Statistics (OES) data to estimate occupational earnings by level of work in each locality pay area. This measurement process is called the *NCS/OES model*.

Those alternatives are summarized in the table below, according to whether they could be implemented administratively, or whether they would require a change in law. And as detailed below, the Council was split in its recommendations with respect to those alternatives, with Chairman Sanders and Council Members Nelson and Bullock recommending that the Pay Agent consider alternatives such as those listed below and in so doing, commission BLS and OPM to conduct an in-depth study of the most cost-effective alternatives to better measure the disparity between Federal and non-Federal pay and other relevant elements of employee compensation. However, Council Members Cox, Simon, Erwin, and Reardon did not support that recommendation and advocated the continued use of the current NCS/OES methodology; their specific views are provided in Attachment 7.

Alternative Survey Methodologies	
Options Not Requiring a Change in Law	Option 1: Maintain the Status Quo – Continue use of the current salary survey methodology (NCS/OES Model).
	Option 2: Modify the Existing Methodology – Modify the existing salary survey methodology to improve the validity of its statistical modeling.
	Option 3: Verify the Results of the Methodology – Validate the results of the modeling methodology by examining a set of human capital indicators (HCIs), such as attrition data, to quantitatively and qualitatively assess the effects of the statistically modeled salary estimates.
Options Requiring a Change in Law	Option 4: Assess the Total Compensation Gap – In addition to comparing Federal and non-Federal salary, develop a method for comparing the cost of major benefits such as health insurance and pensions in order to assess disparities in total Federal and non-Federal compensation.
	Option 5: Establish a Commission to Periodically Review Federal Civilian Compensation – Conduct a comprehensive, periodic review of total compensation for white-collar Federal civilians, patterned after DOD's most recent Quadrennial Review of Military Compensation.

- Background and Rationale. In its July 10, 2018, recommendations to the Pay Agent, the Council announced its plans to further review the NCS/OES model, as well as alternatives to that model, and if warranted, make recommendations to the Pay Agent as part of its deliberations regarding locality pay in 2020. That review was in accord with the Council's charter, as established by Executive Order 12764, which requires it to periodically examine the methodologies employed in its support; however, Chairman Sanders also indicated that as mathematically sound as the current NCS/OES model may be, it produced figures regarding the Federal/non-Federal "pay gap" that were either questioned or ignored by many policy-makers even as they annually made adjustments to the pay of Federal white collar employees. Thus, at the very least, the Council's review could potentially put some of those doubts to rest.

- Accordingly, the Council, through the efforts of its Working Group, reviewed and discussed the current salary survey methodology and identified, discussed, and evaluated a number of alternative methodologies to measure the "gap" between Federal and non-Federal pay and other elements of employee compensation. Based on those discussions, the Working Group developed the "Council Working Group Evaluation of Alternative Salary Survey Methodologies" table provided in Attachment 6. In so doing, the Council stressed that with the exception of Option 1 (Maintain the Status Quo), all of the options considered would require additional funding for BLS, and in some cases for OPM; however, it also noted that given the multi-billion dollar size of the Federal compensation budget, including both salaries and benefits, such additional funding was well worth it if it led to greater National and local accuracy, market and occupational sensitivity, and overall credibility in the pay-setting process. Note further that while that methodology had changed over the years, those changes have been driven almost exclusively by BLS budget *cuts*, whereas the current effort is intended to take a more strategic view.

- The Working Group ultimately identified the five options listed in the figure above; however, these options were not intended to be exhaustive but merely illustrative. Nevertheless, the Working Group evaluated those options against the current salary survey methodology in terms of their relative accuracy and sensitivity to market, work level, and occupational differences, and also discussed cost and implementation issues for each option considered. Note that in considering alternative methodologies, the Working Group did not limit its analysis to those available under current law. However, despite its best good faith efforts, the Council was unable to reach a consensus with respect to the adoption (or even further study) of alternative and/or supplemental methodologies for measuring National and/or local disparities in pay or benefits. Accordingly, the Chairman offered Council Members the opportunity to express their separate views in this regard. The Council Members representing organized labor unanimously oppose any change in the existing methodology (other than increasing the sample size for the private sector salary surveys conducted by BLS) for the reasons they express in Attachment 7; however, the three Members appointed to the Council as independent experts all agree that changes to the current methodology are warranted.

Views of Council Members Cox, Simon, Erwin, and Reardon on Recommendation 7

Below is a summary of our views regarding the current salary survey methodology. Our views are set forth in greater detail in Attachment 7.

- We recommend that the Pay Agent continue using the NCS/OES model, and we oppose the alternative methodologies the Council discussed to the current salary survey methodology.
- The law defines "pay disparities" with respect to a locality as "the extent to which rates of pay payable under the General Schedule are generally lower than the rates paid for the same levels of work by non-Federal workers in the same locality" and specifies that a pay disparity shall be expressed as a single percentage which shall be uniformly applicable to General Schedule positions within the locality pay area.
- The law directs the Pay Agent to give "thorough consideration" to members' views regarding the process for measuring pay disparities by locality, but nowhere does the law mention authority for the Federal Salary Council to redefine pay disparities to include non-salary benefits such as pensions or health insurance.
- Nevertheless, the Trump administration has produced a "Report of the Federal Salary Council Working Group, November 13" that goes far afield from the law and does not accurately reflect the law's description of the purpose of the Federal Salary Council. Indeed, the law specifically directs that the Federal Salary Council's purpose is to elicit "the views

and recommendations submitted as provided in this subsection by the Council, by any member of the Council, and by employee organizations not represented on the Council" for consideration by the President. It is not meant to be a platform for the President's own views as expressed by his appointee. This year's Workgroup Report, however, is a clear attempt to politicize what has been for the last 26 years a technical, apolitical report that has followed the law's instructions regarding measurement of pay disparities and boundaries of pay localities. As such, the members of the Federal Salary Council and the Workgroup who represent Federal employees strongly oppose key portions of this "workgroup report."

- When considering the Workgroup Report, please understand that wherever the words "some members of the workgroup" appear, it means the Administration's political appointees to the Council. The members of the workgroup and Federal Salary Council from employee organizations (the American Federation of Government Employees, AFL-CIO, the National Treasury Employees Union, the National Federation of Federal Employees, AFL-CIO, and the Fraternal Order of Police, AFL-CIO) did not support the Chairman's effort to use the Council to promote the Administration's policy agenda of redefining "pay disparities" to include non-pay benefits or replacing the locality pay system with one that varies pay adjustments by occupation and manager discretion.
- Another problematic element of the highly political "Workgroup Report" is its repeated identification of the "heavy" use of statistical modeling as a shortcoming or "con" of the current system for measuring pay disparities. The use of statistical modeling, even the "heavy" use, is a scientific and economical way to generate measurements that have an extremely high level of validity.

Views of Chairman Sanders and Members Nelson and Bullock on Recommendation 7

Below is a summary of our views regarding the current salary survey methodology. Our views are set forth in greater detail in Attachment 8.

- We share concerns the Pay Agent has expressed for many years regarding the current salary survey methodology. It is time to address those concerns.
- We believe the current salary survey methodology is flawed—not in its design or execution, but rather because of its budget-driven limitations. The BLS salary data available from the NCS and OES programs require a mathematical model to estimate non-Federal salaries for jobs with work approximating that of Federal jobs. The current methodology's heavy reliance on statistical modeling concerns us, and we believe that modifying that methodology—even if just by reverting to the approach first used by BLS in the early days of FEPCA, until budget cuts forced revisions to it—or supplementing it with more actual observations (perhaps using a "market basket" of benchmark occupations and grades) would produce more accurate pay comparisons. The results of the current methodology could also be "validated" by comparing it to various human capital indicators (HCIs) to determine if they represent a statistical anomaly or reflect demonstrable adverse impact on recruiting or retention. None of these changes would require legislation; rather, the Pay Agent could simply mandate (and fund) them.

