

REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

ANNUAL REPORT OF THE PRESIDENT'S PAY AGENT 2014



The President's Pay Agent

Washington, DC
October 23, 2015

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 2016 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 2016, which are included in Appendix I of this report. We remain in agreement with the Council that, after appropriate rulemaking, we should make the changes in locality pay area boundaries that we tentatively approved in our May 2013 and June 2014 reports, including the establishment of 12 additional locality pay areas and redefinition of locality pay areas based on the Office of Management and Budget's February 2013 metropolitan area definitions. In this report, we also tentatively approve the Council's new recommendation to establish a separate Kansas City locality pay area.

We do not approve all of the Council's recommendations for locality pay in 2016. As explained here and 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.

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 non-Federal sector and Federal sector pay comparisons are as accurate as possible.

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 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 2016 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 2016 increase is the 12-month period ending September 2014. During that period, the ECI wage and salary component, private industry workers, increased by 2.3 percent. Therefore, the January 2016 general increase, if granted, would be 1.8 percent (2.3 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. The NCS provides comprehensive measures of employer costs for employee compensation, compensation trends, the incidence of employer-provided benefits among workers, and the provisions of selected employer-provided benefits plans. These statistics are available for select metropolitan and nonmetropolitan areas, regions, and the Nation. An important component of the NCS is an evaluation of jobs to determine a “work level” or grade for the NCS/OES model. The NCS collects data from a total of 12,000 establishments.

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, 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 2013 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. 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 May 2013 report for locality pay in 2014.

Regression Method

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

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

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

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

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

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 2014 is the common reference and comparison date used in this report for 2016 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 2014.

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.

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. The model produces occupational wage information for jobs found only in the OES sample for an area. For averaging within PATCO category, each job rate is weighted by the Nationwide full-time, permanent, year-round employment¹ 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

The Council made a number of recommendations for changing locality pay area boundaries for 2016, which we address below.

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 2014 recommendations for locality pay in 2016, 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 our June 2014 report—

- 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.

In our June 2014 report, we tentatively approved the use of the February 2013 OMB-defined metropolitan areas as the basis for locality pay area boundaries, and we announced our plan to propose that change in the Federal Register at the appropriate time.

Council Recommendation

The Council recommended that the Pay Agent publish, as soon as possible, the regulations needed to propose adopting February 2013 CBSA definitions as core pay area definitions for the locality pay program.

Pay Agent Views

We agree that, after appropriate rulemaking, the February 2013 CBSA definitions should be used as core pay area definitions for the locality pay program.

2. Proposing 12 New Locality Pay Areas

In its May 2013 report, the Pay Agent tentatively approved the Council's recommendation to establish the following 12 new locality pay areas.

- 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.

Council Recommendation

The Council recommended that the Pay Agent publish, as soon as possible, the regulations needed to propose the 12 new locality pay areas the Pay Agent tentatively approved in its May 2013 report.

Pay Agent Views

The Pay Agent still plans, after appropriate rulemaking, to establish the 12 new locality pay areas, and BLS should deliver data separately for these 12 new locality pay areas and exclude them from the "Rest of U.S." computations for its 2015 data delivery to OPM staff.

3. Establishing Kansas City, MO-KS as a New Locality Pay Area

Council Recommendation

The Council continues to monitor pay gaps for those areas for which the Pay Agent requested NCS/OES salary estimates in 2012 for "Rest of U.S." metropolitan areas that had 2,500 or more GS employees. The 12 new locality pay areas recommended by the Council and

tentatively approved by the Pay Agent thus far had pay gaps, using NCS/OES data, exceeding that for the “Rest of U.S.” locality pay area by 10 percentage points or more, on average, over a 4-year period.

The 4 years of NCS/OES results used to select the 12 new areas were 2009 through 2012. This year, the Council updated the 4-year period for “Rest of U.S.” metropolitan areas it is monitoring to include pay gaps for 2011 through 2014, and the results are shown in Attachment 2 of the Council’s recommendations. One additional area, Kansas City, now has pay gaps averaging more than 10 percentage points (i.e., 11.88 percentage points) above the pay gap for the “Rest of U.S.” area over the 4-year period studied.

The Council recommended that the Pay Agent establish Kansas City as a separate locality pay area, in addition to the 12 other areas previously recommended, and the Council will continue to monitor the pay gaps for other “Rest of U.S.” areas for which BLS has provided salary estimates from the NCS/OES model.

