REPORT ON
LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE
GENERAL SCHEDULE

ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
FOR LOCALITY PAY IN 2019

The President's Pay Agent
Washington, DC
November 30, 2018

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, composed of the Secretary of Labor, Director of the Office of Management and Budget, and Director of the Office of Personnel Management, 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 2019 under section 5304, absent overriding legislation or the exercise of your alternative plan authority to control locality pay.

We appreciate the contributions of the Federal Salary Council, composed of experts in labor relations and pay policy and employee organizations representing large numbers of General Schedule employees, to the administration of the locality pay program, including the Council's recommendations for locality pay in 2019, which are included in Appendix I of this report.

In this report, we approve, subject to appropriate rulemaking, the Council's new recommendation to establish a separate Corpus Christi, TX, locality pay area and a separate Omaha, NE, locality pay area. We appreciate the Council's continued application of a systematic approach for recommending new locality pay areas using the current salary survey methodology. We also appreciate the Council's continuing evaluation of analytic methods used in the locality pay program, most notably the Council's plan to undertake a thorough review of the program's salary survey methodology. We strongly encourage the Council to thoroughly assess the methodology and identify strengths, weaknesses, and areas for improvement. We look forward to seeing the Council's findings and further recommendations for improvement.

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

A recent report from the Congressional Budget Office (CBO) issued in April 2017 echoes the findings of many labor economists in identifying a significant overall compensation gap in favor of Federal employees relative to the private sector. CBO identified a 17 percent average compensation

premium for Federal workers – with Federal employees receiving on average 47 percent higher benefits and 3 percent higher wages than counterparts in the private sector. While we recognize that the methodologies used by CBO and the Federal Salary Council differ, and that the current locality pay methodology allows the Pay Agent to make distinctions in GS pay levels on a singular geographic basis for each locality pay area, we find the overall scale of the pay disparities presented to us each year using the current locality pay methodology lacks credibility.

It is important to appropriately compensate personnel based on mission needs and labor market dynamics. The existing GS compensation system fails in this regard. The President's Budget for Fiscal Year 2019 foregoes across-the-board and locality pay increases for 2019, while proposing to realign incentives by enhancing performance-based pay and slowing the frequency of tenure-based step increases.

Ultimately, we believe in the need for fundamental reforms of the white-collar Federal pay system. We believe it is imperative to develop performance-sensitive compensation systems that will contribute to a Government that is more citizen-centered, results-oriented, and market-based. We need to empower Federal agencies to better manage, develop, and reward employees in order to better serve the American people.

The President's Pay Agent:

**   SIGNED   **   **   SIGNED   **   **   SIGNED   **
R. Alexander Acosta   **Mick Mulvaney**   **Margaret M. Weichert**
Secretary of Labor   **Director, Office of**   **Acting Director, Office of**
                                Management and Budget   **Personnel Management**

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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. However, the schedule for reducing pay disparities by establishing locality pay adjustments under FEPCA has not been followed through successive Administrations since 1994.

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 U.S. 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) and recommends locality pay adjustments for 2019 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, as of 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 U.S. 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 2019 increase is the 12-month period ending September 2017. During that period, the ECI wage and salary component, private industry workers, increased by 2.6 percent. Therefore, the January 2019 general increase, if granted, would be 2.1 percent (2.6 percent minus 0.5 percentage points).

The locality component of the pay adjustment under FEPCA was to be phased in over a nine-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 underlying law authorized the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent. However, as stated above, the schedule for reducing pay disparities by establishing locality pay adjustments under FEPCA has not been followed through successive Administrations since 1994.

LOCALITY PAY SURVEYS

FEPCA requires the use of non-Federal salary survey data collected by the U.S. 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 selected metropolitan 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 11,400 establishments.

The OES survey measures occupational employment and wage rates of wage and salary workers in non-farm establishments in the 50 States and the District of Columbia. Guam, Puerto Rico, and the Virgin Islands are also surveyed. About 7.5 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 by mail, Internet or other electronic means, email, telephone, or personal visit. For most establishments, OES survey data are placed into 12 wage intervals. 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 sectors 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 from the NCS and OES samples are 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 2016 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 work leveling under the NCS program, OPM developed a simplified four-factor 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 grade levels expressed in written GS position classification standards. We find the work level comparison aspect of the current methodology to be a critically important area for further examination.

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 Fiscal Year (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 * 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 2017 is the common reference and comparison date used in this report for 2019 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 2017.