- Other, more significant changes may require legislation, but we believe the Pay Agent should consider those as well. For example, we agree with the Pay Agent that an aggregation of both salaries and certain benefits would be a far more credible measure of the comparability between Federal and non-Federal compensation, and while such a comparison poses significant methodological challenges—for example, to ensure that it is done on an "apples to apples" basis—we believe that the benefits of considering "total compensation" in assessing the Federal government's ability to recruit and retain talent are important enough to warrant further, in-depth study by the Pay Agent. We understand that there is no statutory provision for measuring total compensation to set GS pay, but we believe there should be. Every other employer takes both salaries and benefits into account when determining and adjusting its overall cost of employment, and the Federal government should be no different. It makes no sense for the Federal government to ignore what amounts to almost a third of its own employment costs. In recommending this, we must emphasize here that the goal of measuring such benefits is <u>not</u> to reduce them, but rather to acknowledge their contribution to the recruiting and retaining a high-quality Federal civil service.

- Accordingly, we recommend that the Pay Agent consider alternatives such as those listed above and/or conduct or sponsor a more in-depth study of alternative methodologies to measure the disparity between Federal and non-Federal pay and compensation. As part of this effort, we also recommend that BLS and OPM specifically identify and request the funding necessary to develop and administer these options. Bottom line: The current salary survey methodology may be the best current resources can buy, but with an annual Federal payroll in excess of $200 billion, relying exclusively on that methodology without considering other options is "penny wise and pound foolish."

SIGNED

Ronald P. Sanders, DPA
Chairman

Attachment 1
FEPCA Locality Rates for 2020 Using Current Salary Survey Methodology

Area	March 2018 Payroll	March 2018 Pay Disparity	Locality Rate (Target Pay Disparity)
Alaska	$467,351,330	69.99%	61.90%
Albany-Schenectady, NY-MA	$178,412,754	53.98%	46.65%
Albuquerque-Santa Fe-Las Vegas, NM	$569,065,017	43.56%	36.72%
Atlanta--Athens-Clarke County--Sandy Springs, GA-AL	$1,971,324,822	50.92%	43.73%
Austin-Round Rock, TX	$409,434,109	55.03%	47.65%
Birmingham-Hoover-Talladega, AL	$355,402,290	43.62%	36.78%
Boston-Worcester-Providence, MA-RI-NH-ME	$1,762,684,942	72.07%	63.88%
Buffalo-Cheektowaga, NY	$332,330,162	49.17%	42.07%
Burlington-South Burlington, VT	$207,138,092	53.92%	46.59%
Charlotte-Concord, NC-SC	$214,943,389	51.60%	44.38%
Chicago-Naperville, IL-IN-WI	$1,411,125,107	58.66%	51.10%
Cincinnati-Wilmington-Maysville, OH-KY-IN	$430,084,365	41.50%	34.76%
Cleveland-Akron-Canton, OH	$708,375,459	43.01%	36.20%
Colorado Springs, CO	$501,589,694	49.31%	42.20%
Columbus-Marion-Zanesville, OH	$610,569,302	50.10%	42.95%
Corpus Christi-Kingsville-Alice, TX	$170,306,807	46.25%	39.29%
Dallas-Fort Worth, TX-OK	$1,403,558,256	64.92%	57.07%
Davenport-Moline, IA-IL	$248,569,621	46.82%	39.83%
Dayton-Springfield-Sidney, OH	$556,033,673	50.21%	43.06%
Denver-Aurora, CO	$1,346,759,585	69.81%	61.72%
Detroit-Warren-Ann Arbor, MI	$888,133,284	55.74%	48.32%
Harrisburg-Lebanon, PA	$371,890,144	47.07%	40.07%
Hartford-West Hartford, CT-MA	$303,140,514	63.14%	55.37%
Hawaii	$1,020,900,220	50.82%	43.64%
Houston-The Woodlands, TX	$988,476,620	73.92%	65.64%
Huntsville-Decatur-Albertville, AL	$765,062,353	55.21%	47.82%
Indianapolis-Carmel-Muncie, IN	$629,109,070	38.01%	31.44%
Kansas City-Overland Park-Kansas City, MO-KS	$1,210,918,812	45.92%	38.97%
Laredo, TX	$195,397,629	53.80%	46.48%
Las Vegas-Henderson, NV-AZ	$329,792,534	51.50%	44.29%
Los Angeles-Long Beach, CA	$2,507,376,642	80.16%	71.58%
Miami-Fort Lauderdale-Port St. Lucie, FL	$996,377,772	46.88%	39.89%
Milwaukee-Racine-Waukesha, WI	$247,621,274	43.53%	36.70%
Minneapolis-St. Paul, MN-WI	$564,057,682	59.90%	52.29%
New York-Newark, NY-NJ-CT-PA	$3,158,995,244	80.92%	72.30%
Omaha-Council Bluffs-Fremont, NE-IA	$327,402,528	42.19%	35.42%
Palm Bay-Melbourne-Titusville, FL	$313,487,326	40.00%	33.33%
Philadelphia-Reading-Camden, PA-NJ-DE-MD	$1,758,880,664	64.70%	56.86%
Phoenix-Mesa-Scottsdale, AZ	$635,011,292	48.94%	41.85%
Pittsburgh-New Castle-Weirton, PA-OH-WV	$476,745,727	48.98%	41.89%
Portland-Vancouver-Salem, OR-WA	$736,422,635	56.74%	49.28%
Raleigh-Durham-Chapel Hill, NC	$1,093,444,103	48.14%	41.09%
Rest of US	$25,069,969,499	33.75%	27.38%
Richmond, VA	$633,969,078	50.63%	43.46%
Sacramento-Roseville, CA-NV	$517,134,052	66.79%	58.85%
San Antonio-New Braunfels-Pearsall, TX	$1,358,310,798	53.16%	45.87%
San Diego-Carlsbad, CA	$1,586,952,228	78.76%	70.25%
San Jose-San Francisco-Oakland, CA	$1,670,417,248	95.88%	86.55%
Seattle-Tacoma, WA	$1,774,992,928	76.11%	67.72%
St. Louis-St. Charles-Farmington, MO-IL	$794,025,939	49.56%	42.44%
Tucson-Nogales, AZ	$789,929,814	45.10%	38.19%
Virginia Beach-Norfolk, VA-NC	$2,083,591,320	48.71%	41.63%
Washington-Baltimore-Arlington, DC-MD-VA-WV-PA	$22,785,116,113	87.47%	78.54%
Total Payroll/Average Pay Disparity	**$92,438,111,862**	**60.17%**	**52.54%**

Attachment 2
NCS/OES Model and Pay Disparity Calculations

NCS/OES Model

The Bureau of Labor Statistics (BLS) uses National Compensation Survey (NCS) data to assess the impact of level of work on occupational earnings, and applies factors derived from the NCS sample to occupational average salaries from Occupational Employment Statistics (OES) data to estimate occupational earnings by level of work in each locality pay area. This measurement process is called the *NCS/OES model*.

To calculate estimates of pay disparities, 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).

OES 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 OES, 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.

Calculating Pay Disparities Using the NCS/OES Model

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.

