REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
2013

The President's Pay Agent

Washington, DC
June 17, 2014

MEMORANDUM FOR THE PRESIDENT

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

Section 5304 of title 5, United States Code, requires the President's Pay Agent to submit a report each year showing the locality-based comparability payments we would recommend for General Schedule (GS) employees if the adjustments were to be made as specified in the statute. To fulfill this obligation, this report shows the adjustments that would be required in 2015 under section 5304, absent overriding legislation or exercise of your alternative plan authority to control locality pay.

The Federal Salary Council contributes substantially to the administration of the locality pay program, and we appreciate the Council's recommendations for locality pay in 2015, which are included in Appendix I of this report. We remain in agreement with the Council that we should establish 12 new locality pay areas, which the Pay Agent tentatively approved in its May 2013 report. However, we have not yet made a final decision on what the timing should be for this significant change. We also agree with the Council that it may be appropriate, after appropriate rulemaking, to use the Office of Management and Budget's February 2013 metropolitan area definitions as the basis for locality pay areas.

We do not approve all of the Council's recommendations for locality pay in 2015. As explained in earlier reports, we disagree that it is appropriate to eliminate the GS employment criterion for evaluating areas adjacent to locality pay areas or to change the locality pay program's treatment of micropolitan areas or single-county locations. Regarding survey data, it is not feasible to restore the National Compensation Survey program as it existed before its sample sizes were reduced as a result of budget limitations. We urge the Council to work with the Bureau of Labor Statistics to make the best possible use of the data and methodology now used in the locality pay program.

And, as has been noted in earlier reports and discussed in other venues, there is a need to consider reforms of the white-collar Federal pay system, which utilizes a process requiring a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups. In addition, we believe the underlying model and methodology for estimating pay gaps should be reexamined to ensure that private sector and Federal sector pay comparisons are as accurate as possible.

The President's Pay Agent:

SIGNED	**SIGNED**	**SIGNED**
Thomas E. Perez **Secretary of Labor**	**Beth Cobert** **Deputy Director for Management, Office of Management and Budget**	**Katherine Archuleta** **Director, Office of Personnel Management**

TABLE OF CONTENTS

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 contained in 5 U.S.C. 5301 for setting GS pay is that—

(1) there be equal pay for substantially equal work within each local pay area;

(2) within each local pay area, pay distinctions be maintained in keeping with work and performance distinctions;

(3) Federal pay rates be comparable with non-Federal pay rates for the same levels of work within the same local pay area; and

(4) any existing pay disparities between Federal and non-Federal employees should be completely eliminated.

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

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, individual members of the Council, and employee organizations.

The President's Pay Agent consists of the Secretary of Labor and the Directors of the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM). This report fulfills the Pay Agent's responsibility under 5 U.S.C. 5304(d), as amended, and recommends locality pay adjustments for 2015 if such adjustments were to be made as specified under 5 U.S.C. 5304.

ACROSS-THE-BOARD AND LOCALITY ADJUSTMENTS

Under FEPCA, GS salary adjustments, beginning in January 1994, consist of two components: (1) a general increase linked to the ECI and applicable to the General Schedule, Foreign Service pay schedules, and certain pay schedules established under title 38, United States Code, for Veterans Health Administration employees; and (2) a GS locality adjustment that applies only to specific areas of the 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 2015 increase is the 12-month period ending September 2013. During that period, the ECI wage and salary component, private industry workers, increased by 1.8 percent. Therefore, the January 2015 general increase, if granted, would be 1.3 percent (1.8 percent minus 0.5 percentage points).

The locality component of the pay adjustment under FEPCA was 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 2002 and thereafter, the law authorized the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent. However, the schedule for locality pay adjustments under FEPCA has not been followed.

LOCALITY PAY SURVEYS

FEPCA requires the use of non-Federal salary survey data collected by the Bureau of Labor Statistics (BLS) to set locality pay. BLS uses information from two of its programs to provide the data. Data from the National Compensation Survey (NCS) are used to estimate how salaries vary by level of work from the occupational average, and Occupational Employment Statistics (OES) data are used to estimate average salaries by occupation in each locality pay area. The process used to combine the data from the two sources is referred to as the *NCS/OES model*.

BLS surveys used for locality pay include collection of salary data from establishments of all employment sizes in private industry and State and local governments. Under the NCS, BLS collected data from a total of 11,500 establishments for NCS/OES model development.

