

**REPORT ON
LOCALITY-BASED COMPARABILITY
PAYMENTS FOR THE
GENERAL SCHEDULE**

*ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
2001*



The President's Pay Agent
Washington, DC 20415-0021

MEMORANDUM FOR THE PRESIDENT

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

Under current law, the President's Pay Agent must submit a report each year showing the locality-based comparability payments we would recommend for General Schedule employees in the following fiscal year if the adjustments were to be made in accordance with section 5304 of title 5, United States Code. In keeping with this statutory requirement, this report shows the adjustments we would recommend for January 2003 *if the methodology and rates required by current law were to be implemented*. For the reasons explained below, however, we do not recommend implementation of these adjustments in 2003. A final decision on the 2003 locality payments is not needed at this time.

Our plans for locality pay area boundaries in 2003 and our decisions on the methodology for comparing Federal and non-Federal rates of pay (as required by current law) also are contained in this report. Our work on these matters has been greatly facilitated by the Federal Salary Council.

The Pay Agent is mindful of the fact that, once again this year, Congress has enacted legislation that provides an overall General Schedule pay increase in January 2002—including locality payments—that is considerably smaller than the amount that would have been required by current law. (The January 2002 pay increase will, however, be larger than originally proposed in the Administration's budget request for fiscal year 2002.) Given the current national emergency situation and the nearly \$10 billion cost of the locality pay increases that would be required under current law, we believe it would be imprudent and unwise to allow the locality pay increases shown in this report to take effect in January 2003. The Pay Agent also has serious concerns about the utility of a process that focuses too much attention on locality payments and not enough attention on the differing labor markets for major occupational groups or the performance of individual employees. We believe it is time to consider alternative approaches to the compensation of Federal employees that will lead to a Government that is citizen-centered, results-oriented, and market-based.

The President's Pay Agent:

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INTRODUCTION

The Federal Employees Pay Comparability Act of 1990 (FEPCA) replaced the nationwide General Schedule (GS) with a method for setting pay for white-collar employees that uses a combination of across-the-board and locality pay adjustments. The policy for setting General Schedule pay contained in 5 U.S.C. 5301 is that—

- (1) there be equal pay for substantially equal work within each local pay area;
- (2) within each local pay area, pay distinctions be maintained in keeping with work and performance distinctions;
- (3) Federal pay rates be comparable with non-Federal pay rates for the same levels of work within the same local pay area; and
- (4) any existing pay disparities between Federal and non-Federal employees should be completely eliminated.

The across-the-board pay adjustment provides the same percentage increase to the statutory pay systems (as defined in 5 U.S.C. 5302(1)) in all locations. This adjustment is linked to changes in the wage and salary component, private industry workers, of the Employment Cost Index (ECI), minus 0.5 percentage points. Locality-based comparability payments for GS employees, which are in addition to the across-the-board increase, are mandated for each locality having a pay disparity between Federal and non-Federal pay of greater than 5 percent.

As part of the annual locality pay adjustment process, the Pay Agent prepares and submits a report to the President which—

- (1) compares rates of pay under the General Schedule with rates of pay for non-Federal workers for the same levels of work within each locality pay area, based on surveys conducted by the Bureau of Labor Statistics;
- (2) identifies each locality in which a pay disparity exists and specifies the size of each pay disparity;
- (3) recommends appropriate comparability payments; and
- (4) includes the views and recommendations of the Federal Salary Council (FSC), individual members of the FSC, and employee organizations.

The President's Pay Agent consists of the Secretary of Labor and the Directors of the Office of Management and Budget and the Office of Personnel Management.

This report fulfills the Agent's responsibility under 5 U.S.C. 5304(d), as amended. It recommends locality pay adjustments for 2003 if they were made under 5 U.S.C. 5304.

ACROSS-THE-BOARD AND LOCALITY ADJUSTMENTS

Under FEPCA, General Schedule salary adjustments, beginning in January 1994, consist of two components: (1) a general increase linked to the Employment Cost Index (ECI) and applicable to the General Schedule, Foreign Service pay schedules, and pay schedules established under title 38, United States Code, for Veterans Health Administration employees, and (2) a General Schedule locality adjustment that applies only to specific areas of the continental United States where non-Federal pay exceeds Federal pay by more than 5 percent.

The formula for the general increase (defined in section 5303 of title 5, United States Code) provides that the pay rates for each statutory pay system be increased by a percentage equal to the 12-month percentage increase in the ECI, minus one-half of one percentage point. The 12-month reference period ends with the September preceding the effective date of the adjustment by 15 months.

The ECI reference period for the January 2003 increase is the 12-month period ending on September 30, 2001. During that period, the ECI increased by 3.6 percent. Therefore, the January 2003 general increase, if granted, would be 3.1 percent (3.6 percent minus 0.5 percentage points).

The locality component of the pay adjustment is mandated under FEPCA to be phased in over a 9-year period. In 1994, the minimum comparability increase was two-tenths of the “target” pay disparity (i.e., the amount needed to reduce the pay disparity to 5 percent). For each successive year, the comparability increase was scheduled to be at least an additional one-tenth of the target pay disparity. For 2003, the law authorizes the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent.

LOCALITY PAY SURVEYS

In the past, the Bureau of Labor Statistics (BLS) conducted a new survey of non-Federal pay each year in each locality pay area using survey methods approved by the Pay Agent. Commencing with the 1996/97 surveys, BLS implemented a new survey design for its salary surveys. The new survey program, called the National Compensation Survey (NCS) program, was used in all BLS salary surveys started after September 1996.

The Pay Agent deferred a decision on the use of data from the NCS program for locality pay purposes until receiving the views and recommendations of the Federal Salary Council. After careful examination and review of BLS tests and pilot surveys, the Federal Salary Council concluded that the NCS program is not suitable for use in the locality pay program and that the Pay Agent should direct BLS to reinstate the previous survey methodology, which had been approved by the Pay Agent. Some of the Council's concerns included:

- Whether the NCS grade leveling approach assigns the correct General Schedule grade equivalent to both supervisory and non-supervisory jobs;
- Whether a probability sampling approach adequately represents Federal jobs without over-representing female-dominated jobs, and whether results will be stable over time; and
- Whether probability sampling results in differences in jobs surveyed among cities that may cause differences in pay disparities.