A three-stage weighted average is used in the pay disparity calculations. In the first stage, job rates from the NCS/OES model are averaged within PATCO category by grade level. The NCS/OES model covers virtually all GS jobs. The model produces occupational wage information for jobs found only in the OES sample for an area. For averaging within PATCO category, each job rate is weighted by the Nationwide full-time, permanent, year-round employment[7] 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/OES 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/OES 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.

Finally, the pay disparity is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate.

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.

Calculation of the Washington-Baltimore pay disparity is shown on the next page as an example.

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

Pay Disparity Example—March 2018 Pay Disparity for Washington-Baltimore Locality Pay Area

Grade	BLS Average Grade-PATCO Salary Estimates for Washington, DC (Derived Using Nationwide GS Employment Weights)					Local GS Employment Weights Used to Derive Washington, DC Average Non-Federal Salaries					Calculating Overall Average Non-Federal and Federal Salaries Using Grade Weights for Washington, DC			
	Admin	Clerical	Officer	Professional	Technical	Admin	Clerical	Officer	Professional	Technical	Grade Fed Emp.	BLS Avg.	GS Avg.	Gap
1		$37,611			$36,150		2				11	$37,611.00	$19,612	91.78%
2		$35,587			$33,404		9			14	37	$34,258.22	$23,207	47.62%
3		$32,715	$39,563		$35,778		193			12	254	$32,894.30	$25,543	28.78%
4	$53,054	$44,727	$44,704	$44,989	$40,199		415	24		77	672	$44,050.24	$29,697	48.33%
5	$55,964	$53,895	$51,301	$51,910	$46,520	135	1,185	432	32	1,143	3,059	$50,705.92	$33,296	52.29%
6	$70,047	$62,392	$58,352	$57,674	$53,372	4	857	926		2,340	4,146	$56,378.62	$37,553	50.13%
7	$70,081	$65,483	$64,401	$68,772	$61,682	1,288	633	867	643	5,169	8,710	$64,023.88	$41,422	54.56%
8	$80,269	$69,858	$68,803	$54,773	$69,811	25	546	460	34	3,041	4,107	$69,643.47	$47,626	46.23%
9	$84,264	$74,106	$78,672	$76,716	$78,776	8,093	405	246	1,553	2,260	12,612	$81,905.59	$49,563	65.26%
10	$97,310	$88,480	$95,554	$85,337	$95,163	651	195	76	40	515	1,477	$94,981.00	$56,550	67.96%
11	$111,467	$98,708	$107,130	$101,820	$108,323	13,925	19	121	4,215	921	19,222	$109,158.53	$59,322	84.01%
12	$143,252	$123,617	$145,378	$137,324	$146,131	26,794	11	174	10,808	1,207	39,004	$141,701.99	$72,315	95.95%
13	$165,584	$144,678	$196,556	$164,109	$185,162	48,993		454	18,231	540	68,223	$165,550.91	$87,379	89.46%
14	$192,865		$210,323	$186,456	$182,832	36,689		414	20,782	111	58,003	$190,673.85	$104,658	82.19%
15	$252,442		$256,888	$245,899	$204,744	17,807		147	16,649	19	34,631	$249,288.31	$125,859	98.07%
											254,168	**$161,537.94**	**$86,168.54**	**87.47%**

The above example shows how March 2018 pay disparities are calculated beginning with salary estimates BLS provides at the Grade-PATCO level, applying local GS employment weights to derive average salaries across PATCO category by GS grade, applying local grade weights to calculate an overall Federal salary and an overall non-Federal salary for the locality pay area, and a comparison between the overall non-Federal salary and overall Federal salary to calculate the area's pay disparity—(Non-Federal Salary / (Federal Salary) – 1.

Attachment 3
Current Criteria for Areas of Application

Locality pay areas consist of—

(1) A main core-based statistical area (CBSA) defined by the Office of Management and Budget as a metropolitan statistical area (MSA) or combined statistical area (CSA) and forming the *basic locality pay area*, and

(2) Where criteria recommended by the Council and approved by the Pay Agent are met, *areas of application*. Areas of application are locations that are adjacent to the basic locality pay area and meet approved criteria for inclusion in the locality pay area.

Current criteria for adding adjacent core-based statistical areas (CBSAs) or single counties to locality pay areas as areas of application are:

- For a multi-county CBSA adjacent to a basic locality pay area: 1,500 or more GS employees and an employment interchange rate with the basic locality pay area of at least 7.5 percent.[8]
    - The "employment interchange rate" is the sum of (1) the percentage of employed residents of the area under consideration who work in the basic locality pay area and (2) the percentage of the employment in the area under consideration that is accounted for by workers who reside in the basic locality pay area. The employment interchange rate is calculated by including all workers in assessed locations, not just Federal employees.
- For a single county that is not part of a multi-county, non-micropolitan CBSA and is adjacent to a basic locality pay area: 400 or more GS employees and an employment interchange rate with the basic locality pay area of at least 7.5 percent.

Criteria for evaluating Federal facilities that cross county lines into a separate locality pay area are:

- For Federal facilities that cross locality pay area boundaries: To be included in an adjacent locality pay area, the whole facility must have at least 500 GS employees, with the majority of those employees in the higher-paying locality pay area, or that portion of a Federal facility outside of a higher-paying locality pay area must have at least 750 GS employees, the duty stations of the majority of those employees must be within 10 miles of the separate locality pay area, and a significant number of those employees must commute to work from the higher-paying locality pay area.

[8] Excludes two types of CBSAs: (1) CSAs composed entirely of micropolitan statistical areas and (2) multi-county micropolitan statistical areas. The single-county criteria apply for counties included in such CBSAs.

Attachment 4
2016-2018 Pay Disparities in Current "Rest of U.S." Research Areas
(Applying Pay Gap Methodology Described in Attachment 2 to NCS/OES Model Data)