The OES survey measures occupational employment and wage rates of wage and salary workers in nonfarm establishments in the 50 States and the District of Columbia. Guam, Puerto Rico, and the Virgin Islands are also surveyed. About 6.8 million in-scope establishments are stratified within their respective States by sub-state area, size, and industry. Sub-state areas include all officially defined metropolitan statistical areas (MSAs), metropolitan divisions and, for each State, one or more residual balance-of-State areas. The North American Industry Classification System is used to stratify establishments by industry.

For OES, BLS selects semiannual probability samples, referred to as *panels*, of about 200,000 business establishments, and pools those samples across 3 years (or 6 panels) for a total sample of 1.2 million business establishments, in order to have sufficient sample sizes to produce estimates for small estimation cells. Responses are obtained through mail, telephone contact, and e-mail or other electronic means. Most respondents report their number of employees by occupation across 12 wage bands. There are about 100 different survey forms—each used for a different set of industries—as well as a write-in form sent to the smallest establishments. The Standard Occupational Classification system (SOC) is used to define occupations. Estimates of occupational employment and occupational wage rates are based on a rolling six-panel (or 3-year) cycle.

The industry scope of the data provided to the Pay Agent includes private goods-producing industries (mining, construction, and manufacturing); private service-providing industries (trade; transportation and utilities; information; financial activities; professional and business services; education and health services; leisure and hospitality; and other services); and State and local governments. The Federal Government, private households, and most of the agriculture, forestry, fishing, and hunting sector were excluded.

Occupational Coverage

BLS surveys all jobs in establishments for the OES program and selects a sample of jobs within establishments for the NCS program. The jobs are selected and weighted to represent all non-Federal occupations in the location and, based on the crosswalk published in Appendix VII of the 2002 Pay Agent's report, also represent virtually all GS employees. OPM provided the crosswalk between GS occupational series and the SOC system used by BLS to group non-Federal survey jobs. OPM also provided March 2012 GS employment counts for use in weighting survey job data to higher aggregates.

Matching Level of Work

BLS collects information on level of work in the NCS program. In the NCS surveys, BLS field economists cannot use a set list of survey job descriptions because BLS uses a random sampling method and any non-Federal job can be selected in an establishment for leveling (i.e., grading). In addition, it is not feasible for BLS field economists to consult and use the entire GS position classification system to level survey jobs because it would take too long to gather all the information needed and would place an undue burden on survey participants.

To conduct grade leveling under the NCS program, OPM developed a simplified four-factor grade leveling system with job family guides. These guides were designed to provide occupational-specific leveling instructions for the BLS field economists. The four factors were derived and validated by combining the nine factors under the existing GS Factor Evaluation System. The four factors are knowledge, job controls and complexity, contacts, and physical environment. The factors were validated against a wide variety of GS positions and proved to replicate current grade levels.

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

Combining OES and NCS Data for Locality Pay

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

Benefits of Incorporating OES Data

In order to calculate estimates of pay gaps, the Pay Agent asks BLS to calculate wage estimates by area, occupation, and grade. Before the NCS/OES model was used in the locality pay program, often NCS data for an area-occupation-grade combination were missing, and an econometric model was used to fill in the missing data. That model estimated, with NCS data alone, how wages varied by roughly 30 areas, well over 200 occupations, and 15 grade levels. If one first obtains area-occupation mean wages from the OES data, the need for an econometric model is primarily to estimate how wages vary by grade, which is an easier task.

Two additional advantages result from the OES sample being much larger than the NCS sample. One would expect, overall, that the estimates of mean wages by occupation and area would be more precise in the OES than in the NCS. Also, because of the larger OES sample size, one can relax the strong assumption of the prior NCS model that, regardless of occupation, a particular area will always be high-wage while a different area will always be low-wage.

Moreover, because the OES samples establishments in all metropolitan areas of the country, one can generate Federal pay gaps for all metropolitan areas by extrapolating the relationship between grade and wages from the NCS to areas not sampled in the NCS. This assumes that the estimated grade effects do not vary across areas. If there is sufficient confidence in the robustness of these estimates, the incorporation of the OES increases the number of localities for which estimates can be provided.

Regression Method

This section provides a non-technical description of the NCS/OES model. Appendix II of this report contains a report completed by the BLS research team, which provides technical details.

In order to calculate estimates of pay gaps, the Pay Agent asks BLS to calculate annual wage estimates by area, occupation, and grade level. These estimates are then weighted by National Federal employment to arrive at wage estimates by broad occupation group and grade for each pay area. There are five broad occupational groups collectively referred to as “PATCO” categories: Professional (P), Administrative (A), Technical (T), Clerical (C), and Officer (O).

OES data provide wage estimates by occupation for each 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 can be 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.