Pay Agent Views

We appreciate the Council continuing to apply a systematic approach for recommending new locality pay areas using the NCS/OES model. We agree that, after appropriate rulemaking, a separate Kansas City locality pay area should be established. BLS should deliver data separately for Kansas City and exclude it from the “Rest of U.S.” computations for its 2015 data delivery to OPM staff.

4. Criteria for Evaluating Adjacent Locations as Possible Areas of Application

As explained in the Council’s recommendations, 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, 2014, and 2015, in its recommendations for locality pay in 2016 the Council recommended changing these criteria.

Council Recommendation

As in the past several years, in its November 2014 recommendations the Council recommended eliminating the GS employment criterion for evaluating adjacent areas. In support of this recommendation, the Council reported that it had examined the economic literature on local labor markets and concluded that GS employment is not a useful criterion for establishing local labor markets.

The Council also resubmitted its January 2014 recommendation to raise the commuting criterion, for adjacent single counties, 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 4 through 6 of the Council's recommendations for locality pay in 2016.

Pay Agent Views

We appreciate the research the Council did in support of its recommendations, and we agree that commuting patterns data are a good source for identifying local labor markets. However, the Pay Agent continues to believe that 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, and we will not adopt, as currently presented, the Council's recommendation to eliminate the GS employment criterion.

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 the Pay Agent's 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.

5. 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 resubmitted the January 2014 recommendation to treat multi-county micropolitan areas 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. As we previously explained, 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.

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

The Council noted that some locations would be entirely surrounded or nearly surrounded by separate locality pay areas if locality pay area boundaries consisted only of February 2013 OMB-defined metropolitan areas and locations added through application of the modified criteria the Council recommended for establishing areas of application.

Council Recommendation

For 2016, the Council reiterated its recommendation for 2015 that locations completely surrounded by separate pay areas be added to the adjacent pay area with which the surrounded location has the highest level of commuting. The Council also recommended adding criteria for evaluating single-county “Rest of U.S.” locations that border multiple locality pay areas. For single counties adjacent to multiple locality pay areas and not qualifying under the Council’s other proposed criteria—

- For a county comprising a single-county CBSA other than a micropolitan area, the sum of commuting rates to the separate locality pay areas’ main metropolitan areas must be greater than or equal to 7.5 percent.
- For a county that either is not in any CBSA or comprises a single-county micropolitan statistical area, the sum of commuting rates to the separate locality pay areas’ main metropolitan areas must be greater than or equal to 20 percent.

Under this new Council recommendation, counties with the required sum of commuting rates would be included in the adjacent separate locality pay area with which they have the highest level of commuting. The “Rest of U.S.” locations that would be included in separate locality pay areas are shown in Attachment 7 of the Council’s recommendations.

Regarding other partially surrounded “Rest of U.S.” locations, in addition to those that would be added under the new recommendation for single-county locations bordered by multiple locality pay areas, the Council recommended that the Pay Agent consider such locations on a case-by-case basis.

Pay Agent Views on Completely Surrounded Locations

Regarding completely surrounded “Rest of U.S.” locations, we tentatively agree with the Council’s recommendation to include such locations in the locality pay area having the highest level of commuting between the completely surrounded location and the basic locality pay area. We plan to consider any public comment received on this issue during the comment period provided for the new locality pay areas the Pay Agent has tentatively approved.

There is precedent in the locality pay program for addressing “Rest of U.S.” locations that would be completely surrounded by higher locality pay as a result of redefining basic locality pay areas with updated metropolitan area definitions and establishing areas of application with GS employment and commuting criteria. (See page 10 of the Pay Agent’s December 2000 report on locality pay for 2002, which discusses the addition to the Boston locality pay

area of eight “Rest of U.S.” townships in Bristol County, MA, which would have been completely surrounded by counties where Boston locality pay applied with the 2001 addition of the entire State of Rhode Island to the Boston locality pay area.)

Pay Agent Views on Partially Surrounded Locations

In the context of the Council’s recommendation to eliminate the GS employment criterion, we see the logic in the Council’s recommendation regarding single “Rest of U.S.” counties bordered by multiple locality pay areas. However, we must consider the Council’s recommendation regarding partially surrounded locations in the context of the GS employment criterion not being eliminated, since we are not approving the recommendation to eliminate the GS employment criterion. We must consider whether locations that are not completely surrounded but are bordered by more than one higher-paying locality pay area should be treated differently than single-county locations that are bordered by only one locality pay area. We do not currently have evidence that a “Rest of U.S.” location being bordered by more than one higher-paying locality pay area has led to greater staffing difficulties than in “Rest of U.S.” locations that are bordered by only one higher-paying locality pay area.