Pay Gaps 2016-2018 in 39 BLS Research Areas Area Compared to Rest of US							
Area	Area Pay Gaps			Area Pay Gaps minus Rest of US Pay Gap			
	2016	2017	2018	2016	2017	2018	Average
Augusta, GA	27.76%	29.33%	27.67%	-6.33%	-6.43%	-6.08%	-6.28%
Boise, ID	37.82%	38.16%	36.88%	3.73%	2.40%	3.13%	3.09%
Charleston, SC	31.74%	37.17%	39.42%	-2.35%	1.41%	5.67%	1.58%
Charleston, WV	27.64%	25.71%	22.21%	-6.45%	-10.05%	-11.54%	-9.35%
Clarksville, TN	22.20%	22.96%	19.48%	-11.89%	-12.80%	-14.27%	-12.99%
Columbia, SC	26.85%	27.82%	27.68%	-7.24%	-7.94%	-6.07%	-7.08%
Columbus, GA	31.98%	30.59%	24.87%	-2.11%	-5.17%	-8.88%	-5.39%
Crestview, FL	42.41%	45.61%	42.70%	8.32%	9.85%	8.95%	9.04%
Des Moines, IA	43.00%	46.53%	44.71%	8.91%	10.77%	10.96%	10.21%
El Paso, TX	41.33%	41.41%	40.15%	7.24%	5.65%	6.40%	6.43%
Fresno, CA	38.21%	40.20%	38.56%	4.12%	4.44%	4.81%	4.46%
Gainesville, FL	24.50%	27.00%	21.53%	-9.59%	-8.76%	-12.22%	-10.19%
Gulfport, MS	35.75%	37.25%	38.29%	1.66%	1.49%	4.54%	2.56%
Jackson, MS	22.01%	23.29%	23.87%	-12.08%	-12.47%	-9.88%	-11.48%
Jacksonville, FL	41.51%	42.48%	37.71%	7.42%	6.72%	3.96%	6.03%
Jacksonville, NC	25.48%	34.25%	32.58%	-8.61%	-1.51%	-1.17%	-3.76%
Killeen-Temple, TX	36.77%	41.41%	36.89%	2.68%	5.65%	3.14%	3.82%
Lawton, OK	17.93%	20.59%	17.51%	-16.16%	-15.17%	-16.24%	-15.86%
Lexington, KY	25.21%	27.74%	24.96%	-8.88%	-8.02%	-8.79%	-8.56%
Little Rock, AR	28.10%	24.30%	23.52%	-5.99%	-11.46%	-10.23%	-9.23%
Louisville, KY	35.35%	35.92%	35.11%	1.26%	0.16%	1.36%	0.93%
Macon, GA	40.48%	36.12%	38.77%	6.39%	0.36%	5.02%	3.92%
Madison, WI	43.68%	41.23%	39.95%	9.59%	5.47%	6.20%	7.09%
Manhattan, KS	31.88%	30.07%	25.58%	-2.21%	-5.69%	-8.17%	-5.36%
McAllen, TX	36.89%	33.45%	30.01%	2.80%	-2.31%	-3.74%	-1.08%
Memphis, TN	30.63%	35.78%	36.24%	-3.46%	0.02%	2.49%	-0.32%
Montgomery, AL	37.58%	39.20%	44.41%	3.49%	3.44%	10.66%	5.86%
Nashville, TN	36.54%	40.29%	39.02%	2.45%	4.53%	5.27%	4.08%
New Bern, NC	34.54%	32.12%	37.88%	0.45%	-3.64%	4.13%	0.31%
New Orleans, LA	40.65%	38.90%	34.56%	6.56%	3.14%	0.81%	3.50%
Oklahoma City, OK	36.33%	37.92%	38.41%	2.24%	2.16%	4.66%	3.02%
Orlando, FL	39.25%	40.49%	38.32%	5.16%	4.73%	4.57%	4.82%
Pensacola, FL	28.24%	28.01%	23.90%	-5.85%	-7.75%	-9.85%	-7.82%
Rest of U.S.	34.09%	35.76%	33.75%	0.00%	0.00%	0.00%	0.00%
Salt Lake City, UT	41.44%	40.20%	39.15%	7.35%	4.44%	5.40%	5.73%
Savannah, GA	31.50%	31.50%	31.01%	-2.59%	-4.26%	-2.74%	-3.20%
Spokane, WA	41.08%	42.21%	41.48%	6.99%	6.45%	7.73%	7.06%
Tampa, FL	44.12%	44.43%	39.74%	10.03%	8.67%	5.99%	8.23%
Tulsa, OK	38.71%	42.55%	44.50%	4.62%	6.79%	10.75%	7.39%
Yuma, AZ	35.26%	35.19%	26.28%	1.17%	-0.57%	-7.47%	-2.29%

* Note: Regarding the 2017 Rest of US pay gap, in our recommendations for 2019 we recommended Corpus Christi, TX, and Omaha, NE, be established as separate locality pay areas. Accordingly, the 2017 "Rest of U.S." pay gap used in the Council's recommendations for 2019 (35.99 percent) has been adjusted in a cost-neutral fashion to take the recommended locality payments for Corpus Christi and Omaha into account, and the adjusted 2017 "Rest of U.S." pay gap is 35.76 percent.

Attachment 5
Locations that Contacted Council Staff about Locality Pay
(Contacts Between Council Meetings Held on April 10, 2018, and November 13, 2018)

Locations that Contacted Council
Angelina, TX
Bend, OR
Boise, ID
Boston, MA
Brunswick, GA
Charleston, SC
Eastern Shore of Virginia (Accomack, VA, and Northampton, VA)
Eugene, Lane County, OR
Glades County, FL
Grand Rapids, MI
Indian Island Naval Base, Jefferson County, WA
Jackson and Josephine Counties, OR
Jacksonville, FL
Klamath County, OR
Laramie County, WY
Mono County, CA
Monroe County, FL (in Miami locality pay area)
Nashville, TN CSA
New Orleans, LA
Orlando, FL
Pine County, MN
Prescott, AZ (Yavapai County, AZ)
Reno, NV CSA (Rest of US portions)
Rochester, NY
Salt Lake City, UT
San Juan County, WA
Savannah, GA CSA
SeaTac, WA (in Seattle locality pay area)
Sierra County, CA
Spokane, WA CSA
State College, PA CSA
Sussex County, DE
Tampa, FL MSA
Temple, TX MSA
Visalia, CA CSA
White River Junction, VT
Waco, TX MSA
Yakima, WA
Yellowstone National Park (Mammoth Hot Springs, WY)

Attachment 6
Council Working Group Evaluation of Alternative Salary Survey Methodologies for Use in the Locality Pay Program

<table>
<tr><th colspan="6">PART I—OPTIONS NOT REQUIRING A CHANGE IN LAW</th></tr>
<tr><th>Description of Alternative Methodologies</th><th>Market Sensitivity</th><th>Grade Sensitivity</th><th>Occupational Sensitivity</th><th>Cost/Implementation Issues</th><th>Comments</th></tr>
<tr><td>Option 1: Status Quo—NCS/OES Model
• Combines two BLS salary survey programs—the Occupational Employment Statistics (OES) program and the National Compensation Survey (NCS) program, neither of which alone would produce sufficient data with current resources.
  o OES has broad geographic coverage and a large sample size compared to NCS but no work-level (grade) information.
  o NCS has work-level (grade) information but much less geographic coverage and a much smaller sample size compared to OES.
• Relies heavily on statistical modeling.</td><td>Baseline.</td><td>Baseline.</td><td>Baseline.</td><td>Baseline.</td><td>Like previous methodologies, this option is susceptible to criticisms regarding limitations associated with reducing non-Federal pay in each area to a single number—e.g., the masking of differences in underlying pay disparities between different occupations and levels of work.</td></tr>
<tr><td>Option 2: New salary survey methodology that reduces the extent of statistical modeling
• Benchmark jobs.
• Larger sample designed to consist of firms with more jobs matching Federal jobs in order to increase number of actual observations.
• Less statistical modeling than status quo.</td><td>Would enhance market sensitivity in terms of providing a more accurate overall average non-Federal salary in each locality pay area.</td><td colspan="2">Regarding both grade sensitivity and occupational sensitivity:

Increase over status quo in terms of providing more accurate non-Federal average salaries that contribute to the overall estimated non-Federal salary for an area. Gains beyond that purpose—e.g., using the data as the basis for varying Federal pay by occupation and/or work level—would require a legislative change.</td><td>Enhancements such as sample expansion and use of benchmark jobs would be costly and might take a long time to implement. Costs and implementation time would be correlated with sample size and data reliability.</td><td>A new methodology would provide market sensitivity to the extent it would be an indicator of overall non-Federal pay differences between metropolitan areas. However, no matter how improved the model could be with additional resources, a legislative change would be required to vary pay by occupation and/or work level based on such enhanced data.</td></tr>
</table>

PART I—OPTIONS NOT REQUIRING A CHANGE IN LAW					
Description of Alternative Methodologies	**Market Sensitivity**	**Grade Sensitivity**	**Occupational Sensitivity**	**Cost/Implementation Issues**	**Comments**
Option 3: Continuing use of the status quo salary survey methodology, while using other salary data and/or attrition data to assess the quality of the statistically modeled salary estimates.	Would not change market, grade, or occupational sensitivity, but would test the current methodology's ability to provide an accurate overall average non-Federal salary in each locality pay area.			Costs would increase, and the extent of additional costs would depend on the additional salary survey data used. Federal attrition data could be compiled and analyzed by OPM.	To the extent findings from analysis of other salary data and/or attrition data would be consistent with findings from the NCS/OES model, this option might help address the current methodology's credibility problem. However, this option would still be susceptible to criticisms regarding limitations associated with reducing non-Federal pay in each area to a single number For example— ○ The masking of differences in underlying pay disparities between different occupations and levels of work, and ○ The Pay Agent's concern that benefits are not taken into consideration in pay gap calculations.