The Pay Agent agreed with the Council's conclusion that the NCS program, as currently configured, should not be used for the locality pay program, but it did not ask BLS to reinstate the previous methodology. The Pay Agent has concluded that the NCS program has several advantages over the previous salary survey program. These include offering greater occupational coverage, being less costly, and being less burdensome on respondents. However, the Pay Agent also concluded that certain major aspects of the NCS program, including some of those raised by the Council, would have to be improved before it would be prudent to use NCS data for making pay comparisons under the locality pay program. During the past year, Pay Agent staff have continued to work with BLS staff to design, test, and begin implementing improvements in the surveys. We are hopeful that the NCS program improvements now under way will permit us to use the survey data delivered next year.

The Council has recommended and we have agreed to use the most recent BLS survey under the previous survey methodology to calculate pay disparities for this report. Because no new surveys have been conducted under the old methodology, the survey data used here are the same as used previously. However, the data have been updated (aged) to March 2001 for this report.

Industrial and Establishment Size Coverage

As required by FEPCA, BLS salary surveys used for the locality pay program include the collection of salary data from private industry and State and local governments, which have large numbers of workers, especially in certain occupations that are unique to government functions. Before 1991, BLS surveys for the pay comparability process covered only private sector goods-producing and service-producing industries.

The industry scope of the surveys included mining, construction, and manufacturing; service-producing industries, including transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; services industries; and State and local governments. Households, agriculture, and the self-employed were excluded. The survey covered establishments with 50 or more workers.

Occupational Coverage

In the surveys used for this report, BLS surveyed 115 work levels distributed over 26 occupations, as shown in Table 1, below.

Table 1. Full Job List for Locality Surveys

Occupation by Category	Work Level by General Schedule (GS) Grade Equivalent														
GS-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Professional															
Accountant					I		II		III		IV	V	VI		
Accountant, Public							I		II		III	IV			
Attorney									I		II	III	IV	V	VI
Engineer					I		II		III		IV	V	VI	VII	VIII
Buyer/Contracting Specialist ¹					I		II		III		IV				
Scientist					I		II		III		IV	V	VI	VII	VIII
Administrative															
Budget Analyst					I		II		III		IV				
Computer Programmer					I		II		III		IV	V			
Computer Systems Analyst									I		II	III	IV	V	
Computer Sys Analyst Supv/Mgr												I	II	III	IV
Personnel Specialist					I		II		III		IV	V	VI		
Personnel Supervisor/Mgr											I	II	III	IV	V
Tax Collector					I		II		III						
Technical															
Computer Operator				I	II	III	IV	V							
Drafter			I	II	III		IV								
Engineering Technician			I	II	III		IV		V		VI				
Engineering Technician, Civil			I	II	III		IV		V		VI				

¹ Levels I and II cover Federal employees in both professional and technical categories.

Table 1. (continued)

Occupation by Category	Work Level by General Schedule (GS) Grade Equivalent														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
GS-															
Clerical															
Clerk, Accounting ²		I	II	III	IV										
Clerk, General	I	II	III	IV											
Key Entry Operator		I	II												
Personnel Assistant ³			I	II	III	IV									
Secretary				I	II	III	IV	V							
Word Processor ⁴			I	II	III										
Officers, Protective															
Corrections Officer							I								
Firefighter					I										
Police Officers, Uniformed					I	II									

² Levels III and IV cover Federal employees in both clerical and technical categories.

³ Level IV covers Federal employees in the technical category.

⁴ Level III covers Federal employees in both clerical and technical categories.

LOCALITY PAY AREAS

Under 5 U.S.C. 5304(e)(2)(A), the Federal Salary Council made a recommendation to the Pay Agent on the composition of locality pay areas for 2003. This recommendation was transmitted to the Pay Agent in a memorandum dated October 31, 2001. (See Appendix I.) The Council recommended the continuation of the 32 locality pay areas already established, which, with the exception of the “Rest of U.S.” (RUS) area and certain “areas of application” described below, correspond to the most recent metropolitan area definitions set forth by the Office of Management and Budget (OMB).

Pay Disparities Below the RUS Pay Disparity

The Council continued its previous recommendation that the data for any area with a pay disparity below that for the RUS locality pay area should be combined with the data for the RUS area in a cost-neutral fashion. The pay disparity in three of the survey areas is below the RUS pay disparity of 28.64 percent:

<u>Area</u>	<u>Pay Disparity</u>	<u>GS Payroll</u>
Huntsville	26.41%	\$ 605,802,522
Indianapolis	26.81%	289,197,226
Kansas City	<u>27.84%</u>	694,385,843
RUS	28.64%	<u>21,133,262,981</u>
 AVERAGE/TOTAL	 28.53%	 \$22,722,648,572

In the past, the Council has recommended that locations with low levels of published data and a pay disparity 2/10 of a percentage point or more below the RUS pay disparity, or with a pay disparity below the RUS pay disparity in three surveys, be dropped and the resources used to survey a new location. More recently, the Council recommended that locations with pay disparities below the RUS pay disparity continue as locality pay areas for the following reasons:

- It is not feasible to reallocate resources to survey new locations because BLS’ new surveys are not yet suitable for use in the locality pay program;
- The reliability of all the pay disparities can be questioned because BLS has not resurveyed any location using the Pay Agent-approved survey methodology since 1996, and the RUS locality pay area has not been resurveyed using this methodology since 1994/1995; and
- The relatively smaller pay disparity in some cities is due, in part, to Government downsizing and removing agencies or groups of employees from the General Schedule.