Federal Salary Council Recommendation to Restore the NCS Program

As explained in previous reports, it is not feasible to restore the NCS program as it existed before its sample sizes were reduced as a result of BLS budget limitations. We fully agree that good non-Federal salary data are necessary for administering the locality pay program, but we must work with the resources now available. We urge the Council to continue to work with BLS to make the best possible use of the data and methodology now used in the locality pay program.

COMPARING GENERAL SCHEDULE AND NON-FEDERAL PAY

How Local Pay Disparities Are Measured

Locality-based comparability payments are a function of local disparities between Federal and non-Federal pay. Pay disparities are measured for each locality pay area by comparing the base GS pay rates of workers paid under the General Schedule pay plan in a geographic area to the annual rates generally paid to non-Federal workers for the same levels of work in the same geographic area. Under the NCS/OES model, BLS models salaries for most non-Federal jobs deemed to match GS positions, as shown in the crosswalk in Appendix VII to the 2002 Pay Agent's report.

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

The reference dates of OES data vary over the survey cycle for non-Federal salaries. To ensure that local pay disparities are measured as of one common date, it is necessary to "age" the OES survey data to a common reference date before comparing it to GS pay data of the same date. March 2013 is the common reference and comparison date used in this report for 2015 pay adjustments. For the calculation of the salary estimates delivered to the Pay Agent, BLS used appropriate ECI factors to adjust OES salary data from past survey reference periods to March 2013.

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

Table 1

Example of NCS/OES Model Estimates—Lawyers—Washington, DC

	OES Average	GS-9 model estimate	GS-11 model estimate	GS-12 model estimate	GS-13 model estimate	GS-14 model estimate	GS-15 model estimate
Hourly wage	$76.45	$50.26	$65.46	$82.44	$96.54	$114.46	$117.48
Ratio to OES Average	100%	66%	86%	108%	126%	150%	154%

Note: Data in the above table are illustrative only and not intended to reflect current data. Computations do not match exactly due to rounding.

Because 5 U.S.C. 5302(6) requires that each local pay disparity be expressed as a single percentage, the comparison of GS and non-Federal rates of pay in a locality requires that the two sets of rates be reduced to one pair of rates, a GS average and a non-Federal average. An important principle in averaging each set of rates is that the rates of individual survey jobs, job categories, and grades are weighted by Federal GS employment in equivalent classifications. Weighting by Federal employment ensures that the influence of each non-Federal survey job on the overall non-Federal average is proportionate to the frequency of that job in the Federal sector.

We use a three-stage weighted average in the pay disparity calculations. In the first stage, job rates from the NCS/OES model are averaged within PATCO category by grade level. The NCS/OES model covers virtually all GS jobs since only jobs that were not found at all in the OES sample for an area cannot be modeled. For averaging within PATCO category, each job rate is weighted by the Nationwide full-time, permanent, year-round employment[1] 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.

1 Employment weights include employees in the United States and its territories and possessions.

The pay disparity, finally, is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate.[2] See Appendix III for more detail on pay gaps using the NCS/OES model.

As indicated above, at the first stage of averaging the non-Federal data, the weights represent National GS employment, while local GS employment is used to weight the second and third stage averages. GS employment weights are meant to ensure that the effect of each non-Federal pay rate on the overall non-Federal average reflects the relative frequency of Federal employment in matching Federal job classifications.

The methodology employed by the Pay Agent to measure local pay disparities does not use local weights in the first (job level) stage of averaging because this would have an undesirable effect. A survey job whose Federal counterpart has no local GS incumbents will “drop out” in stage one and have no effect on the overall average. For this reason, National weights are used in the first stage of averaging data. National weights are used only where retention of each survey observation is most important—at the job level or stage one. Local weights are used at all other stages.

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

LOCALITY PAY AREAS

Federal Salary Council Recommendations Regarding Locality Pay Areas

In its January 2014 recommendations for locality pay in 2015, the Council provided a review of how locality pay area boundaries were first established in 1994 and what changes have been made over the years. The Council also made a number of recommendations for changing locality pay area boundaries for 2015, which we address below.

As explained in the Council's recommendations for 2015, which can be found in Appendix I of this report, locality pay areas consist of 1) a main metropolitan area forming the *basic locality pay area* and, where criteria recommended by the Council and approved by the Pay Agent are met, 2) *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. In its 2013 recommendations for locality pay in 2015, the Council proposed changes to both basic locality pay areas and areas of application.

