REPORT ON LOCALITY-BASED COMPARABILITY PAYMENTS FOR THE GENERAL SCHEDULE

*ANNUAL REPORT
OF
THE PRESIDENT'S PAY AGENT
2011*

The President's Pay Agent
Washington, DC
March 19, 2012

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 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 2013 under section 5304, absent overriding legislation or exercise of your alternative plan authority to control locality pay.

In November 2011, the Federal Salary Council made a number of recommendations for adding additional locality pay areas and expanding the boundaries of existing pay areas in 2013. We reviewed and considered the Federal Salary Council's recommendations for changes in locality pay areas and appreciate their diligence and hard work. However, we have not approved these recommendations for implementation in 2013, but we are sympathetic to the Council's desire to cover more Federal employees with pay rates based on labor market conditions specific to their area. Our concerns are based on our belief that new pay areas must be selected in a systematic fashion, that changes in existing pay area boundaries should be considered only after new metropolitan area definitions are published and new commuting pattern data covering all counties in the country are available, and that any such changes be made when the Government can better afford them.

The Council also recommended that funding be restored to the Bureau of Labor Statistics to continue the full National Compensation Survey (NCS). While we agree that obtaining sufficient salary survey data is important for administering the locality pay program, the annual $9.8 million cost of restoring NCS is a considerable sum. Therefore, we have asked the Council to reassess its recommendation on this issue next year after the Council has had the opportunity to review an additional year of salary survey information obtained from the merging of NCS and Occupational Employment Statistics program data.

As has been noted in earlier reports and as we have discussed in other venues, there is a need to consider reforms of the white-collar Federal pay system. We have serious concerns about a process that requires a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups. In addition, we believe the underlying model and methodology for estimating pay gaps should be reexamined to ensure that private sector and Federal sector pay comparisons are as accurate as possible.
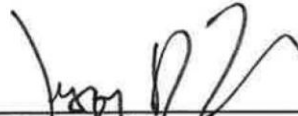
Moving forward, we envision a modernized personnel system reflecting the reality of the 21st century—where agencies offer compensation in competing markets for employees, address poor performers consistently and fairly, develop staff, and motivate better performance using the best evidence-based public and private sector practices. To this end, in its September 2011 deficit reduction proposal, the Administration recommended that the Congress establish a Commission on

Federal Public Service Reform comprised of Members of the Congress, representatives from the President's Labor-Management Council, members of the private sector, and academic experts. Congressional participation is essential for the success of such a commission for identifying fundamental reforms and enacting them into law.
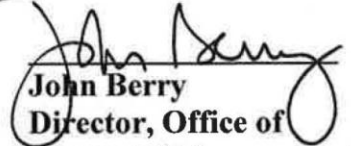
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INTRODUCTION

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

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

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

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

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

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

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

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

The President's Pay Agent consists of the Secretary of Labor and the Directors of the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM). This report fulfills the Agent's responsibility under 5 U.S.C. 5304(d), as amended. It recommends locality pay adjustments for 2013 if such adjustments were to be made as specified under 5 U.S.C. 5304.

ACROSS-THE-BOARD AND LOCALITY ADJUSTMENTS

Under FEPCA, General Schedule salary adjustments, beginning in January 1994, consist of two components: (1) a general increase linked to the Employment Cost Index 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 General Schedule 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 2013 increase is the 12-month period ending on September 30, 2011. During that period, the ECI wage and salary component, private industry workers, increased by 1.7 percent. Therefore, the January 2013 general increase, if permissible and granted, would be 1.2 percent (1.7 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 under FEPCA has not been followed.

LOCALITY PAY SURVEYS

Under FEPCA, we must use salary surveys conducted by the Bureau of Labor Statistics (BLS) to set locality pay. Commencing with the 1996/97 surveys, BLS implemented a new survey design for its salary surveys. The new survey program, called the National Compensation Survey (NCS), was used in all BLS salary surveys started after September 1996. NCS uses probability sampling of occupations within survey establishments, rather than a fixed job list with detailed job descriptions, as had been used in the past. BLS has also developed a model that would permit use of Occupational Employment Statistics (OES) data in conjunction with NCS data for locality pay. The Fiscal Year 2011 budget proposed adopting this new methodology. This is the last year for which BLS can provide NCS data for the locality pay program since much of the NCS establishment sample has been canceled. BLS will deliver non-Federal pay estimates using only the new OES/NCS model in the future. Both the NCS and OES/NCS model are described in this report.

Industrial and Establishment Size Coverage

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

BLS surveys cover establishments of all employment sizes. Under the National Compensation Survey, BLS collected data from a total of 22,039 establishments for delivery to the Pay Agent. In the 31 separate metropolitan locality pay areas and Hawaii, BLS collected data from 11,633 establishments. The Rest of U.S. (RUS) locality pay survey covered 182 areas, including 77 additional metropolitan areas, 22 micropolitan areas, and 83 non-metropolitan counties or county clusters. In the RUS area, data were collected from 10,406 establishments. The Occupational Employment Statistics sample is described in a separate section.