We accept the Council’s recommendation and have continued Huntsville, Indianapolis, and Kansas City as separate locality pay areas for the 2003 locality payments. However, under the

recommendations contained in this report, employees in these locations would receive the same locality rate as authorized in the RUS locality pay area.

Existing Areas of Application

As of 2001, there are seven approved “areas of application.” These locations are not formally a part of the metropolitan statistical area as defined by OMB that the Pay Agent has included in the area for locality pay purposes. The State of Rhode Island and a small portion of Bristol County, MA, are included in the Boston locality pay area; New London County, CT, is included in the Hartford locality pay area; Edwards Air Force Base and Santa Barbara County, CA, are included in the Los Angeles locality pay area; Monterey County, CA, is included in the San Francisco locality pay area; and St. Marys County, MD, is included in the Washington, DC-Baltimore locality pay area. With the exception of a small portion of Bristol County, MA, each of these locations passed the applicable area of application criteria proposed by the Council and approved by the Pay Agent at the time it was added to the locality pay area. The Pay Agent included a small portion of Bristol County, MA, in the Boston locality pay area at the same time it added Rhode Island to that area. It did so because adding Rhode Island otherwise would have resulted in leaving a small portion of Bristol County completely surrounded by the newly expanded Boston locality pay area.

New London County, CT, with 1,277 GS employees, and Santa Barbara County, CA, with 1,917 GS employees, no longer meet the criterion that counties have 2,000 or more GS employees. Edwards Air Force Base, with 919 GS employees, no longer meets the 1,000 employee criterion for installations crossing locality pay area boundaries.

The Council believes it is not prudent management or sound compensation policy to drop locations previously approved as areas of application precipitously while the Government is downsizing and experiencing pressure to exempt agencies from title 5, United States Code. The Council recommended that these areas continue to be included in their respective locality pay area at the very least until new census data are available and new metropolitan statistical areas are defined in 2003. We agree with the Council’s assessment.

Using Commercial Salary Surveys, BLS Surveys, or Both to Establish New Locality Pay Areas

Section 637 of the Treasury and General Government Appropriations Act, 2001, authorized the President’s Pay Agent to use salary survey data compiled by organizations or entities for private sector businesses, BLS surveys, or both, to set locality pay for Federal employees in up to five additional metropolitan areas in January 2002. The five metropolitan areas meeting the criteria in Section 637 (those not previously surveyed for locality pay purposes that have the highest levels of non-farm employment and at least 2,500 GS employees) are Las Vegas, Nevada; Nashville, Tennessee; Raleigh, North Carolina; Austin, Texas; and Louisville, Kentucky. Section 637 required the Pay Agent to submit a report to Congress summarizing our findings. Our report to Congress (dated November 29, 2001) concluded that no currently available commercial salary survey data are accurate and complete enough to establish locality pay rates

for these five areas. Commercial salary surveys are not designed to yield data that represent jobs and pay levels for all employers in a given locality. In addition, commercial salary surveys use job definitions that cannot be matched to levels of work under the General Schedule with sufficient precision to enable us to feel confident about calculating the disparity between Federal and non-Federal pay in any of the metropolitan areas under consideration. The Federal Employees Pay Comparability Act of 1990 requires that we compare GS pay to rates generally paid for the “same levels of work” in the non-Federal sector. Off-the-shelf commercial salary surveys do not provide a suitable foundation for making these comparisons.

While private sector firms routinely use commercial salary surveys as a guide to setting pay, these firms also routinely consider other relevant factors (including ability to pay, turnover rates, and the unemployment rate) and may exercise significant judgment and discretion in determining pay increases based on their interpretation of commercial salary survey data. Private sector pay rates typically are not derived from a formula-driven process.

In response to the mandate in Section 637, we also evaluated the possibility of using data from BLS’ NCS program for the purpose of establishing new locality pay areas. Our report concluded, however, that NCS data are not yet ready to be used to set locality pay rates. The Pay Agent agreed with the Federal Salary Council in 1999 on the kinds of improvements needed in the NCS methodology and again in 2000 on the details of a plan for making these improvements. While Pay Agent staff have made significant progress toward improving the NCS salary survey methodology, the surveys available for use at this time do not reflect any of these improvements.

As part of its ongoing data collection for the Rest of U.S. (RUS) locality pay area, BLS conducts small-scale surveys in three of the five metropolitan areas under consideration (Raleigh, Austin, and Louisville). Because of the small sample sizes used in these areas, small-scale surveys cannot be expected to produce stable survey data suitable for calculating an overall pay disparity for an entire metropolitan area. Consequently, although we seriously considered the Federal Salary Council’s recommendation that we use data from small-scale NCS surveys to establish new locality pay areas in Austin, and Louisville and Raleigh, we have concluded that such use would be both premature and misleading.

Requests for New Areas

At its working group meetings of June 22 and October 12 and its public meetings of July 23 and October 22, 2001, the Council reviewed requests for special consideration from 49 additional areas. Employees in several of these areas had asked for their area to become a separate locality pay area. As noted elsewhere in this report, BLS’ current surveys are not yet suitable for use in setting locality pay. Accordingly, we cannot add any new areas at this time.

None of the other areas requesting special consideration pass the existing area-of-application criteria shown below:

- A. County-wide Areas of Application. To be included in the locality pay area, the affected county must—
1. Currently be included in the Rest of U.S. locality pay area and be contiguous to a locality pay area (exclusive of any other areas of application).
 2. Contain at least 2,000 GS employees.
 3. Have a significant level of urbanization, based on 1990 Census data. A “significant level of urbanization” is defined as a population density of more than 200 persons per square mile or at least 80 percent of the population in urbanized areas.
 4. Demonstrate some economic linkage with the locality pay area, defined as commuting at a level of 5 percent or more into or from the county under consideration and the central core of the metropolitan area as identified by the Census Bureau.
- B. Partial-county Areas of Application in New England. To be included in the locality pay area, the partial county must—
1. Currently be included in the Rest of U.S. locality pay area and be contiguous to the locality pay area (exclusive of any other areas of application).
 2. Contain at least 2,000 GS employees.
- In addition—
3. The entire county must have a population density of more than 200 persons per square mile or at least 80 percent of the population in urbanized areas.
 4. The entire county must demonstrate some economic linkage with the pay locality, defined as commuting at a level of 5 percent or more into or from the county under consideration and the central core of the metropolitan area as identified by the Census Bureau.
- C. Federal Facilities Crossing Locality Pay Area Boundaries. To be included in the locality pay area, the portion of a Federal facility which crosses locality pay area boundaries and which is not in the locality pay area must—
1. Contain at least 1,000 GS employees.
 2. Have the duty stations of the majority of GS employees within 10 miles of the locality.