A number of locations that would be added to separate locality pay areas under the Council's recommendation to eliminate the GS employment criterion will remain in the "Rest of U.S." locality pay area. Some of these locations may be bordered by only one higher-paying locality pay area yet have a relatively high rate of commuting with the basic locality pay area. For example, under the recommendations we have tentatively approved for new locality pay areas and changes in locality pay area boundaries, Socorro County, NM, which has a commuting interchange rate of 21.41 percent with the Albuquerque CSA, would remain in the “Rest of U.S.” locality pay area and be adjacent to a single higher-paying locality pay area, the tentatively approved Albuquerque locality pay area. The commuting interchange rate between Socorro County and the Albuquerque CSA exceeds the sums of commuting interchange rates the Council shows, in Attachment 7 of its recommendations, for Imperial County, CA; Lake County, CA; and Berkshire County, MA.

The issue of how to address “Rest of U.S.” locations that are almost but not completely surrounded by higher-paying locality pay areas requires careful consideration. The Pay Agent’s preliminary view is that any partially surrounded locations warranting some action would most likely be single “Rest of U.S.” counties—not multi-county metropolitan areas or large groups of counties—that are bordered by multiple higher-paying locality pay areas or are surrounded by water and isolated as “Rest of U.S.” locations within a reasonable commuting distance of a higher-paying locality pay area. The Pay Agent believes any such “Rest of U.S.” locations considered for inclusion in a separate locality pay area should be evaluated consistently and in the context of the GS employment criterion not being eliminated. We plan to consider any public comment received on this issue during the comment period provided for the new locality pay areas the Pay Agent has tentatively approved.

7. Locality Pay Areas for 2016

Until the regulatory process is complete to make the changes to locality pay areas we have tentatively approved, locality pay areas will continue to be defined as follows:

- (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

<https://www.whitehouse.gov/sites/default/files/omb/assets/bulletins/b10-02.pdf>.

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 2016 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 54.40 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 47.05 percent (154.40/147.05-1 rounds to 5 percent).

Table 2
Local Pay Disparities and 2016 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	77.86%	69.39%	5.00%	Kansas City	52.71%	45.44%	5.00%
Albany	53.32%	46.02%	5.00%	Laredo	62.48%	54.74%	5.00%
Albuquerque	41.24%	34.51%	5.00%	Las Vegas	58.96%	51.39%	5.00%
Atlanta	54.40%	47.05%	5.00%	Los Angeles	82.06%	73.39%	5.00%
Austin	54.84%	47.47%	5.00%	Miami	52.92%	45.64%	5.00%
Boston	70.24%	62.13%	5.00%	Milwaukee	53.00%	45.71%	5.00%
Buffalo	56.19%	48.75%	5.00%	Minneapolis	61.29%	53.61%	5.00%
Charlotte	48.05%	41.00%	5.00%	New York	83.62%	74.88%	5.00%
Chicago	64.90%	57.05%	5.00%	Palm Bay	45.83%	38.89%	5.00%
Cincinnati	45.13%	38.22%	5.00%	Philadelphia	70.41%	62.30%	5.00%
Cleveland	44.02%	37.16%	5.00%	Phoenix	58.61%	51.06%	5.00%
Colorado Springs	55.61%	48.20%	5.00%	Pittsburgh	53.28%	45.98%	5.00%
Columbus	48.33%	41.27%	5.00%	Portland	60.26%	52.63%	5.00%
Dallas	63.78%	55.98%	5.00%	Raleigh	53.16%	45.87%	5.00%
Davenport	47.15%	40.14%	5.00%	Rest of U.S.*	38.37%	31.78%	5.00%
Dayton	47.86%	40.82%	5.00%	Richmond	51.41%	44.20%	5.00%
Denver	69.50%	61.43%	5.00%	Sacramento	69.11%	61.06%	5.00%
Detroit	60.81%	53.15%	5.00%	St. Louis	52.49%	45.23%	5.00%
Harrisburg	50.95%	43.76%	5.00%	San Diego	84.63%	75.84%	5.00%
Hartford	70.54%	62.42%	5.00%	San Jose	102.02%	92.40%	5.00%
Hawaii	51.90%	44.67%	5.00%	Seattle	72.97%	64.73%	5.00%
Houston	74.70%	66.38%	5.00%	Tucson	54.84%	47.47%	5.00%
Huntsville	56.96%	49.49%	5.00%	Washington, DC	86.46%	77.58%	5.00%
Indianapolis	44.43%	37.55%	5.00%				

* Note: The “Rest of U.S.” NCS/OES salary data on which the original 38.86 percent pay disparity for the "Rest of U.S." locality pay area was based included data for Kansas City, which is now tentatively approved as a separate locality pay area. The original “Rest of U.S.” pay gap has been adjusted in a cost-neutral fashion to take the recommended locality payment for Kansas City into account, and the adjusted “Rest of U.S.” pay gap used for this report is 38.37 percent.