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—Procurement Clerks—Washington, DC

	OES Average	GS-4 model estimate	GS-5 model estimate	GS-6 model estimate	GS-7 model estimate	GS-8 model estimate	GS-9 model estimate
Hourly wage	$24.30	$19.40	$23.30	$25.60	$29.80	$32.00	$34.60
Ratio to OES Average	100%	80%	96%	105%	123%	132%	142%

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

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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 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.

Finally, the pay disparity 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.

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

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.

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.

LOCALITY PAY AREAS

Federal Salary Council Recommendations Regarding Locality Pay Areas

The Council made four recommendations for changing locality pay area boundaries for 2019, i.e.—

1. That the Pay Agent begin the regulatory process to establish Burlington, VT; Virginia Beach, VA; Birmingham, AL; and San Antonio, TX as new locality pay areas;

2. That the Pay Agent begin the regulatory process to establish McKinley County, NM, as an area of application to the Albuquerque locality pay area and to establish San Luis Obispo County, CA, as an area of application to the Los Angeles locality pay area;

3. That the Pay Agent establish Corpus Christi, TX; and Omaha, NE as new locality pay areas; and

4. That the locality pay program use the updated definitions of metropolitan areas published in OMB Bulletin 18-03.

We address these recommendations below.

1. *That the Pay Agent begin the regulatory process to establish Burlington, VT; Virginia Beach, VA; Birmingham, AL; and San Antonio, TX as new locality pay areas.*

   The Council continues to use the NCS/OES model to monitor pay gaps in "Rest of U.S." metropolitan statistical areas (MSAs) and combined statistical areas (CSAs) with 2,500 or more GS employees. Such MSAs and CSAs are called "research areas." In its recommendations for locality pay in 2017, the Council recommended establishment of two research areas—Burlington, VT, and Virginia Beach, VA—as new locality pay areas. In its recommendations for locality pay in 2018, the Council recommended establishment of two additional research areas—Birmingham, AL, and San Antonio, TX—as new locality pay areas. The Council's recommendations to establish these four new locality pay areas were based on the same pay gap criterion—pay gaps using the NCS/OES data and exceeding the "Rest of U.S." pay gap by 10 or more percentage points—used to select the 13 locality pay areas established in 2016.

   The Pay Agent under the previous Administration tentatively approved the recommendation regarding Burlington and Virginia Beach, and in our December 2017 report for locality pay in 2018, we tentatively approved the recommendation regarding Birmingham and San Antonio.

   In its recommendations for locality pay in 2019, the Council recommended that the Pay Agent begin the regulatory process to establish Burlington, VT; Virginia Beach, VA; Birmingham, AL; and San Antonio, TX as new locality pay areas.

   We agree that the method used by the Council in its selection of research areas for possible establishment as new locality pay areas supports the establishment of Burlington, VT;

Virginia Beach, VA; Birmingham, AL; and San Antonio, TX as new locality pay areas. Draft regulations required to establish those four locations as new locality pay areas were published in the *Federal Register* on July 9, 2018. We will issue a final rule after considering comments received.

2. *That the Pay Agent begin the regulatory process to establish McKinley County, NM, as an area of application to the Albuquerque locality pay area and to establish San Luis Obispo County, CA, as an area of application to the Los Angeles locality pay area.*

In our December 2017 report we tentatively approved the Council recommendation to establish McKinley County, NM, as an area of application to the Albuquerque locality pay area. In the same report, we tentatively approved the Council recommendation to establish San Luis Obispo County, CA, as an area of application to the Los Angeles locality pay area. Considering our approval in our December 2017 report to establish those two new areas of application, the Council recommended we begin the regulatory process needed to make the change.

We agree that McKinley County, NM, and San Luis Obispo County, CA, should be established as areas of application as the Council recommends. Accordingly, the draft regulations mentioned above propose establishing McKinley County, NM, as an area of application to the Albuquerque pay area and establishing San Luis Obispo County, CA, as area of application to the Los Angeles locality pay area.

3. *That the Pay Agent establish Corpus Christi, TX; and Omaha, NE as new locality pay areas.*

In using the NCS/OES model to monitor pay gaps in "Rest of U.S." MSAs and CSAs with 2,500 or more GS employees, the Council has found that two additional research areas—Corpus Christi, TX, and Omaha, NE—have pay gaps significantly exceeding that for the "Rest of U.S." locality pay area over an extended period.