3. Have a significant number of its employees commuting from the locality pay area.
- D. Full State Areas of Application. In order to be evaluated for area of application status, an entire State may be considered as one county for purposes of applying the County-wide Area of Application Criteria if—
1. No part of the State is already included in a separate metropolitan locality pay area.
 2. The State is adjacent to the locality pay area (exclusive any other areas of application).
 3. The State is smaller than 115 percent of the average county size in square miles in the lower 48 States plus Washington, DC, as determined by the Office of Personnel Management using land area data published by the Census Bureau, and the number of counties in the United States as determined by the Census Bureau. After application of the above criteria, the entire State must still pass the County-wide Area of Application Criteria before it can become an area of application.

In its recommendations, the Council reiterated its conclusion made in 2000 that since new population and commuting pattern data and new metropolitan area definitions will become available over the next several years, it would be disruptive to Federal employees and agencies to recommend any further modifications of locality pay areas at this time. The Council also recommended that the Pay Agent should continue to monitor areas and make minor adjustments if a particularly egregious situation justifies such action.

We are impressed by the Council's diligence and agree with the Council's reassessment that it would be premature and disruptive to make further modifications in locality pay area boundaries until new census data and metropolitan area definitions are available for review.

Accordingly, we approve continuation of the following areas of application for 2003 in the following Metropolitan Statistical Areas (MSAs) and Consolidated Metropolitan Statistical Areas (CMSAs):

<u>Area of Application</u>	<u>Locality Pay Area</u>
Bristol County, MA	Boston CMSA
Edwards Air Force Base, CA	Los Angeles CMSA
Monterey County, CA	San Francisco CMSA
New London County, CT	Hartford MSA
Santa Barbara County, CA	Los Angeles CMSA
State of Rhode Island	Boston CMSA
St. Marys County, MD	Washington, DC CMSA

Metropolitan Statistical Areas

The metropolitan portions of locality pay areas currently are linked to Metropolitan Statistical Areas, as defined and published by OMB. If OMB modifies an MSA boundary, the boundary of the affected locality pay area changes automatically.

OMB and the Census Bureau have announced plans to make changes in the way metropolitan areas are defined. Beginning in 2003, metropolitan areas will be redefined using new criteria and 2000 census data. The Council recommended in 2000 that the Pay Agent should not follow the new metropolitan area definitions until it has had an opportunity to assess their impact on the locality pay program.

The Pay Agent agreed with this recommendation last year, and we plan to publish a proposal in the *Federal Register* soon to address this issue.

Locality Pay Areas for 2003

The Pay Agent will continue the following 32 areas as locality pay areas in 2003:

Atlanta MSA	Houston CMSA	Pittsburgh MSA
Boston CMSA +	Huntsville MSA	Portland CMSA
Chicago CMSA	Indianapolis MSA	Richmond MSA
Cincinnati CMSA	Kansas City MSA	Sacramento MSA
Cleveland CMSA	Los Angeles CMSA +	St. Louis MSA
Columbus, OH MSA	Miami CMSA	San Diego MSA
Dallas CMSA	Milwaukee CMSA	San Francisco CMSA +
Dayton MSA	Minneapolis CMSA	Seattle CMSA
Denver CMSA	New York CMSA	Washington, DC CMSA +
Detroit CMSA	Orlando MSA	Rest of U.S.
Hartford MSA +	Philadelphia CMSA	

The symbol “+” indicates one or more areas of application.

COMPARING GENERAL SCHEDULE AND NON-FEDERAL PAY

How Local Pay Disparities Are Measured

Locality-based comparability payments are a function of local disparities between Federal and non-Federal pay. Pay disparities are measured for each locality pay area by comparing the annual scheduled rates of basic pay⁵ of workers paid under the General Schedule (GS) pay plan in an area to the annual rates generally paid to non-Federal workers for the same levels of work in the same area. Non-Federal pay is represented by a survey of 115 jobs distributed over 26 occupations (as listed in Table 1). Each of the 115 surveyed jobs has been equated to a GS occupational definition and grade level and classified among 5 broad “PATCO” categories—professional (P), administrative (A), technical (T), clerical (C), and protective officer (O). (See Appendix IV for details.)

Non-Federal rates are estimated on a sample basis by BLS area surveys. The rate for each non-Federal job is an estimate of the mean straight-time earnings of full-time non-Federal workers in the job, based on the BLS survey sample. GS rates are determined from Federal personnel records for the relevant populations of GS workers. Each GS rate is the mean scheduled annual rate of all full-time permanent year-round GS workers in the relevant group.

The reference dates of the BLS surveys vary over the cycle of non-Federal salary surveys conducted for the GS locality pay program. To ensure that local pay disparities are measured as of one common date, it is necessary to “age” the BLS survey data to a common reference date before comparing it to GS pay data of the same date. March 2001 is the common reference and comparison date used in this report. The Employment Cost Index (ECI) based on wages and salaries for white-collar civilian workers, excluding those in sales, was used to age the BLS data.

Since 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 and job categories 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.

⁵ The annual scheduled rate of basic pay is the General Schedule rate of basic pay for the employee’s grade and step (or relative position in the rate range), inclusive of a special rate under section 403 of FEPCA, but exclusive of a special rate under 5 U.S.C. 5305, a special law enforcement adjusted rate under subpart C of 5 CFR part 531, and a locality rate under subpart F of 5 CFR part 531.