Average Locality Rate

The average locality comparability rate in 2016, using the basic GS payroll as of March 2014 to weight the individual rates, would be 54.26 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2014 was 19.82 percent using 2014 payroll weights. The locality rates included in this report would represent a 28.74 percent average pay increase over 2014 locality rates.

Overall Remaining Pay Disparities

The full pay disparities contained in this report average 61.97 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 2014) are included in the comparison, the overall remaining pay disparity as of March 2014 was (161.97/119.82-1), or 35.18 percent. Table 3, below, shows the overall remaining pay disparity in each of the 34 current and 13 tentatively planned locality pay areas as of March 2014.

**Table 3
Remaining Pay Disparities in 2014**

Locality Pay Area	Remaining Disparity (Percent)	Locality Pay Area	Remaining Disparity (Percent)
Alaska	42.64%	Kansas City	33.77%
Albany	34.30%	Laredo	42.33%
Albuquerque	23.72%	Las Vegas	39.24%
Atlanta	29.43%	Los Angeles	43.17%
Austin	35.63%	Miami	26.60%
Boston	36.41%	Milwaukee	29.55%
Buffalo	33.52%	Minneapolis	33.34%
Charlotte	29.69%	New York	42.65%
Chicago	31.81%	Palm Bay	27.74%
Cincinnati	22.42%	Philadelphia	39.92%
Cleveland	21.35%	Phoenix	35.84%
Colorado Springs	36.31%	Pittsburgh	31.72%
Columbus	26.60%	Portland	33.16%
Dallas	35.73%	Raleigh	30.19%
Davenport	28.90%	Rest of U.S.	21.21%
Dayton	27.20%	Richmond	30.00%
Denver	38.34%	Sacramento	38.39%
Detroit	29.59%	San Diego	48.67%
Harrisburg	32.23%	San Jose	49.48%
Hartford	35.54%	Seattle	42.00%
Hawaii	30.38%	St. Louis	33.58%
Houston	35.73%	Tucson	35.63%
Huntsville	35.29%	Washington, DC	50.10%
Indianapolis	25.94%	Average	35.18%

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 2014 who are covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 2 above. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in 2016 will not differ substantially from the number and distribution in March 2014. 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 2014 for each employee. These rates were adjusted for 1.0 percent across-the-board increase under the President's alternative plan for January 2015 pay adjustments, plus the 1.8 percent across-the-board increase that will take effect in January 2016 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 by which the special rate exceeds the regular rate. This amount is the "cost" of any special rate. If the gross locality payment is less than or equal to the cost of any special rate, the net locality payment is zero. In this case, the locality payment is completely offset by an existing special rate. If the gross locality payment is greater than the cost of any special rate, the net locality payment is equal to the gross locality payment minus the special rate. In this case, the locality payment is partially offset. The sum of the net locality payments is the estimated cost of local comparability payments.

Estimated Cost of Locality Payments in 2016

Table 4, below, compares the cost of projected 2015 locality rates to those that would be authorized in 2016 under 5 U.S.C. 5304(a)(3)(I), as identified above in Table 2. The "2015 Baseline" cost would be the cost of locality pay in 2016 if the 2015 locality percentages are not increased.

The "2016 Locality Pay" columns show what the total locality payments would be and the net increase in 2016. The "2016 Increase" column shows the 2016 total payment minus the 2015

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.

baseline—i.e., the increase in locality payments in 2016 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 \$26.237 billion on an annual basis. This amount does not include the cost of benefits affected by locality pay raises.

This cost estimate excludes 1,751 records (out of 1.39 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 \$33 million to the net cost of locality payments. The cost estimate also excludes a locality pay cost of about \$450 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 2016 (in billions of dollars)

Cost Component	2015 Baseline	2016 Locality Pay	
		Total Payments	2016 Increase
Gross locality payments	\$17.562	\$44.261	\$26.699
Special rates offsets	\$0.710	\$1.172	\$0.462
Net locality payments	\$16.852	\$43.089	\$26.237

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 Immediate Past 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.