The Council recommended that the Pay Agent establish Corpus Christi, TX, and Omaha, NE, as separate locality pay areas in 2019, based on average NCS/OES pay gaps for those two areas over a 3-year period (2015-2017). This Council recommendation was based on the same pay gap criterion—pay gaps using the NCS/OES data and exceeding the "Rest of U.S." pay gap by 10 or more percentage points—used to select the 13 locality pay areas established in 2016 and the 4 new locality pay areas—Burlington, VT; Virginia Beach, VA; Birmingham, AL; and San Antonio, TX—that the Pay Agent has tentatively approved for establishment as new locality pay areas.

We appreciate the Council applying a systematic approach for recommending new locality pay areas using the NCS/OES model. We tentatively agree that, after appropriate rulemaking, separate locality pay areas should be established for Corpus Christi, TX, and Omaha, NE. Accordingly, BLS should deliver data separately for the Corpus Christi-Kingsville-Alice, TX CSA and for the Omaha-Council Bluffs-Fremont, NE-IA CSA, and exclude those areas from the "Rest of U.S." computations for future data deliveries to OPM staff.

4. *That the locality pay program use the updated definitions of metropolitan areas published in OMB Bulletin 18-03.*

MSAs and CSAs defined by the Office of Management and Budget (OMB) are the basis of locality pay area boundaries and are also considered in the evaluation of "Rest of U.S." locations as potential areas of application to locality pay areas. The current regulations defining locality pay areas provide that basic locality pay areas—

- will include the same locations as those included in the CSAs and MSAs defined in OMB Bulletin 13-01 and comprising each basic locality pay area; and
- will include any locations subsequently added to the applicable MSA or CSA by OMB.

In July 2015, OMB made minor updates to its definitions of MSAs and CSAs, which are detailed in OMB Bulletin 15-01 and are already reflected in the definitions of locality pay areas. In April 2018, OMB made further minor updates to its definitions of MSAs and CSAs, which are detailed in OMB Bulletin 18-03.

While OMB does not establish the definitions of MSAs and CSAs specifically for use in the locality pay program and cautions agencies to review the definitions of MSAs and CSAs carefully before using them for non-statistical purposes, it has been the Council's practice to consider those definitions for use in the locality pay program, both in defining new and existing locality pay areas and in evaluating "Rest of U.S." locations as potential areas of application.

Based on the Council's analysis, the effect of those updates on the Federal Government's locality pay program is limited to one county: Frio County, TX, with about 153 GS employees, which the revised definitions would add to the metropolitan area that would comprise the tentatively approved San Antonio, TX, locality pay area. Accordingly, the Council recommended that the definitions of MSAs and CSAs contained in OMB Bulletin 18-03 be used in the locality pay program.

We tentatively agree it is appropriate to use the definitions of MSAs and CSAs contained in OMB Bulletin 18-03 in the locality pay program. Accordingly, the draft regulations mentioned above proposed doing so.

Locality Pay Areas for 2019

Until the regulatory process is complete to make the changes to locality pay areas we have tentatively approved above and in our report for locality pay in 2018, locality pay areas for 2019 will continue to be defined as follows:

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

(2) Albany-Schenectady, NY—consisting of the Albany-Schenectady, NY CSA and also including Berkshire County, MA;

(3) Albuquerque-Santa Fe-Las Vegas, NM—consisting of the Albuquerque-Santa Fe-Las Vegas, NM CSA;

(4) Atlanta—Athens-Clarke County—Sandy Springs, GA-AL—consisting of the Atlanta—Athens-Clarke County—Sandy Springs, GA CSA and also including Chambers County, AL;

(5) Austin-Round Rock, TX—consisting of the Austin-Round Rock, TX MSA;

(6) Boston-Worcester-Providence, MA-RI-NH-CT-ME—consisting of the Boston-Worcester-Providence, MA-RI-NH-CT CSA, except for Windham County, CT, and also including Androscoggin County, ME, Cumberland County, ME, Sagadahoc County, ME, and York County, ME;

(7) Buffalo-Cheektowaga, NY—consisting of the Buffalo-Cheektowaga, NY CSA;

(8) Charlotte-Concord, NC-SC—consisting of the Charlotte-Concord, NC-SC CSA;

(9) Chicago-Naperville, IL-IN-WI—consisting of the Chicago-Naperville, IL-IN-WI CSA;