Table 2.
Number of Survey Jobs by Grade and PATCO Category

Grade	P	A	T	C	O	Total
GS-1				1		1
GS-2				3		3
GS-3			3	5		8
GS-4			4	5		9
GS-5	4	4	4	4	2	18
GS-6			2	1	1	4
GS-7	5	4	4	1	1	15
GS-8			1	1		2
GS-9	6	5	2			13
GS-11	6	5	2			13
GS-12	5	5				10
GS-13	4	4				8
GS-14	3	3				6
GS-15	3	2				5
Totals	36	32	22	21	4	115

Table 2, above, summarizes the distribution of survey jobs by PATCO category and grade. The 115 jobs are distributed among 35 category levels, which are in turn distributed among 14 grade levels (there is no survey job at grade 10). For example, grade GS-1 is represented by only one job in the clerical category (General Clerk I). By contrast, grade GS-5 is represented by 18 jobs distributed among all 5 categories, including 4 in the professional category (Accountant I, Engineer I, Scientist I, and Contracting Specialist I), 4 in the administrative category (Budget Analyst I, Computer Programmer I, Personnel Specialist I, and Tax Collector I), etc.

Because of variations in local industry mix, labor force size, and other factors, BLS is not able to publish rates for all 115 jobs in any area surveyed. On average, an area survey resulted in published pay data for about 59 percent of the 115 jobs, ranging from a low of 39 jobs in the Richmond survey to a high of 94 in the Rest of U.S. survey. Salary data for unpublished jobs may be substituted from alternative sources, as explained below in the section on “Methodology Issue.”

The non-Federal rates from the BLS data are averaged in three stages. In the first stage, job rates are averaged within PATCO category by grade level. The jobs surveyed at each grade represent directly the Federal workers in equivalent job classifications (e.g., engineers) and indirectly other Federal workers in the same PATCO category (e.g., other professionals) at that grade. At

grade 5, for example, the four job rates in the professional category are averaged to one rate for the GS-5 professional category. In the same manner, job rates are averaged within the administrative, technical, clerical, and protective officer categories at grade 5. For averaging within category, each job rate is weighted by the CONUS⁶ full-time permanent year-round employment in GS positions that match the job.⁷ The reason for CONUS weighting in the first stage is explained below.

When the first stage averages are complete, grade 5 is represented by 5 category rates in lieu of its original 18 job rates. Similarly, grades 1 and 2 are each represented by one category rate, grades 3 and 4 each by two category rates, grade 6 by three category rates, and so on.

In the second stage, the category rates are averaged by grade level to one grade level rate for each grade represented. Thus, at grade 5 the five category rates are averaged to one GS-5 rate. For averaging by grade, each 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 14 grade rates are weighted by the corresponding local full-time permanent year-round GS grade level employment and averaged to a single overall non-Federal rate for the locality. This overall non-Federal average is the non-Federal rate to which the overall average GS rate is compared.

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.

The pay disparity, finally, is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate.⁸

As indicated above, at the first stage of averaging the non-Federal data, the weights represent national or CONUS GS employment, while local GS employment is used to weight the second

6 Continental United States, comprising the 48 contiguous States plus the District of Columbia.

7 Five of the survey jobs match Federal series in two PATCO categories. Buyer I and II each match a Federal technical as well as a professional classification. Accounting Clerk III and IV and Word Processor III each match a technical and a clerical classification. Each of the five job rates is averaged under both categories in the first stage averaging, with appropriate weighting.

8 An equivalent procedure for computing the pay disparity compares aggregate pay rather than average pay, where aggregate pay is defined as the sum across grades of the grade level rate times the grade level GS employment. In fact, the law defines a pay disparity in terms of a comparison of pay aggregates rather than pay averages (5 U.S.C. 5302(6)). Algebraically, however, the percentage difference between sector aggregates (as defined) is exactly the same as the percentage difference between sector averages.

and third stage averages. Recall that 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 published survey job whose Federal counterpart has no local GS incumbents will “drop out” in stage one and have no effect on the overall average. This might be appropriate if the survey job represented only those GS workers in the Federal counterpart job; but in the second stage of averaging, each survey job represents part or all of a broader PATCO category level, and in the third stage each PATCO category level represents part or all of a broader grade level. If a job is allowed to drop out due to zero local GS employment, some GS incumbents of other classifications in the same PATCO category level—not represented by a specific survey job—will be unrepresented.

For this reason, national or CONUS weights are used in the first stage of averaging. CONUS weights are used only where retention of each published survey observation is most important—at the job level or stage one. Local weights are used at all other stages.

Methodology Issue—Publishability and Substitute Data

The above comparison methodology is an adaptation and modification of methods developed over the years to compute an overall nationwide pay disparity under the Federal Pay Comparability Act of 1970. For example, the multi-stage method of weighting by GS employment and PATCO category was adopted in 1976. However, differences between comparability adjustments under the 1970 Act and under the locality pay provisions of FEPCA required some changes in method and created some new methodological issues. As in previous years under FEPCA, the Pay Agent has adopted the Federal Salary Council’s recommendations for resolving these issues.

BLS surveys the 115 jobs identified in Table 1 in each locality pay area. However, the survey of a job is no guarantee that the salary data collected, if any, will meet BLS’ criteria for publication. BLS publication criteria are designed to ensure statistically reliable estimates and to protect the confidentiality of individual establishments in the survey.

As noted above, the critical area surveys produced, on average, publishable data for about 59 percent of the 115 jobs. Although the data for some jobs tend to be publishable more often than for others, the list of published jobs varies from area to area. In the most recent survey, BLS published data for only 12 of the 115 jobs in all 32 locality pay areas.

The fact that the set of published jobs varies from area to area is a concern because the disparity between Federal and non-Federal pay varies by job as well as by area. If area pay disparities are not based on the same set of jobs in each area, the differences between those disparities are caused not only by differences in the pay of Federal and non-Federal workers for the same jobs (as intended), but also by differences in the set of jobs for which pay data are published.