PART II—OPTIONS REQUIRING A CHANGE IN LAW					
Description of Alternative Methodologies	**Market Sensitivity**	**Grade Sensitivity**	**Occupational Sensitivity**	**Cost/Implementation Issues**	**Comments**
Option 4: Developing a method for taking benefits into account when comparing Federal and non-Federal pay.	Would depend on methodology used, but accurate information on benefits could provide more information on total compensation, and the Pay Agent has expressed concern that the locality pay program's pay comparisons do not take benefits into account. Regarding BLS data— • BLS finds that the Employer Costs for Employee Compensation (ECEC) sample size should be sufficient to produce National estimates for the benefit costs along the lines of the published ECEC estimates for non-Federal workers with the scope of workers restricted to full-time workers in large establishments from the occupations in the Federal weight file and with the sample weights for non-Federal workers adjusted to the employment of Federal workers by occupation. However, the ECEC sample coverage is not sufficient to match the employment of Federal workers by both occupation and level. • Any estimates of benefit costs would need to be evaluated to ensure they meet the confidentiality and reliability standards of BLS before they could be released. Also, if feasible, BLS would provide measures of reliability to accompany the estimates.			Cost and implementation issues would depend on the methodology applied.	The Federal Salary Council understands that benefits cannot be used to set Federal pay under current law, but a number of observers have expressed concern that decisions regarding adjustments in basic pay have been made over the years without considering how Federal total compensation and non-Federal total compensation compare. Results of comparisons between Federal benefits and non-Federal benefits would help address such concerns.[9]
Option 5: Developing a method to conduct a comprehensive, periodic review of total compensation for white-collar Federal civilians. Such a review could be similar to the review of total compensation in the most recent Quadrennial Defense Review.	Would depend on methodology used, but accurate information on benefits could provide more information on total compensation, and the Pay Agent has expressed concern that the locality pay program's pay comparisons do not take benefits into account.			Costs would be high.	While this option would have a high cost, it could be argued that a periodic, comprehensive review would be worth the cost, as it would ensure the Government has a compensation system that enables it to recruit and retain the talent needed.

[9] Regarding comparisons of retirement benefits, the American Federation of Government Employees has expressed concerns related to the cost for each defined-benefit retirement dollar being greater for Federal than for private-sector employers due to the Federal Employees Retirement System requiring investment exclusively in special Treasury bonds.

Attachment 7
Union Statement for the Record Regarding Salary Survey Methodology
Presented in November 13, 2018, Federal Salary Council Meeting

Chapter 53 of Title 5 describes the Federal government's pay comparability system. Its language is clear and easy to understand. Chapter 53 begins with a statement of "Policy" that is unambiguous. It states that General Schedule pay should "be based on the principles 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.

Later, the law defines "pay disparities" with respect to a locality as follows:

"…the extent to which rates of pay payable under the General Schedule are generally lower than the rates paid for the same levels of work by non-Federal workers in the same locality; except as otherwise required in this subchapter, a pay disparity shall be expressed as a single percentage…"

Likewise, the law states that comparability payments, which are meant to reduce and ultimately eliminate pay disparities to within five percent of non-Federal pay "shall be stated as a single percentage, which shall be uniformly applicable to General Schedule positions within the locality…" Surveys conducted by the Bureau of Labor Statistics are identified in the law as the basis on which "pay disparities" will be measured. With regard to the Federal Salary Council, the law directs the Pay Agent to give "thorough consideration" to members' views regarding four items, including "the process of comparing the rates of pay payable under the General Schedule with rates of pay for the same levels of work performed by non-Federal workers," in other words, the process for measuring pay disparities by locality.

Nowhere in the law is there any mention of authority for the Federal Salary Council to redefine pay disparities to include non-salary benefits such as pensions or health insurance. Nowhere in the law is there any mention of the Federal Salary Council studying, measuring, or recommending pay disparities by any factor other than locality. There is no instruction to measure pay disparities by race, gender, educational attainment, age, or occupation. There is simply a straightforward charge to measure pay disparities by locality.

Nevertheless, the Trump administration has produced a "Report of the Federal Salary Council Working Group, November 13" that goes far afield from the law and does not accurately reflect the law's description of the purpose of the Federal Salary Council. Indeed, the law specifically directs that the Federal Salary Council's purpose is to elicit "the views and recommendations submitted as provided in this subsection by the Council, by any member of the Council, and by employee organizations not represented on the Council" for consideration by the President. It is not meant to be a platform for the President's own views as expressed by his appointee. This year's Workgroup Report, however, is a clear attempt to politicize what has been for the last 26 years a technical, apolitical report that has followed the law's instructions regarding measurement of pay disparities and boundaries of pay localities. As such, the undersigned members of the Federal Salary Council and the Workgroup who represent Federal employees strongly oppose key portions of this "workgroup report."

When considering the Workgroup Report, please understand that wherever the words "some members of the workgroup" appear, it means the Administration's political appointees to the Council. The members of the workgroup and Federal Salary Council from employee organizations (the American Federation of Government Employees, AFL-CIO, the National Treasury Employees Union, the National Federation of Federal Employees, AFL-CIO, and the Fraternal Order of Police, AFL-CIO) did not support the Chairman's effort to use the Council to promote the Administration's policy agenda of redefining "pay disparities" to include non-pay benefits or replacing the locality pay system with one that varies pay adjustments by occupation and manager discretion.

Another problematic element of this highly political "Workgroup Report" is its repeated identification of the "heavy" use of statistical modeling as a shortcoming or "con" of the current system for measuring pay disparities. The use of statistical modeling, even the "heavy" use, is a scientific and economical way to generate measurements that have an extremely high level of validity. Random sampling and linear regression may be confusing to the unnamed "observers" that are cited repeatedly and ominously, in the November 13 Workgroup Report, but the observers' apparent lack of understanding about the validity of statistical modeling should not be grounds for abandoning the scientific method for handling data. Instead, perhaps, an effort should be made to educate them so that they understand that their doubts about accuracy and validity are unfounded. The expression of doubt that is based on lack of knowledge or understanding should not dictate our practices.

The statistical models used by the professional economists at the Bureau of Labor Statistics in support of the Federal pay comparability system are of extremely high quality. Indeed, on several occasions BLS economists attended Workgroup meetings and patiently explained to the members exactly how the models have been created and improved over the years, how they perform under rigorous testing protocols, how the raw, observed data are collected, what assumptions underlie the models and why, what degree of certainty (probability) the results of the regression analysis provide, and so on. The November 13 Workgroup Report repeatedly uses the term "estimate" derisively, implying BLS's regression results, called "estimates" are no more than guesses. That is simply untrue. Statistical modeling is how data are interpreted. It may be complicated, but science is complicated.

Under this Administration, ridicule of science may be in vogue, but the employee organizations represented on the Federal Salary Council respect science, scientific methods and objective truth, and we will not allow the data interpretation work performed scientifically by experts at BLS and the Office of Personnel Management to be dismissed so easily. The statistical models used by BLS and the resulting measurements reflect an honest use of valid statistical methods to interpret data on pay disparities, and thus produce "estimates" of those disparities that are as close an approximation to accuracy as it is possible to measure. And they are honest and explicit about the degree of certainty associated with their estimates.