(10) Cincinnati-Wilmington-Maysville, OH-KY-IN—consisting of the Cincinnati-Wilmington-Maysville, OH-KY-IN CSA and also including Franklin County, IN;

(11) Cleveland-Akron-Canton, OH—consisting of the Cleveland-Akron-Canton, OH CSA and also including Harrison County, OH;

(12) Colorado Springs, CO—consisting of the Colorado Springs, CO MSA and also including Fremont County, CO, and Pueblo County, CO;

(13) Columbus-Marion-Zanesville, OH—consisting of the Columbus-Marion-Zanesville, OH CSA;

(14) Dallas-Fort Worth, TX-OK—consisting of the Dallas-Fort Worth, TX-OK CSA and also including Delta County, TX, and Fannin County, TX;

(15) Davenport-Moline, IA-IL—consisting of the Davenport-Moline, IA-IL CSA;

(16) Dayton-Springfield-Sidney, OH—consisting of the Dayton-Springfield-Sidney, OH CSA and also including Preble County, OH;

(17) Denver-Aurora, CO—consisting of the Denver-Aurora, CO CSA and also including Larimer County, CO;

(18) Detroit-Warren-Ann Arbor, MI—consisting of the Detroit-Warren-Ann Arbor, MI CSA;

(19) Harrisburg-Lebanon, PA—consisting of the Harrisburg-York-Lebanon, PA CSA, except for Adams County, PA, and York County, PA, and also including Lancaster County, PA;

(20) Hartford-West Hartford, CT-MA—consisting of the Hartford-West Hartford, CT CSA and also including Windham County, CT, Franklin County, MA, Hampden County, MA, and Hampshire County, MA;

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

(22) Houston-The Woodlands, TX—consisting of the Houston-The Woodlands, TX CSA and also including San Jacinto County, TX;

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

(24) Indianapolis-Carmel-Muncie, IN—consisting of the Indianapolis-Carmel-Muncie, IN CSA and also including Grant County, IN;

(25) Kansas City-Overland Park-Kansas City, MO-KS—consisting of the Kansas City-Overland Park-Kansas City, MO-KS CSA and also including Jackson County, KS, Jefferson County, KS, Osage County, KS, Shawnee County, KS, and Wabaunsee County, KS;

(26) Laredo, TX—consisting of the Laredo, TX MSA;

(27) Las Vegas-Henderson, NV-AZ—consisting of the Las Vegas-Henderson, NV-AZ CSA;

(28) Los Angeles-Long Beach, CA—consisting of the Los Angeles-Long Beach, CA CSA and also including Kern County, CA, and Santa Barbara County, CA;

(29) Miami-Fort Lauderdale-Port St. Lucie, FL—consisting of the Miami-Fort Lauderdale-Port St. Lucie, FL CSA and also including Monroe County, FL;

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

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

(32) New York-Newark, NY-NJ-CT-PA—consisting of the New York-Newark, NY-NJ-CT-PA CSA and also including all of Joint Base McGuire-Dix-Lakehurst;

(33) Palm Bay-Melbourne-Titusville, FL—consisting of the Palm Bay-Melbourne-Titusville, FL MSA;

(34) Philadelphia-Reading-Camden, PA-NJ-DE-MD—consisting of the Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA, except for Joint Base McGuire-Dix-Lakehurst;

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

(36) Pittsburgh-New Castle-Weirton, PA-OH-WV—consisting of the Pittsburgh-New Castle-Weirton, PA-OH-WV CSA;

(37) Portland-Vancouver-Salem, OR-WA—consisting of the Portland-Vancouver-Salem, OR-WA CSA;

(38) Raleigh-Durham-Chapel Hill, NC—consisting of the Raleigh-Durham-Chapel Hill, NC CSA and also including Cumberland County, NC, Hoke County, NC, Robeson County, NC, Scotland County, NC, and Wayne County, NC;

(39) Richmond, VA—consisting of the Richmond, VA MSA and also including Cumberland County, VA, King and Queen County, VA, and Louisa County, VA;

(40) Sacramento-Roseville, CA-NV—consisting of the Sacramento-Roseville, CA CSA and also including Carson City, NV, and Douglas County, NV;

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

(42) San Jose-San Francisco-Oakland, CA—consisting of the San Jose-San Francisco-Oakland, CA CSA and also including Monterey County, CA;

(43) Seattle-Tacoma, WA—consisting of the Seattle-Tacoma, WA CSA and also including Whatcom County, WA;