As was done for previous reports, the Pay Agent used estimates of non-Federal pay produced by a multiple regression model to estimate salaries for jobs not published by BLS. OPM staff developed the model to estimate local non-Federal pay differentials for the survey jobs. It produces estimates of the pay of unpublished jobs based on multiple regression analysis of the pay of published jobs. The model assumes that pay varies with three factors—geographic area, occupation, and work level—and it accounts for about 96 percent of the variation in the pay rates published by BLS. In more than half the cases, the difference between the rate estimated by the model and the actual published rate is less than or equal to 5 percent. The use of the model has been endorsed by the Federal Salary Council. A technical report on the OPM model was provided in Appendix II of the 1994 Report. A summary of this year's model is provided in Appendix II of this report.

With the OPM model and the completion of two or more survey cycles in most locality pay areas, the Pay Agent's strategy for maximizing the jobs represented in local pay disparities is to use data from the highest available source in the following ranked list:

- (1) all-industry data from the latest survey of the area;
- (2) average of State/local government and private industry data from the latest survey of the area, if both published;
- (3) State/local government or private industry data from the latest survey of the area, when only one published;
- (4) all-industry data from the next latest survey of the area;
- (5) average of State/local government and private industry data from next latest survey of the area, if both published;
- (6) State/local government or private industry data from the next latest survey of the area, when only one published; or
- (7) the model estimate.

This strategy ensures that all 115 jobs are represented in each local pay disparity. Appendix III identifies the number and source of all data substitutions by area.

LOCAL PAY DISPARITIES AND COMPARABILITY PAYMENTS

Table 3, below, lists the pay disparities for 32 localities, derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2002, and shows the disparities that would remain if the recommended payments were adopted.

Among the pay disparities in column 1 of the table are those for Huntsville, Indianapolis, and Kansas City, all of which were below the Rest of U.S. pay disparity. The Pay Agent has adopted the Federal Salary Council's recommendation to continue these locations as separate locality pay areas, but to combine their pay disparities with that for the RUS locality pay area. The adjusted RUS pay disparity is the weighted average of the pay disparities for RUS, Huntsville, Indianapolis, and Kansas City, or 28.53 percent, using area GS base payroll for weights. The "RUS-adjusted disparity" in column 2 contains the adjusted RUS pay disparity for all four locations.

The law requires comparability payments only in localities where the pay disparity exceeds 5 percent; the goal is to reduce local pay disparities to no more than 5 percent not later than the year 2002 (5 U.S.C. 5304(a)(3)(I)). The "Disparity to Close" shown in column 3 represents the pay disparity to be closed in each area based on the 5 percent remaining disparity threshold. The "Locality Payment" shown in column 4 represents 100 percent of the disparity to close. (Note: Since FEPCA contemplated that the target pay disparity would be closed by 2002, the amounts shown in columns 3 and 4 are the same.) Column 5 shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Atlanta, the 31.80 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 25.52 percent $(131.80/125.52-1) \times 100 = 5.00$ percent).

The actual remaining pay disparity as of January 2003 may differ from the calculations above for two reasons. First, Federal pay will have increased by the amount of the general increases effective in January 2002 and 2003. Second, non-Federal pay will have increased by some amount from March 2001 to January 2003. For the purpose of this report, we assume that future changes in Federal and non-Federal pay will substantially cancel each other out and that the pay disparities will remain about the same.

Table 3.
Local Pay Disparities and 2003 Comparability Payments under 5 U.S.C. 5304(a)(3)(I)

Locality	-1- Pay Disparity (percent)	-2- RUS-adj Disparity (percent)	-3- Disparity to Close (percent)	-4- Locality Payment (percent)	-5- Remaining Disparity (percent)
Atlanta MSA	31.80	31.80	25.52	25.52	5.00
Boston CMSA +	39.45	39.45	32.81	32.81	5.00
Chicago CMSA	42.96	42.96	36.15	36.15	5.00
Cincinnati CMSA	37.65	37.65	31.10	31.10	5.00
Cleveland CMSA	33.24	33.24	26.90	26.90	5.00
Columbus MSA	31.00	31.00	24.76	24.76	5.00
Dallas CMSA	34.02	34.02	27.64	27.64	5.00
Dayton MSA	30.22	30.22	24.02	24.02	5.00
Denver CMSA	39.43	39.43	32.79	32.79	5.00
Detroit CMSA	42.71	42.71	35.91	35.91	5.00
Hartford MSA +	40.04	40.04	33.37	33.37	5.00
Houston CMSA	51.37	51.37	44.16	44.16	5.00
Huntsville MSA*	26.41	28.53	22.41	22.41	5.00
Indianapolis MSA*	26.81	28.53	22.41	22.41	5.00
Kansas City MSA*	27.84	28.53	22.41	22.41	5.00
Los Angeles CMSA +	45.06	45.06	38.15	38.15	5.00
Miami CMSA	37.85	37.85	31.29	31.29	5.00
Milwaukee CMSA	32.76	32.76	26.44	26.44	5.00
Minneapolis MSA	35.79	35.79	29.32	29.32	5.00
New York CMSA	43.55	43.55	36.71	36.71	5.00
Orlando MSA	28.68	28.68	22.55	22.55	5.00
Philadelphia CMSA	36.75	36.75	30.24	30.24	5.00
Pittsburgh MSA	29.17	29.17	23.02	23.02	5.00
Portland CMSA	37.08	37.08	30.55	30.55	5.00
Richmond MSA	31.15	31.15	24.90	24.90	5.00
Sacramento CMSA	36.35	36.35	29.86	29.86	5.00
St. Louis MSA	29.31	29.31	23.15	23.15	5.00
San Diego MSA	38.16	38.16	31.58	31.58	5.00
San Francisco CMSA +	54.13	54.13	46.79	46.79	5.00
Seattle CMSA	37.40	37.40	30.86	30.86	5.00
Washington, DC CMSA +	35.38	35.38	28.93	28.93	5.00
Rest of U.S.	28.64	28.53	22.41	22.41	5.00

* The location has been combined with RUS. + The location includes areas of application.