Regression analysis is a tried and tested method in the hard sciences as well as economics. It is widely used in scientific and medical research. Our health depends on it. For example, much of what we know today about the causes of heart disease emerged from the pioneering Framingham Heart Study that Congress began in 1948. Today millions of people around the world watch their cholesterol, tobacco use, weight, and blood pressure because regression analyses taken from sample data– conducted carefully over decades – showed that these were the risk factors that increased the chances of dying suddenly from a heart attack.

In biology, regression analyses helped show the effects of one of our most ill-fated environmental experiments. For years after World War II, DDT was sprayed around American cities and farms in an effort to control mosquitoes and other insect pests. Even as the mosquitoes developed resistance, pesticide residues accumulated in bald eagles and other birds of prey, thinning their eggshells, and eventually bringing our national symbol to the brink of extinction. Regression analyses were used to show how the eagles' birthrate declined with the increasing level of a specific DDT breakdown product in the environment - and then began to recover after the EPA banned the chemical in 1974. Today, the eagles are a common sight across much of the U.S., moving from the endangered list to a species of "least concern."

Regression analysis – or "statistical modeling" is not something to be avoided.

No one expects the government to record every salary of every person performing a job similar to that performed by a Federal employee. That would be wasteful. Every survey is a sample. The "benchmark" approach would involve sampling and would, if used properly, rely as "heavily" on statistical modeling as the current system. All measurements of pay disparities are therefore "estimates" and all use probability.

Much of the Workgroup Report was slanted in a way meant to cast doubt on the estimates derived from BLS's statistical modeling. To supplement the sowing of confusion, there are proposals to use non-salary data for salary comparisons, and to assemble a council of (corporate?) elders to recommend changes in all elements of Federal employee compensation every few years. The undersigned employee organization members of the Federal Salary Council and workgroup oppose this agenda.

The foregoing has only to do with item 7 in the Workgroup Report. We concur with the presentation and recommendations presented in items 1 through 6.

Attachment 8
Statement of Federal Salary Council Expert Members
Dr. Ronald Sanders (Chair), Ms. Jill Nelson, and Ms. Katja Bullock

Introduction

In its 2018 Report to the President's Pay Agent, the Federal Salary Council considered a total of seven significant issues, and to its credit, it was able to reach a consensus on five of those, each resulting in a unanimous recommendation to the Pay Agent. However, on two of the seven issues, the Council was unable to reach consensus, this despite the good faith efforts of its eight appointed members over many months of discussion.

Accordingly, in the spirit of full transparency, the Council's Chair offered Members the opportunity to lay out their respective views on these issues (and any other) for the Pay Agent's consideration, and this Statement represents those of three of those Members: Chairman Sanders, and Members Nelson and Bullock. The Report more than adequately summarizes the two sides of those issues, as well as the outcome of the Council's debate thereon, and we do not wish to repeat that here; rather, what follows is our rationale for taking the positions that we did, just as the five Members representing Federal employee unions have done in Attachment 7.

The Time has Come for Modernization

The US civil service system is at a critical juncture. While its founding principles—things like neutral competence, equal pay for work of equal value, non-discrimination, merit in all personnel decisions and above all, an independent and apolitical civil service—are every bit as valid (and valued) today as when they were first articulated decades ago, the arcane and archaic laws and rules that operationalize those principles are in dire need of modernization. In our humble opinion, they reflect a bygone era, one that no longer comports with the realities of the 21st century Federal workplace, and they simply must be updated to do so…but without compromising on the core principles that make our civil service the envy of the world.

Accordingly, we support the Administration's comprehensive effort to modernize the civil service system, as part of the President's Management Agenda…indeed, we recommend that the OMB and Office of Personnel Management refocus on those long-overdue systemic reforms without inadvertently diminishing the Executive Branch's capacity to effect those reforms. That means more delegated staffing flexibilities, including a more realistic (and expedited) approach to college recruiting, as well as a major "redo" of the Federal Government's archaic classification system.[10] And yes, we support efforts to link pay more closely to individual—and where appropriate, group— performance. At the very least, we find it unconscionable that employees rated below Fully Successful are still eligible for across-the-board pay raises that we recommend, but we would go even further in an effort to reward those dedicated civil servants who perform above and beyond our expectations.

That said, we know change comes hard, and we applaud and support those in the Administration and the Congress who have the courage to pursue them. We also want to do our part.

[10] Many of these proposals are detailed in the National Academy of Public Administration's two-part report on civil service reform, entitled *No Time to Wait*, published in July 2017 and September 2018, respectively (note that Chairman Sanders was a member of the Academy Panel that developed the 2017 installment).

As a little-known but no less critical part of that civil service system, the Federal Salary Council is also at a critical juncture. Simply put, it is in danger of becoming largely irrelevant, at least when it comes to its original *raison d'être*; that is, to make recommendations to the President's Pay Agent on the broader questions of pay comparability between Federal and non-Federal employers. For far too long, the Council has not addressed whether its annual estimate of the so-called "pay gap"—that single number that we proffer every year—truly represents the Federal Government's ability to compete in today's hypercompetitive talent market…across all locales, grade levels, and occupations. And that same "suspect" approach is used to estimate local "pay gaps" that may or may not be real…but that have very real consequences for those Federal employees potentially affected by them.

A Hypercompetitive, Seller's Labor Market

If there is any doubt of this, consider the current state of Federal employee compensation. On the one hand, the so-called "pay gap" suggests that on average, base General Schedule salary rates are some 60 percent behind non-Federal salaries (that's gross; the "net" difference for Federal employees covered by locality pay is estimated at about 31 percent). On the other hand, we are in the midst of the most competitive labor market, perhaps in our history, a "seller's" market if there ever was one, and one would expect a gap of that magnitude would drive Federal employees to leave in droves for greener pastures.

How can low attrition coexist with low unemployment? Labor economists would suggest that many Federal employees would take one look at that pay gap and at all the employment opportunities in the economy—all supposedly paying salaries much higher than they're getting—and quickly vote with their feet. Yet average attrition amongst Federal employees is as low as it has ever been. And while some of that low attrition can certainly (and gratifyingly) be attributed to the "public service motivation" of those employees, something still does not compute.

That paradox casts a harsh light on the double-digit pay gap, and it is no wonder then that it has largely been ignored by the President's Pay Agent and the relevant committees in the Congress…not just of this Administration and this Congress, but of every one that has preceded them, going all the way back to the initial passage of the Federal Employee Pay Comparability Act of 1990 (FEPCA). Something is wrong here, and we three Members of the Council want to get to the bottom of it.

What We Know…and What We Don't Know

We think we can do better. We know we can. The Federal Government is our Nation's largest single employer, and its ability to maintain comparability in the labor market when it comes to pay (and yes, benefits) ought to be important to every public official and every citizen. The Federal Government needs to be able to compete for the "best and brightest." Its missions demand it, and while that competition need not—indeed, should not—be on a dollar-for-dollar basis, it must know the nature of that competition. And with national (and local) "pay gaps" reduced to a single number, regardless of grade or occupation or unique local conditions, today we do not.

That single number—whether it is proffered nationally or locally—is too simplistic, a mathematically derived average of averages that simply does not tell the whole story, especially when applied to a particular locale. Take Charleston, SC for example. The Council has heard much from Charleston this past year, in both of its public meetings and through numerous written submissions and documentation, all of it quite compelling. Unfortunately, not compelling enough, at least according to the math. The mathematical models say that the degree to which Federal salaries lag non-Federal salaries in that particular location, over a 3-year period, is insufficient to trigger a recommendation for locality pay.