1. Using New OMB Metropolitan Area Definitions to Define Locality Pay Areas

As explained in the Council's recommendations for locality pay in 2015—

- December 2009 OMB metropolitan area definitions are currently used to define locality pay areas;

- OMB-defined metropolitan areas are called Core-Based Statistical Areas (CBSAs) and are grouped into three categories:

    - *Micropolitan Statistical Areas*, where the largest included urban area has a population of 10,000 to 49,999;

    - *Metropolitan Statistical Areas* (MSAs), where the largest included urban area has a population of 50,000 or more; and

    - *Combined Statistical Areas* (CSAs), which are composed of two or more adjacent CBSAs with an employment interchange of at least 15 percent; and

- In February 2013, OMB issued new CBSA definitions.

Council Recommendation

The Council recommended that the Pay Agent adopt the new CBSA definitions as the basis for locality pay area boundaries, using CSAs where applicable (i.e., using the largest OMB category for the metropolitan area of interest, as we currently do with the December 2009 OMB metropolitan area definitions). For locations that would move out of their current locality pay area to a lower-paying locality pay area based on the February 2013 metropolitan area definitions, the Council recommended such locations remain in their current locality pay area.

Pay Agent Views

We tentatively approve use of OMB's February 2013 CBSA definitions as the basis for locality pay areas. We plan to propose this change in the *Federal Register* at the appropriate time. We have not yet made a final decision on what the timing should be for this possible change.

We also tentatively agree that it is not appropriate to move locations to lower-paying locality pay areas based on OMB's February 2013 metropolitan area definitions, since this would probably be disruptive for agencies and employees and could result in retained pay for current employees and a two-tiered pay system in affected locations.

2. *Proposing 12 New Locality Pay Areas*

Prior to developing its 2012 recommendations for locality pay in 2014, the Council studied NCS/OES model data for all CSAs and MSAs included in the "Rest of U.S." (RUS) locality pay area and having 2,500 or more GS employees. Based on this study, the Council recommended an appropriately cautious, phased approach for removing areas from the RUS locality pay area and establishing them as individual locality pay areas.

For additional locality pay areas to recommend for establishing in January 2014, the Council selected 12 areas with pay disparities between GS and non-Federal pay averaging more than 10 points above that for the RUS locality pay area over a 4-year period. These 12 areas are:

- Albany-Schenectady-Amsterdam, NY Combined Statistical Area;
- Albuquerque, NM Metropolitan Statistical Area;
- Austin-Round Rock-Marble Falls, TX Combined Statistical Area;
- Charlotte-Gastonia-Salisbury, NC-SC Combined Statistical Area;
- Colorado Springs, CO Metropolitan Statistical Area;
- Davenport-Moline-Rock Island, IA-IL Metropolitan Statistical Area;
- Harrisburg-Carlisle-Lebanon, PA Combined Statistical Area;
- Laredo, TX Metropolitan Statistical Area;
- Las Vegas-Paradise-Pahrump, NV Combined Statistical Area;
- Palm Bay-Melbourne-Titusville, FL Metropolitan Statistical Area;
- St. Louis-St. Charles-Farmington, MO-IL Combined Statistical Area; and
- Tucson, AZ Metropolitan Statistical Area.

In its May 2013 report, the Pay Agent tentatively approved the Council's recommendation to establish these 12 new locality pay areas. The Pay Agent still plans, after appropriate notice and opportunity for comment, to establish by regulation the 12 new locality pay areas above. BLS should deliver data separately for these 12 new locality pay areas and exclude them from the RUS computations for its 2014 data delivery to OPM staff.

Council Recommendation

The Council requested that the Pay Agent publish the required proposed and final regulations as soon as possible to establish the 12 new locality pay areas, since the Pay Agent tentatively approved this recommendation in its May 2013 report.

Pay Agent Views

Although we agree with the Council that we should issue regulations proposing establishment of the 12 new locality pay areas the Pay Agent tentatively approved in its May 2013 report, we have not yet made a final decision on what the timing should be for this significant change.

3. *Criteria for Evaluating Adjacent Locations as Possible Areas of Application*

As explained in the Council's 2013 recommendations for locality pay in 2015, we have criteria recommended by the Council and approved by the Pay Agent for evaluating locations adjacent to basic locality pay areas for possible inclusion in the locality pay area as areas of application. The current criteria are based on the number of GS employees in the adjacent area and the level of commuting to/from the main MSA or CSA comprising the locality pay area. As in its recommendations for locality pay in 2013 and 2014, in its recommendations for locality pay in 2015 the Council recommended changing these criteria.

Council Recommendation

As in its recommendations for 2013 and 2014, for 2015 the Council recommended eliminating the GS employment criterion for evaluating adjacent areas.