Average Locality Rate

The average locality comparability rate using basic GS payroll as of March 2001 to weight the individual rates would be 27.59 percent in 2003 under the methodology required for this report. The average rate authorized in 2001 was 9.75 percent, and we anticipate that the average rate in 2002 will be 10.95 percent if a 4.6 percent overall increase is allocated as recommended by the Federal Salary Council.

Overall Remaining Pay Disparities

The pay disparities contained in this report average 33.97 percent using basic GS payroll as of March 2001 to weight the local pay disparities. However, this calculation excludes existing locality payments. When the existing locality payments (i.e., those paid in 2001) are included in the comparison, the overall remaining pay disparity as of March 2001 was $(133.97/109.75-1) \times 100$, or about 22 percent. Table 4, below, shows the overall remaining pay disparity in each of the 32 locality pay areas established by the Pay Agent.

Table 4.
Remaining Pay Disparities in 2001

Locality Pay Area	Remaining Disparity	Locality Pay Area	Remaining Disparity
Atlanta	21.30%	Miami	24.09%
Boston	24.36%	Milwaukee	21.90%
Chicago	26.51%	Minneapolis	23.11%
Cincinnati	24.28%	New York	26.34%
Cleveland	22.05%	Orlando	19.47%
Columbus	19.51%	Philadelphia	23.42%
Dallas	22.16%	Pittsburgh	19.01%
Dayton	19.91%	Portland	24.26%
Denver	24.60%	Richmond	20.76%
Detroit	26.14%	Sacramento	23.14%
Hartford	24.31%	St. Louis	19.73%
Houston	29.75%	San Diego	24.12%
Huntsville	18.88%	San Francisco	31.76%
Indianapolis	19.13%	Seattle	24.40%
Kansas City	18.66%	Washington, DC	22.82%
Los Angeles	26.83%	Rest of U.S.	19.36%

COST OF LOCALITY PAYMENTS

Estimated Cost of Locality Payments

The cost of locality payments is the sum of all individual locality payments during a calendar year, offset by special rates and geographic adjustments for law enforcement officers (LEOs). This amount is estimated using OPM records of all Federal employees duty-stationed within the continental United States (CONUS) as of March 2001 and covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 3. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in CONUS during 2003 will not differ from the number and distribution in March 2001. The estimate does not include increases in premium pay costs or Government contributions for retirement, life insurance, or other employee benefits that may be attributed to locality payments.

Cost estimates are derived as follows. First, both the “scheduled annual rate of pay,” as defined in 5 CFR 531.602, and the annual rate inclusive of special rates and LEO geographic adjustments are determined for each employee. (These rates are adjusted to include an assumed 3.6 percent across-the-board increase in 2002 and the 3.1 percent across-the-board increase that would go into effect in 2003 under the law.) Both annual rates are converted to expected annual earnings by multiplying each by an appropriate work schedule factor.⁹ A “gross locality payment” is computed for each employee by multiplying expected annual earnings from the scheduled annual rate by the percentage locality payment for the employee’s locality pay area. The sum of these gross locality payments is the cost of locality pay before offset by special rates and LEO geographic adjustments.

Second, for each employee, the gross locality payment is compared to the amount by which expected annual earnings from the annual rate inclusive of special rates and LEO geographic adjustments exceeds the expected annual earnings from the scheduled annual rate. This second amount is the “cost” of any special rate or LEO geographic adjustment. If the gross locality payment is less than or equal to the cost of any special rate or LEO geographic adjustment, the net locality payment is set to zero. In this case, the locality payment is completely offset. If the gross locality payment is greater than the cost of any special rate or LEO adjustment, the net locality payment is equal to the gross locality payment minus the cost of any special rate or LEO geographic adjustment. In this case, the locality payment is at most partially offset. If the scheduled annual rate is the same as the annual rate inclusive of special rates and LEO geographic adjustments (i.e., the cost of any special rate or LEO geographic adjustment is zero), then there is no offset and the net locality payment equals the gross locality payment. The sum of the net locality payments so derived is the estimated cost of local comparability payments.

⁹ The work schedule factor equals 1 for full-time employees and one of several values less than 1 for the several categories of non-full-time employees.

Estimated Cost of Locality Payments in 2003

Table 5, below, compares the cost of 2002 locality rates to those that would be authorized in 2003 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 3. For the purpose of this cost estimate, we have assumed that there will be a 3.6 percent across-the-board increase in January 2002 and an additional 1.0 percent of payroll provided for locality pay increases that will be allocated as recommended by the Federal Salary Council in Attachment 3 of its letter of October 31, 2001.

The “2002 Baseline” cost would be the cost of locality pay in 2003 if the 2002 locality rates were not increased, i.e., the percentage locality payments in January 2002 on top of base pay increased by the 3.6 percent across-the-board adjustment in January 2002 and the 3.1 percent adjustment for January 2003.

The “100 Percent of Target in 2003” columns show what the total locality payments would be and the net increase in 2003. The “2003 Increase” column shows the 2003 total payment minus the 2002 baseline—i.e., the net increase in locality pay in 2003 attributable to higher locality pay rates. Based on the assumptions outlined above, we estimate the total cost of the net pay increases attributable to the locality rates that otherwise would be required by current law to be about **\$9.795 billion** on an annual basis. This amount does not include the cost of benefits or the amount of the assumed increase in rates of basic pay that would take effect in January 2003 under current law.

This cost estimate excludes 1,295 records of white-collar workers, which were unusable because of errors. Many of these employees may receive locality pay. Including these records would add about \$10 million to the net cost of locality payments. The cost estimate covers only the General Schedule and employees in pay plans who receive locality pay by action of the Pay Agent. It excludes the cost of pay raises for employees under other pay systems that may be linked in some fashion to locality pay increases. These other pay systems include the Federal Wage System for blue-collar workers, under which raises often are capped based on the increase in locality rates for white-collar workers; pay raises for employees of the Federal Aviation Administration and other agencies which have independent authority to set pay; and pay raises for employees covered by various demonstration projects.