Evidence "on the Ground"

Yet numerous individuals representing that community—Federal executives, Federal employees and their unions, even the local Chamber of Commerce—have told us that "on the ground" in Charleston, current Federal salaries for many jobs, especially in STEM and medical occupations, are insufficient to attract and retain the kinds of talent that those jobs (and the citizens who depend on them) demand. And Charleston is not alone.

To be sure, just as there are some jobs in some areas at some grades that do not pay enough, even when you add benefits to the equation, there are undoubtedly some jobs in some areas at some grades that pay too much…*especially* when you add benefits to the equation. The problem is that we don't know which jobs are overpaid and which are underpaid. All we do know is that the current 31 percent "net" pay gap nationwide isn't a true reflection of that reality. The reality is that the current mathematical models do not tell the whole story. In our opinion, they are not sufficiently sensitive to differences in occupations and grade levels, nor do they take benefits into account when they compare the cost of Federal and non-Federal employment.

Take the Charleston example again. When we look at a variety of factors—not just the results of the NCS/OES model—we find that some occupations (especially those requiring STEM or medical/healthcare skills) are likely substantially underpaid, particularly at entry-level and upper grade levels, and would warrant some sort of pay differential, while other occupations are just the opposite. But the single-number "pay gap" for Charleston is supposed to indicate that "all is well"…when those who have to live with that number tell us otherwise. And the result is that some very skilled Federal employees are underpaid and leave, some are overpaid and stay, and the citizens they serve suffer.

What We Advocate: More Precision within the Law

That is why we are advocating changes, looking first within the law, and then to changes in the law itself. Working within the law (that is, FEPCA), we believe that there is an opportunity to revise and/or augment the current methodology to improve its accuracy and credibility.

One option would be to revert to the methodology previously employed by BLS…before budget cuts in 1996 forced it to rely more heavily on pre-existing data collection methods and products—like the NCS and the OES, which were later combined to produce the current NCS/OES model as described in Attachment 2—adapting them to the challenge of measuring Federal employee pay comparability when neither of those tools were designed to do so. (The original salary survey methodology used in the locality pay program was the Occupational Compensation Survey Program (OCSP), which used 26 benchmark jobs—with 115 work levels distributed over those 26 benchmark jobs. OCSP was used until 1996, when BLS combined three related compensation survey programs to increase program efficiency and reduce respondent burden.)

Another option would be to trust the proven-but-limited NCS/OES model, but then verify its results by comparing them to a "market basket" of benchmark occupations and grade levels…for example, those that are most prevalent nationally, supplemented where necessary by those that are most prevalent (or most in distress) in a given locale. How do their salaries actually—that is, *empirically*—compare to non-Federal employers? Do pay gaps really exist? And if so, how much and where…across the board? Or more likely, do they exist in a few key occupations and/or grade levels? If the Council knew the answers to such questions, that would certainly help inform its deliberations.

More Data to Inform the Math

We would go even further with this "trust but verify" approach to the NCS/OES model, by examining a number of key Human Capital Indicators (HCIs) that can tell us whether those pay gaps that do exist really matter.[11] A proposed list of these HCIs is provided at page 10 of the Council's Report to the Pay Agent, and they can help answer the "does it really matter?" question. For instance, if the NCS/OES model shows a substantial pay gap in a particular area, but the overall attrition in that area is less than 5 percent, that suggests that something is awry. Or alternatively, if entry-level job offer/acceptance rates are low for certain occupations, along with the number of "highly qualified" candidates applying for those entry-level jobs, that suggests something else entirely. The problem is that right now we don't look beyond the NCS/OES numbers.

All of this suggests a much more targeted approach to measuring—and addressing—pay gaps. And the good news with respect to the latter is that under current civil service law, there are a plethora of pay flexibilities that can be brought to bear on recruiting and retention problems in a particular locale and/or set of occupations and grades, all short of (and less expensive than) locality pay.

The challenge here is twofold: First, organizations and areas seeking locality pay often come to the Council as a first resort, rather than as a last one…in many cases because their parent agency has refused to approve the use of more targeted pay flexibilities that could very well solve their problem. Note that there is no requirement to try those flexibilities first, nor is there even a requirement that organizations in a particular area even tell us one way or another. We think there should be.

You Get What You Pay For…

So, working within the law, we recommend that the Pay Agent approve and fund changes to the existing methodology that either enable BLS and OPM to revert to previous proven and more accurate approaches to salary surveys, and/or enable those two agencies to augment the existing NCS/OES model to provide greater fidelity with respect to national or local pay gaps.

Further in that regard, we recommend that based on recommendations from the Council (as well as BLS and OPM), the President's Pay Agent should identify a national "market basket" of benchmark jobs, by occupation and grade level, and thereafter require that those organizations petitioning the Council for designation as a locality pay area provide (1) comprehensive pay gap data for those benchmark jobs; (2) a set of HCI data for those jobs and grades for all affected

[11] Perry makes a similar recommendation in his paper "Aligning the Design of Public Sector Compensation Systems with Lessons from Public Service Motivation Research" (2018)

Federal employers in the area, as well as for any local benchmark occupations and grades they may propose; and (3) documentary evidence from the parent agencies of those local Federal employers that they have attempted to rectify any significant pay disparities, or the effects thereof, through the use of existing pay and other personnel flexibilities.

We believe that these changes have merit, and that they will enhance the ability of the Council (and the President's Pay Agent) to consider and act upon locality pay requests. To be sure, these changes cost money, but as we point out below, the relative cost of the changes we advocate—both within the law and beyond it—is negligible in comparison to the Federal Government's $200B+ payroll. To quote a senior Administration official, "We are being penny-wise and pound foolish" when it comes to assessing and addressing the gaps between Federal and non-Federal pay. Those pay gaps—wherever they may exist—matter a great deal…to the localities and agencies involved, and most certainly to the employees involved. That alone justifies the investment.

Changing the Law: A More "Holistic" Approach

As we have noted, the above changes are administrative in nature, and we believe that they can be implemented without legislation. However, while that feature is attractive, it is also limiting. By definition, they represent evolutionary, incremental changes to the status quo…in other words, they can only go so far.

We three Members believe more significant changes are in order, more revolutionary, transformational changes that require legislation. We offer two possibilities—a "total compensation" approach to comparability, and a periodic, comprehensive, and non-partisan review of the "state" of total Federal compensation to recommend major structural changes in pay and/or benefits—but we acknowledge that there are approaches others may recommend. However, our point in doing so is to emphasize the need for more than just incremental change to the way Federal employees are compensated.

First, at the risk of generating some controversy, we recommend that FEPCA be amended to consider the Federal Government's comparability with the labor market the way every other major US employer does: by including major employee benefits—pensions and health and life insurance—in the comparison equation. We propose those three deliberately, as they are the most quantifiable and most costly, representing as much as a third of an employer's personnel costs, including the Federal Government's. And arguably, they have as much to do with an employer's ability to recruit and retain talent as pay does. Yet for some reason, we ignore those benefits when we compare Federal and non-Federal compensation.

A "Total Compensation" Approach

We believe that a "total compensation" approach to comparability makes far more sense, especially given the other, intrinsic aspects of public service.[12] If comparability is all about competing in the labor market, and the Federal Government's benefit package is one of the things that make it most competitive, how can we ignore it? Indeed, the public and private sector employers we talk to are aghast that we do.