For 2015, the Council also recommended that, for adjacent single counties the commuting criterion be raised from 7.5 percent to 20 percent, except for single-county metropolitan statistical areas, which would have the same commuting criterion as multi-county metropolitan areas (7.5 percent or greater).

If approved, the changes the Council recommended for evaluating adjacent areas would add a number of multi-county metropolitan areas and single counties to existing locality pay areas. The locations that would be added, and their GS employment, are shown in Attachments 3, 4, and 5 of the Council's recommendations for locality pay in 2015.

Pay Agent Views

As stated in the Pay Agent reports for locality pay in 2013 and 2014, the Pay Agent does not share the Council's view that the GS employment criterion is difficult to explain and irrelevant, and we will not adopt the recommendation, as currently presented, to eliminate the GS employment criterion. The GS employment criterion assesses the degree of the problem of adjacent areas in terms of Federal employment levels—a larger number of affected employees/agencies signifies a bigger problem. We have used a GS employment criterion since locality pay began in 1994.

If the Council believes the GS employment criterion should be eliminated, other criteria to use instead could be considered, including reinstating a population density requirement for adjacent counties to insure urbanized rather than rural counties are added to locality pay areas. Many counties that would be added under the Council's recommendations have fewer than 200 persons per square mile. Under our rules in the 1990s, having 200 or more persons per square mile was one of the requirements for including adjacent counties in locality pay areas.

Because the GS employment criterion will continue to apply, there is no reason to increase the commuting interchange threshold for adjacent single counties.

4. *Micropolitan Areas*

A metropolitan area includes at least one urbanized area with a population of 50,000 or more. A micropolitan area includes at least one urbanized area with a population of at least 10,000 but less than 50,000. The Pay Agent is on record that it would not use micropolitan areas in the locality pay program unless they are included in a CSA with at least one MSA (*Federal Register* Vol. 69, No. 183, page 56722, September 22, 2004).

Council Recommendation

The Council recommends that multi-county micropolitan areas be treated the same in the locality pay program as MSAs.

Pay Agent Views

The Pay Agent continues to believe micropolitan areas should not be used in the locality pay program unless they are included in a CSA with at least one MSA. Micropolitan areas generally have much smaller populations, fewer persons per square mile, and less economic activity than the metropolitan locality pay areas or metropolitan areas considered for inclusion. We see no compelling reasons to change this determination.

5. *Using New Commuting Patterns Data to Evaluate Adjacent Areas*

New commuting patterns data are available this year. The data were collected as part of the American Community Survey from 2006 to 2010.

Council Recommendation

The Council recommends that we use the new commuting patterns data for evaluating adjacent locations for possible inclusion in a locality pay area.

Pay Agent Views

We tentatively agree it is appropriate to use the new commuting patterns data for evaluating adjacent locations. During the notice and comment period for establishing the 12 new locality pay areas discussed above, we will consider applying the commuting criteria using these new data to both current and proposed locality pay areas.

In its recommendations regarding criteria for evaluating adjacent locations as possible areas of application to a locality pay area, the Council recommended that current areas of application remain in their current locality pay area without additional review. For the same reasons we tentatively agreed it would not be advisable to move locations to lower-paying areas based on new metropolitan area definitions, we tentatively agree current areas of application should remain in their current locality pay area without additional review. It would probably be disruptive for agencies and employees and could result in retained pay for current employees and a two-tiered pay system in affected locations if locations were moved to lower-paying locality pay areas based on the new commuting data.

6. *Areas Surrounded or Nearly Surrounded by Separate Locality Pay Areas*

In its recommendations for locality pay in 2014 and 2015, the Council noted that some locations would be entirely surrounded or nearly surrounded by separate locality pay areas if its recommendations were implemented.

Council Recommendation

For 2015, the Council reiterated its recommendation for 2014 that—

- locations completely surrounded by separate pay areas should be added to the adjacent pay area with which the surrounded location has the highest level of commuting, and

- the Pay Agent evaluate on a case-by-case basis any areas nearly but not completely surrounded by separate pay areas.

Pay Agent Views

The Pay Agent will consider this recommendation during the notice and comment period that will be provided for the 12 new locality pay areas the Pay Agent has tentatively approved. (The Pay Agent, in its May 2013 report, said it generally agreed with the Council that surrounded areas could pose a problem and that the Pay Agent would consider this recommendation during the notice and comment period that will be provided for the 12 new locality pay areas tentatively approved.)

7. *Locality Pay Areas for 2015*

For the time being, the Pay Agent plans to continue current locality pay areas in 2015. We agree with the Council that we should issue regulations proposing establishment of the 12 new locality pay areas tentatively approved in the May 2013 Pay Agent report, but we have not yet made a final decision on what the timing should be for this significant change. We also agree with the Council that it may be appropriate to use OMB's February 2013 metropolitan area definitions as the basis for locality pay areas, another change that we plan to propose in the *Federal Register* at the appropriate time.