(44) St. Louis-St. Charles-Farmington, MO-IL—consisting of the St. Louis-St. Charles-Farmington, MO-IL CSA;

(45) Tucson-Nogales, AZ—consisting of the Tucson-Nogales, AZ CSA and also including Cochise County, AZ;

(46) Washington-Baltimore-Arlington, DC-MD-VA-WV-PA—consisting of the Washington-Baltimore-Arlington, DC-MD-VA-WV-PA CSA and also including Kent County, MD, Adams County, PA, York County, PA, King George County, VA, and Morgan County, WV; and

(47) 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 the MSAs and CSAs comprising basic locality pay areas are listed in OMB Bulletin 15-01, which can be found at https://obamawhitehouse.archives.gov/sites/default/files/omb/bulletins/2015/15-01.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 2019 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 50.43 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 43.27 percent (150.43/143.27-1 rounds to 5 percent).

Table 2
Local Pay Disparities and 2019 Comparability Payments

Locality	1-Pay Disparity	2-Disparity to Close and Locality Payment	3-Remaining Disparity	Locality	1-Pay Disparity	2-Disparity to Close and Locality Payment	3-Remaining Disparity
Alaska	76.61%	68.20%	5.00%	Kansas City	46.29%	39.32%	5.00%
Albany	55.85%	48.43%	5.00%	Laredo	63.18%	55.41%	5.00%
Albuquerque	43.04%	36.23%	5.00%	Las Vegas	48.95%	41.86%	5.00%
Atlanta	50.43%	43.27%	5.00%	Los Angeles	80.66%	72.06%	5.00%
Austin	58.62%	51.07%	5.00%	Miami	51.91%	44.68%	5.00%
Birmingham	40.32%	33.64%	5.00%	Milwaukee	47.31%	40.30%	5.00%
Boston	72.04%	63.85%	5.00%	Minneapolis	60.24%	52.61%	5.00%
Buffalo	48.88%	41.79%	5.00%	New York	83.92%	75.16%	5.00%
Burlington	60.46%	52.82%	5.00%	Omaha	45.45%	38.52%	5.00%
Charlotte	50.13%	42.98%	5.00%	Palm Bay	40.98%	34.27%	5.00%
Chicago	61.97%	54.26%	5.00%	Philadelphia	65.37%	57.50%	5.00%
Cincinnati	42.20%	35.43%	5.00%	Phoenix	49.81%	42.68%	5.00%
Cleveland	43.80%	36.95%	5.00%	Pittsburgh	48.86%	41.77%	5.00%
Colorado Springs	51.49%	44.28%	5.00%	Portland	57.58%	50.08%	5.00%
Columbus	49.25%	42.14%	5.00%	Raleigh	48.28%	41.22%	5.00%
Corpus Christi	52.33%	45.08%	5.00%	Rest of U.S.*	35.76%	29.30%	5.00%
Dallas	68.94%	60.90%	5.00%	Richmond	53.14%	45.85%	5.00%
Davenport	41.67%	34.92%	5.00%	Sacramento	66.26%	58.34%	5.00%
Dayton	48.01%	40.96%	5.00%	St. Louis	50.54%	43.37%	5.00%
Denver	71.81%	63.63%	5.00%	San Antonio	55.24%	47.85%	5.00%
Detroit	59.71%	52.10%	5.00%	San Diego	78.60%	70.10%	5.00%
Harrisburg	46.14%	39.18%	5.00%	San Jose	98.13%	88.70%	5.00%
Hartford	66.45%	58.52%	5.00%	Seattle	76.29%	67.90%	5.00%
Hawaii	50.93%	43.74%	5.00%	Tucson	46.74%	39.75%	5.00%
Houston	76.84%	68.42%	5.00%	Virginia Beach	47.32%	40.30%	5.00%
Huntsville	57.58%	50.08%	5.00%	Washington, DC	87.75%	78.81%	5.00%
Indianapolis	38.73%	32.12%	5.00%				

* Note: Since Corpus Christi, TX, and Omaha, NE, are now tentatively approved as separate locality pay areas, the "Rest of U.S." pay gap in the Council's recommendations (35.99 percent) has been adjusted in a cost-neutral fashion to take the recommended locality payments for Corpus Christi and Omaha into account, and the adjusted "Rest of U.S." pay gap used for this report is 35.76 percent.