[12] For an interesting—and supporting--perspective on this, see Perry and Buckwalter, "The Public Service of the Future," in *Public Administration Review* (Vol. 70, 2010)

To be sure, there are significant methodological challenges in doing so, but we believe that they are no less surmountable than those that attend comparisons based on straight pay. Thus, at first blush, it seems relatively easy to make "apples to apples" comparisons with respect to pay, but when you consider all the differences that lurk beneath that comparison—differences in occupational definitions, education and qualifications requirements, levels of responsibility, promotion rates and opportunities, performance incentives, other working conditions, and yes, benefits—an "easy" comparison becomes quite complex. But we do it now, knowing that all those caveats exist.

Moreover, we do not advocate an attempt to compare benefit *outcomes*; that is, the results of an employer's dollar-for-dollar investments in benefit programs…things like hospital and outpatient deductibles, coverages, provider networks, etc., that an employer's dollar investment actually buys. The variations here are almost limitless, and they are all affected by yet another set of confounding and complicating variables, like the risk pool demographics and actuarial behaviors of any given employer's workforce. Trying to do so is impossible, and we do not recommend it.

Rather, we propose that a "total compensation" comparison be based on benefit *inputs*; that is, the dollars invested in the three major benefit programs (pensions and health and life insurance). Just as we can know how much an employer invests in pay for its workers, we can also know how much that employer invests in benefits—health insurance, pensions, life insurance—for its workers. What that employer gets for those investments, in other words, its "return on investment," will vary by employer…it is affected by too many variables to count. But what an employer (including the Federal Government) invests in pay and benefit inputs can be measured, and it can be compared on a dollar-for-dollar basis. That is what we advocate.

Surmountable Methodological Challenges

Interestingly enough, just as BLS measures and reports on changes in the cost of employment—the Employment Cost Index upon which FEPCA now relies—so too does it now measure changes in the cost of major benefits. So, the empirical and methodological framework for making such comparisons is there. Just as we can know (with some degree of error) how much the average cost of employment may change from year to year, in the aggregate and/or in any given labor market, we can also know whether and how much the average cost of benefits may change as well.

This is what is known as a "total compensation" approach to comparability, and we recommend that the Pay Agent commission OPM and BLS to study it and make detailed recommendations—to the Council and then to the Pay Agent—as to how it could be adapted for use in the Federal Government. And in no way do we suggest that such an adaptation would be easy…for example, our Council colleagues have pointed out that when it comes to pensions, the Federal Government is restricted in some of its investment options, and those restrictions may limit the "rate of return" (and hence, the pensions) employees may earn. We agree. Those restrictions must be accounted for or even eliminated, if a "total compensation" approach is to be credible.

To be sure, a "total compensation" approach would require significant changes to FEPCA, insofar as it is now limited to comparability based strictly on pay. And as in all things, the devil is in the details when it comes to actually operationalizing a "total compensation" approach…the feasibility (not to mention the desirability) of such an approach requires much further study and debate, as well as the staff resources that neither the Council nor the OPM and BLS staffs currently have. In that regard, we are also mindful that the Office of Management and Budget and OPM, as two members of the President's Pay Agent have discussed plans to undertake such a study, and we strongly support it. The time has come to do so.

And a Comprehensive Look at the "State" of Civil Service Compensation

But what of the results? Who decides whether pay or pensions of Federal employees are enough to compete for talent? Our union colleagues on the Council fear that those judgements will become politicized. We don't disagree, but we believe that the Federal Government crossed that Rubicon many Administrations ago…everyone knows that the pay and benefit levels of Federal employees are subject to the vagaries of politics (that is unavoidable in our civil service system), but while we share some of their concerns, we believe that there is a way to better inform the political process, at least periodically.

In that regard, we take a lesson from the Department of Defense and its approach to major changes in military compensation…including military retirement. Incremental changes to the pay and benefits of our colleagues in uniform occur every year, often but not always (or necessarily) in a bipartisan way. However, when it comes to major, transformational changes in military pay and benefits, Congress and the Administration have realized that they cannot be taken lightly, and they long ago commissioned a comprehensive Quadrennial Review of Military Compensation comprising some of the Nation's top military and civilian leaders and experts (see https://militarypay.defense.gov/References/QRMC/). The twelfth and most recent occurred in 2015, in the form of a Military Compensation and Retirement Modernization Commission that proposed major changes to the military retirement system.

We think that the Federal civil service deserves no less. While it serves a different purpose than our armed forces, that purpose is just as important…perhaps even more directly so to individual citizens than those who serve in uniform. Thus, just as compensation and benefits for our armed forces may change incrementally each year via the normal legislative cycle, so too can those impacting Federal civil servants. But just as major, systemic or transformational changes to military compensation are reserved for deliberation by the Quadrennial Review of Military Compensation, so too would such changes to civil service compensation and benefits be considered by a similar body created for a similar purpose.

That body would not prevent an Administration from seeking major civil service reform legislation at any time, but it would provide for a bicameral, bipartisan forum to review and make recommendations on those reforms that deal with major changes to civil service pay and benefits. Given the fiscal and economic impact that such major changes may have on Federal employees, not to mention the communities where they live—impact in the billions of dollars—they should not be subject to the rough-and-tumble world of national politics, but rather, be subject to a more detached analysis that considers their impact on the civil service as a whole.

We believe such a review is in order. Accordingly, we recommend that the President's Pay Agent consider, draft, and submit legislation establishing such a Quadrennial Review, using the Defense Department's legislative authority as a guide.

What This Is <u>Not</u> About

The foregoing should not be construed as a criticism of the fine work that BLS and OPM have done. The methodologies they employ in support of FEPCA, the Council, and the Pay Agent—

explained in some detail at Attachment 2—are as mathematically sound as BLS and OPM can make them. Simply put, they are the best methodologies that their limited budgets can buy. Our point is that given the importance of what they do, we must invest more in those methodologies…and in those agencies that implement them.

For the record, BLS has supported the Council and the FEPCA pay-setting process from their inception, and their work has always been beyond reproach. Indeed, they have been model civil servants in that regard, steering well clear of the sometimes-raucous policy debates amongst Council Members and sticking strictly to the methodological and mathematical and facts of the matter. To be sure, when we have asked them about those mathematical and methodological matters, they have given us their honest opinions, but they have respectfully declined to weigh in on the merits of one policy vs. another…as they should.

The same is true of the OPM staff that directly supports the Council. Few understand the technical nuances of FEPCA better than they do, and they too have properly left it to the Council's Members to debate the policy merits of one approach or another, remaining neutral with us even as they must support one of the three Members of the President's Pay Agent. That neutral competence, divorced from the politics of the moment (or of a particular Administration), is consistent with the core values of our civil service system, as well as OPM, and it is something to be valued.

We also want to stress that this is not about our fellow Council Members. While we may disagree with them—especially in this instance—those disagreements are in good faith, at least from our vantage. Our colleagues have been appointed to the Council to represent the interests of their Federal employee constituents, and while we may have different views in that regard, they represent those employee interests vigorously, and for that they are to be commended.

In that regard, we trust that our colleagues will acknowledge that we all share the same goal: that is, to ensure that the Federal Government compensates its employees fairly, and in a way that enables its agencies to recruit and retain the talent they need to serve the American people. It is that service that is paramount, and that is ultimately how "comparability" should be defined. Thus, while some may suggest otherwise, this is <u>not</u> about reducing the pay and/or benefits of Federal employees; indeed, the work they do is to be honored and valued, and they should be compensated accordingly…no more but no less. We may disagree with our colleagues over how best to achieve that goal, but it is one we share with our colleagues.