Current locality pay areas are:

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

(2) Atlanta-Sandy Springs-Gainesville, GA-AL—consisting of the Atlanta-Sandy Springs-Gainesville, GA-AL CSA;

(3) Boston-Worcester-Manchester, MA-NH-RI-ME—consisting of the Boston-Worcester-Manchester, MA-RI-NH CSA, plus Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME;

(4) Buffalo-Niagara-Cattaraugus, NY—consisting of the Buffalo-Niagara-Cattaraugus, NY CSA;

(5) Chicago-Naperville-Michigan City, IL-IN-WI—consisting of the Chicago-Naperville-Michigan City, IL-IN-WI CSA;

(6) Cincinnati-Middletown-Wilmington, OH-KY-IN—consisting of the Cincinnati-Middletown-Wilmington, OH-KY-IN CSA;

(7) Cleveland-Akron-Elyria, OH—consisting of the Cleveland-Akron-Elyria, OH CSA;

(8) Columbus-Marion-Chillicothe, OH—consisting of the Columbus-Marion-Chillicothe, OH CSA;

(9) Dallas-Fort Worth, TX—consisting of the Dallas-Fort Worth, TX CSA;

(10) Dayton-Springfield-Greenville, OH—consisting of the Dayton-Springfield-Greenville, OH CSA;

(11) Denver-Aurora-Boulder, CO—consisting of the Denver-Aurora-Boulder, CO CSA, plus the Ft. Collins-Loveland, CO MSA;

(12) Detroit-Warren-Flint, MI—consisting of the Detroit-Warren-Flint, MI CSA, plus Lenawee County, MI;

(13) Hartford-West Hartford-Willimantic, CT-MA—consisting of the Hartford-West Hartford-Willimantic, CT CSA, plus the Springfield, MA MSA and New London County, CT;

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

(15) Houston-Baytown-Huntsville, TX—consisting of the Houston-Baytown-Huntsville, TX CSA;

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

(17) Indianapolis-Anderson-Columbus, IN—consisting of the Indianapolis-Anderson-Columbus, IN CSA, plus Grant County, IN;

(18) Los Angeles-Long Beach-Riverside, CA—consisting of the Los Angeles-Long Beach-Riverside, CA CSA, plus the Santa Barbara-Santa Maria-Goleta, CA MSA and all of Edwards Air Force Base, CA;

(19) Miami-Fort Lauderdale-Pompano Beach, FL—consisting of the Miami-Fort Lauderdale-Pompano Beach, FL MSA, plus Monroe County, FL;

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

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

(22) New York-Newark-Bridgeport, NY-NJ-CT-PA—consisting of the New York-Newark-Bridgeport, NY-NJ-CT-PA CSA, plus Monroe County, PA, Warren County, NJ, and all of Joint Base McGuire-Dix-Lakehurst;

(23) Philadelphia-Camden-Vineland, PA-NJ-DE-MD—consisting of the Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA excluding Joint Base McGuire-Dix-Lakehurst, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;

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

(25) Pittsburgh-New Castle, PA—consisting of the Pittsburgh-New Castle, PA CSA;

(26) Portland-Vancouver-Hillsboro, OR-WA—consisting of the Portland-Vancouver-Hillsboro, OR-WA MSA, plus Marion County, OR, and Polk County, OR;

(27) Raleigh-Durham-Cary, NC—consisting of the Raleigh-Durham-Cary, NC CSA, plus the Fayetteville, NC MSA, the Goldsboro, NC MSA, and the Federal Correctional Complex Butner, NC;

(28) Richmond, VA—consisting of the Richmond, VA MSA;

(29) Sacramento—Arden-Arcade—Yuba City, CA-NV—consisting of the Sacramento—Arden-Arcade—Yuba City, CA-NV CSA, plus Carson City, NV;

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

(31) San Jose-San Francisco-Oakland, CA—consisting of the San Jose-San Francisco-Oakland, CA CSA, plus the Salinas, CA MSA and San Joaquin County, CA;

(32) Seattle-Tacoma-Olympia, WA—consisting of the Seattle-Tacoma-Olympia, WA CSA, plus Whatcom County, WA;

(33) Washington-Baltimore-Northern Virginia, DC-MD-VA-WV-PA—consisting of the Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA, plus the Hagerstown-

Martinsburg, MD-WV MSA, the York-Hanover-Gettysburg, PA CSA, and King George County, VA; and

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

Component counties of MSAs and CSAs are listed in OMB Bulletin 10-02 of December 1, 2009, which is available on the Internet at http://www.whitehouse.gov/omb/bulletins/index.html.