Average Locality Rate

The average locality comparability rate in 2019, using the basic GS payroll as of March 2017 to weight the individual rates, would be 53.79 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2017 was 21.68 percent using 2017 payroll weights. The locality rates included in this report would represent a 26.39 percent average pay increase over 2017 locality rates.

Overall Remaining Pay Disparities

The full pay disparities contained in this report average 61.48 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 2017) are included in the comparison, the overall remaining pay disparity as of March 2017 was (161.48/121.68-1), or 32.71 percent. Table 3, below, shows the overall remaining pay disparity in each of the 47 current and 6 tentatively planned locality pay areas as of March 2017.

Table 3
Remaining Pay Disparities in 2017

Locality Pay Area	Remaining Disparity (Percent)	Locality Pay Area	Remaining Disparity (Percent)
Alaska	38.92%	Kansas City	26.56%
Albany	34.53%	Laredo	39.85%
Albuquerque	23.99%	Las Vegas	28.48%
Atlanta	24.63%	Los Angeles	39.34%
Austin	36.78%	Miami	24.38%
Birmingham	21.95%	Milwaukee	23.16%
Boston	35.75%	Minneapolis	30.57%
Buffalo	25.47%	New York	40.16%
Burlington	39.46%	Omaha	26.41%
Charlotte	29.81%	Palm Bay	22.08%
Chicago	27.69%	Philadelphia	33.50%
Cincinnati	18.98%	Phoenix	26.35%
Cleveland	20.12%	Pittsburgh	26.30%
Colorado Springs	30.61%	Portland	29.22%
Columbus	25.96%	Raleigh	24.58%
Corpus Christi	32.39%	Rest of U.S.	17.99%
Dallas	37.79%	Richmond	29.57%
Davenport	22.59%	Sacramento	33.93%
Dayton	25.87%	St. Louis	29.97%
Denver	37.83%	San Antonio	34.92%
Detroit	27.08%	San Diego	40.65%
Harrisburg	26.39%	San Jose	43.40%
Hartford	30.48%	Seattle	41.89%
Hawaii	27.99%	Tucson	26.87%
Houston	35.02%	Virginia Beach	28.04%
Huntsville	33.75%	Washington, DC	47.72%
Indianapolis	19.75%	Average	32.71%

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 2017 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 2019 will not differ substantially from the number and distribution in March 2017. 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 non-foreign 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 2017 for each employee. These rates were adjusted for the 1.4 percent across-the-board increase under the President's alternative plan for January 2018 pay adjustments, plus the 2.1 percent across-the-board increase that would take effect in January 2019 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 2019

Table 4, below, compares the cost of projected 2018 locality rates to those that would be authorized in 2019 under 5 U.S.C. 5304(a)(3)(I), as identified above in Table 2. The "2018 Baseline" cost would be the cost of locality pay in 2019 if the 2018 locality percentages are not increased.

The "2019 Locality Pay" columns show what the total locality payments would be and the net increase in 2019. The "2019 Increase" column shows the 2019 total payment minus the 2018 baseline—i.e., the increase in locality payments in 2019 attributable to higher locality pay

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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.

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 $25.417 billion on an annual basis. This amount does not include the cost of benefits affected by locality pay raises.

This cost estimate excludes 1,883 records (out of 1.4 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 $483 million net of cost-of-living allowance offsets for white-collar employees in Alaska, Hawaii, and the other non-foreign areas under the Non-Foreign Area Retirement Equity Assurance Act of 2009 that extended locality pay to employees in the non-foreign 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 U.S. 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 2019 (in billions of dollars)

Cost Component	2018 Baseline	2019 Locality Pay	
		Total Payments	2019 Increase
Gross locality payments	$20.334	$46.269	$25.935
Special rates offsets	$0.879	$1.397	$0.518
Net locality payments	$19.455	$44.872	$25.417

**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 developed in the April 10, 2018, Council meeting appear in Appendix I of this report. The members of the Council at that meeting were:

Dr. Ronald P. Sanders, DPA   Chairman, Federal Salary Council
Director and Clinical Professor
School of Public Affairs
University of South Florida

Ms. Katja Bullock   Special Assistant to the President
Associate Director of Presidential Personnel

Mr. Louis P. Cannon   National Trustee
Fraternal Order of Police

Mr. J. David Cox, Sr.   National President
American Federation of Government Employees

Anthony M. Reardon   National President
National Treasury Employees Union

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.