Table 5.
Cost of Local Comparability Payments in 2003 (in millions of dollars)

Cost Component	2002 Baseline	100% of Target in 2003	
		Total Payments	2003 Increase
Gross locality payments	\$6,813	\$16,883	\$10,070
Special rates offsets	591	862	271
LEO geographic adjustments offsets*	139	143	4
Net locality payments	\$6,083	\$15,878	\$9,795

*LEO geographic adjustments are pay adjustments to which law enforcement officers are entitled in certain metropolitan areas.

RECOMMENDATIONS OF THE FEDERAL SALARY COUNCIL AND EMPLOYEE ORGANIZATIONS

The Federal Salary Council's deliberations and recommendations have had an important and constructive influence on the findings and recommendations of the Pay Agent. The Council's recommendations appear in Appendix I. We have adopted all of their recommendations except for a recommendation to use small NCS surveys to establish three new locality pay areas in 2002.

The members of the Federal Salary Council are:

William J. Sheffield	Chairman;
Margaret A. Coil	Consultant, Human Resources;
Bobby L. Harnage, Sr.	President, American Federation of Government Employees/AFL-CIO;
Peter A. Tchirkow	American Federation of Government Employees/AFL-CIO;
Colleen M. Kelley	President, National Treasury Employees Union;
Richard N. Brown	President, National Federation of Federal Employees/AFL-CIO; and
Geri Marullo	former Executive Director, American Nurses Association.

In its letter of October 31, 2001, the Council suggested that 2003 might be the year to consider significant changes in the structure of the locality pay program, including how many locality pay areas are feasible, what constitutes a meaningful difference in locality rates, the relative precision of the pay disparities and locality rates, and how to treat areas that cannot be surveyed separately. The Council suggested that the Pay Agent provide a suitable forum if such a review is undertaken so that the views of all stakeholders are considered. We thank the Council for its recommendation and will consider options for such a forum.

The Council's recommendations were provided to organizations not represented on the Council. These organizations were asked to send comments for inclusion in this report. These comments appear in Appendix X.

FUTURE SURVEYS

In its National Compensation Survey (NCS) program, BLS has consolidated its three main compensation surveys: the Occupational Compensation Survey Program, which provided the locality data used in administering FEPCA; the Employment Cost Index; and the Employee Benefits Survey. As part of this new survey approach, BLS uses probability methods for selecting occupations rather than a job list selected by the Pay Agent in consultation with the Federal Salary Council. The new process also uses an occupational classification system based on the 1990 Census of Population instead of job definitions for the Federal GS classification system.¹⁰ Finally, an adaptation of the Factor Evaluation System Primary Standard is currently used to determine work levels in lieu of OPM's specific job and work level definitions tied to General Schedule grade levels. The Factor Evaluation System is based on nine factors; BLS has tentatively added a tenth factor to account for supervisory duties.

The NCS program appears to offer greater occupational coverage, provides for more efficient use of BLS resources, and reduces respondent burden. However, the Federal Salary Council expressed serious concerns about the surveys and concluded that NCS surveys should not be used in the locality pay program. The Pay Agent believes certain major aspects of the NCS program must be improved before the data can be used for making pay comparisons.

In 1999, Pay Agent and BLS staff identified improvements that could be made in NCS methods. In its letter of October 22, 1999, the Federal Salary Council modified one of the suggested improvements and recommended that all the improvements be made. In its 1999 report, the Pay Agent asked staff to begin making these improvements.

As indicated in its report to Congress on May 15, 2001, the Pay Agent is now preparing to implement four of the five survey improvements, which will affect surveys to be delivered next year. Implementation of the fifth improvement, a four-factor grading system with job family guides, will begin by 2003 but will not be fully implemented until 2007. The improvements are:

- 1) Assigning GS grades to randomly selected survey jobs.

Progress: OPM has designed and tested a prototype factor evaluation system using four factors for use in the surveys, and BLS has successfully used the new approach in field tests. OPM contracted for the development of additional job family guides, which will be ready for testing soon. Pay Agent and BLS staff plan to phase the new approach into BLS surveys from 2003 through 2007. This improvement will take the longest to implement.

- 2) Assigning GS grades to randomly selected survey jobs with supervisory duties.

¹⁰ BLS will be converting to the new Standard Occupational Classification System.

Progress: BLS has identified survey establishments where supervisory jobs were surveyed, discussed new collection procedures with its staff, and tested a new method of grading supervisory jobs based on grading the highest level of work supervised. Pay Agent and BLS staff plan to fully incorporate the new approach into BLS surveys next year.

3) Other problems associated with random selection of survey jobs.

Progress: BLS has designed an econometric model that could be used to estimate salaries for jobs not randomly selected in the surveys. BLS and OPM staff continue to explore technical issues, such as which jobs to include, what mathematical form to use, how to weight the data, and whether to use factor patterns or grade level as the work level variable. Pay Agent and BLS staff plan to incorporate modeled data into BLS survey results next year.

4) Matching Federal and non-Federal jobs.

Progress: OPM formed an interagency working group that developed a crosswalk between Federal job classifications and the new Standard Occupational Classification System, which BLS will be using in its surveys. OPM and BLS are now reviewing the crosswalk and hope to introduce new Federal employment weights for use in the NCS program based on the new crosswalk next year.

5) Excluding randomly selected jobs that would be classified above GS-15 in the Government.

Progress: BLS has developed methods for identifying and excluding jobs that would be classified above GS-15. Pay Agent and BLS staff plan to incorporate this improvement into the surveys next year.

We look forward to reviewing the results of the improvements in the salary survey data delivered next year, and we are hopeful that the NCS data will be usable for setting locality pay at that time.