PAY DISPARITIES AND COMPARABILITY PAYMENTS

Table 2, below, lists the pay disparity based on the NCS/OES model for each current and tentatively planned pay locality. Table 2 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2015 based on the pay disparities, and it shows the disparities that would remain if the recommended payments were adopted.

The law requires comparability payments only in localities where the pay disparity exceeds 5 percent. The goal in 5 U.S.C 5304(a)(3)(I) was to reduce local pay disparities to no more than 5 percent over a 9-year period. The "Disparity to Close" shown in Table 2 represents the pay disparity to be closed in each area based on the 5 percent remaining disparity threshold.

The "Locality Payment" shown in the table represents 100 percent of the disparity to close. The last column shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Atlanta, the 57.14 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 49.66 percent (157.14/149.66-1 rounds to 5 percent).

Table 2
Local Pay Disparities and 2015 Comparability Payments

Locality	1-Pay Disparity	2-Disparity to Close and Locality Payment	3-Remaining Disparity	Locality	1-Pay Disparity (percent)	2-Disparity to Close and Locality Payment (percent)	3-Remaining Disparity (percent)
Alaska	76.83%	68.41%	5.00%	Indianapolis	42.26%	35.49%	5.00%
Albany	55.60%	48.19%	5.00%	Laredo	65.41%	57.53%	5.00%
Albuquerque	47.52%	40.50%	5.00%	Las Vegas	62.66%	54.91%	5.00%
Atlanta	57.14%	49.66%	5.00%	Los Angeles	81.73%	73.08%	5.00%
Austin	52.54%	45.28%	5.00%	Miami	53.80%	46.48%	5.00%
Boston	72.36%	64.15%	5.00%	Milwaukee	54.96%	47.58%	5.00%
Buffalo	56.76%	49.30%	5.00%	Minneapolis	61.22%	53.54%	5.00%
Charlotte	49.19%	42.09%	5.00%	New York	85.57%	76.73%	5.00%
Chicago	65.16%	57.30%	5.00%	Palm Bay	45.19%	38.28%	5.00%
Cincinnati	46.06%	39.10%	5.00%	Philadelphia	69.94%	61.85%	5.00%
Cleveland	46.35%	39.38%	5.00%	Phoenix	53.98%	46.65%	5.00%
Colorado Springs	53.20%	45.90%	5.00%	Pittsburgh	53.48%	46.17%	5.00%
Columbus	48.41%	41.34%	5.00%	Portland	61.74%	54.04%	5.00%
Dallas	61.19%	53.51%	5.00%	Raleigh	51.40%	44.19%	5.00%
Davenport	45.48%	38.55%	5.00%	Rest of U.S.	39.81%	33.15%	5.00%
Dayton	50.34%	43.18%	5.00%	Richmond	50.98%	43.79%	5.00%
Denver	70.62%	62.50%	5.00%	Sacramento	67.98%	59.98%	5.00%
Detroit	62.23%	54.50%	5.00%	San Diego	82.45%	73.76%	5.00%
Harrisburg	51.48%	44.27%	5.00%	San Jose	101.49%	91.90%	5.00%
Hartford	70.63%	62.50%	5.00%	Seattle	74.78%	66.46%	5.00%
Hawaii	53.85%	46.52%	5.00%	St. Louis	52.45%	45.19%	5.00%
Houston	76.82%	68.40%	5.00%	Tucson	49.68%	42.55%	5.00%
Huntsville	59.16%	51.58%	5.00%	Washington, DC	85.34%	76.51%	5.00%

Average Locality Rate

The average locality comparability rate in 2015, using the basic GS payroll as of March 2013 to weight the individual rates, would be 54.49 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2013 was 19.83 percent using 2013 payroll weights. The locality rates included in this report would represent a 28.92 percent average pay increase over 2013 locality rates.

Overall Remaining Pay Disparities

The full pay disparities contained in this report average 62.21 percent using the basic GS payroll to weight the local pay disparities. However, this calculation excludes existing locality payments. When the existing locality payments (i.e., those paid in 2013) are included in the comparison, the overall remaining pay disparity as of March 2013 was (162.21/119.83-1), or 35.37 percent. Table 3, below, shows the overall remaining pay disparity in each of the 34 current and 12 tentatively planned locality pay areas as of March 2013.

Table 3
Remaining Pay Disparities in 2013

Locality Pay Area	Remaining Disparity (Percent)	Locality Pay Area	Remaining Disparity (Percent)
Alaska	41.82%	Indianapolis	24.05%
Albany	36.30%	Laredo	44.89%
Albuquerque	29.22%	Las Vegas	42.48%
Atlanta	31.73%	Los Angeles	42.91%
Austin	33.62%	Miami	27.33%
Boston	38.11%	Milwaukee	31.21%
Buffalo	34.01%	Minneapolis	33.28%
Charlotte	30.69%	New York	44.17%
Chicago	32.02%	Palm Bay	27.18%
Cincinnati	23.21%	Philadelphia	39.54%
Cleveland	23.31%	Phoenix	31.88%
Colorado Springs	34.20%	Pittsburgh	31.89%
Columbus	26.67%	Portland	34.39%
Dallas	33.58%	Raleigh	28.70%
Davenport	27.44%	Rest of U.S.	22.47%
Dayton	29.34%	Richmond	29.63%
Denver	39.26%	Sacramento	37.46%
Detroit	30.74%	San Diego	46.91%
Harrisburg	32.69%	San Jose	49.09%
Hartford	35.61%	Seattle	43.49%
Hawaii	32.05%	St. Louis	33.54%
Houston	37.38%	Tucson	31.11%
Huntsville	37.18%	Washington, DC	49.20%
		Average	35.37%

COST OF LOCALITY PAYMENTS

Estimating the Cost of Locality Payments

We estimate the cost of locality payments using OPM records of Federal employees in locality pay areas as of March 2013 who are covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 2. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in 2015 will not differ substantially from the number and distribution in March 2013. The estimate does not include increases in premium pay costs or Government contributions for retirement, life insurance, or other employee benefits that may be attributed to locality payments. It also accounts for cost offsets in the nonforeign areas where cost-of-living allowance payments are reduced as locality pay is phased in and the impact of statutory pay caps on payable rates.

Cost estimates are derived as follows. First, we determine either the regular GS base rate or any applicable special rate as of 2013 for each employee. These rates were adjusted for the 2014 1 percent across-the-board pay increase and the 1.3 percent across-the-board increase that will take effect in January 2015 absent another provision of law. Annual rates are converted to expected annual earnings by multiplying each annual salary by an appropriate work schedule factor.[3] The "gross locality payment" is computed by multiplying expected annual earnings from the GS base rate by the proposed locality payment percentage for the employee's locality pay area and applying the applicable locality pay cap if necessary. The sum of these gross locality payments is the cost of locality pay before offset by special rates.

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

Estimated Cost of Locality Payments in 2015

Table 4, below, compares the cost of the projected 2015 locality rates to locality rates in effect in 2014. The "2014 Baseline" cost would be the cost of locality pay in 2015 if the 2014 locality percentages are not increased.

The "2015 Locality Pay" columns show what the total locality payments would be and the net increase in 2015. The "2015 Increase" column shows the 2015 total payment minus the 2014 baseline—i.e., the increase in locality payments in 2015 attributable to higher locality pay percentages. Based on the assumptions outlined above, we estimate the total cost attributable to the locality rates shown in Table 2 over rates currently in effect to be about $26.437 billion on an annual basis. This amount does not include the cost of benefits affected by locality pay raises.

3 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.

This cost estimate excludes 1,759 records (out of 1.45 million) of white-collar workers which were unusable because of errors. Many of these employees may receive locality payments. Including these records would add about $32 million to the net cost of locality payments. The cost estimate also excludes a locality pay cost of about $477 million net of cost-of-living allowance offsets for white-collar employees in Alaska, Hawaii, and the other nonforeign areas under the Non-Foreign Area Retirement Equity Assurance Act of 2009 that extended locality pay to employees in the nonforeign areas.

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

Table 4
Cost of Local Comparability Payments in 2015 (in billions of dollars)

Cost Component	2014 Baseline	2015 Locality Pay	
		Total Payments	2015 Increase
Gross locality payments	$17.402	$44.299	$26.897
Special rates offsets	$0.697	$1.157	$0.460
Net locality payments	$16.705	$43.142	$26.437

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 of this report. The members of the Council are:

Stephen E. Condrey, Ph.D.	Chairman, Federal Salary Council President, American Society for Public Administration
Rex L. Facer II, Ph.D.	Brigham Young University
Louis Cannon	Fraternal Order of Police
J. David Cox, Sr.	National President American Federation of Government Employees
Colleen M. Kelley	National President National Treasury Employees Union
William Fenaughty	National Secretary-Treasurer National Federation of Federal Employees
Jacqueline Simon	Public Policy Director American Federation of Government Employees

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