The industry scope of the surveys 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. Agriculture, forestry, fishing and hunting, and private households were excluded.

Occupational Coverage

Under the NCS program, BLS uses random sampling techniques to select occupations for survey within an establishment. The occupations 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 Standard Occupational Classification (SOC) system

used by BLS to group non-Federal survey jobs. OPM also provided March 2010 GS employment counts for use in weighting survey job data to higher aggregates. BLS also compiles OES data using the SOC system.

Matching Level of Work

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 simply take too long to gather all the information needed. This would also 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 (FES). 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 OES/NCS model.

Missing Data

While BLS surveys all white-collar jobs under the NCS program, it does not find all jobs at all work levels in each survey area. This is a serious problem with the NCS program because survey results and pay disparity measures can vary considerably based on which jobs are included. The Pay Agent asked BLS to develop an econometric model to provide estimates for jobs not found in NCS. The NCS model is described later in this report and in **Appendices II and III.** Missing data is not a major issue under the OES/NCS model in areas with large economies and a broad range of industries because most SOC jobs are represented. However, that is not the case in smaller areas where fewer SOC jobs are present in the OES sample. This aspect of the OES/NCS model is still under review by the Federal Salary Council and the Pay Agent.

An Alternative Approach to Measuring Non-Federal Pay

In 2008, the Federal Salary Council asked BLS staff 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 organized to investigate the use of data

from the Occupational Employment Statistics (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.

OES Survey Methodology

The Occupational Employment Statistics (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 substate area, size, and industry. Substate areas include all officially defined metropolitan statistical areas (MSAs) metropolitan divisions and, for each State, one or more residual balance-of-State areas. The North American Industry Classification System (NAICS) is used to stratify establishments by industry.

BLS selects semiannual probability samples—referred to as panels—of about 200,000 business establishments, and BLS pools those samples across 3 years (6 panels) for a total sample of 1.2 million business establishments, in order to have sufficient sample sizes to produce estimates for small population groups. 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 (SOC) system is used to define occupations. Estimates of occupational employment and occupational wage rates are based on a rolling six-panel (or 3-year) cycle.

Benefits of Incorporating OES Data

Before proceeding to a discussion of the recommended method, it is useful to enumerate why incorporating OES data into the process of producing wage estimates for the President's Pay Agent may provide important benefits.

In order to calculate estimates of pay gaps, the Pay Agent asks BLS to calculate wage estimates by area, occupation, and grade. When data for an area-occupation-grade combination are missing, as is often the case, a model is used to fill in the missing data. This model must estimate, with NCS data alone, how wages vary by roughly 30 areas, well over 200 occupations, and for 15 grade levels. If one first obtains area-occupation mean wages from the OES data, one then needs the model primarily to estimate how wages vary by grade, which is an easier task.

Two additional advantages come about because the OES sample is much larger than the NCS sample. One would expect, overall, that the estimates of mean wages by occupation and area would be more precise in the OES than in the NCS. Also, because of the larger OES sample

size, one can relax the strong assumption of the current NCS model that, regardless of occupation, a particular area will always be high wage while a different area will always be low wage.

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

Regression Method

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

In order to calculate estimates of pay gaps, the Pay Agent asks BLS to calculate annual wage estimates by area, occupation, and grade level. These estimates are then weighted by national Federal employment to arrive at wage estimates by broad occupation group and grade for each pay area. There are five broad occupational groups – Professional, Administrative, Technical, Clerical, and Officer -- known as PATCO.

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

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

Federal Salary Council Recommendation to Restore the NCS Program

The Federal Salary Council recommended that the full NCS program be restored. Based on latest budget estimates, full restoration of the NCS program would require providing BLS with at least $9.8 million in additional funding or redirecting a similar amount of funding from other critical BLS programs. We believe good-quality salary survey data are necessary for administering the locality pay program. However, while the former NCS program may provide for a more stable means of measuring pay gaps compared to relying on the limited sample now available as a result of BLS budget limitations, we do not believe it is feasible to provide more funding for the NCS program before exploring other options. Rather, we support the Council's plans to continue its review of the new model developed by merging data from the reduced NCS program with data from the Occupational Employment Statistics (OES) program. We encourage the Council to particularly focus on the impact of dropping roughly half of the NCS sample, since that reduction seems to have caused much of the volatility in the BLS statistical model this year.

We also note that the Administration recommended Congress establish a Commission on Federal Public Service Reform comprised of Members of the Congress, representatives from the President's Labor-Management Council, members of the private sector, and academic experts. We envision that this Commission would have views on the types of data needed to set and adjust Federal pay levels. As ideas to improve pay-setting methodology emerge in the future, the Pay Agent will explore alternatives to the current locality pay methodology and work with BLS to develop legislative proposals for implementing such reforms.

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 program, BLS surveys or models salaries for all non-Federal jobs deemed to match GS positions, as shown in the crosswalk in **Appendix VII** to the 2002 Pay Agent's report. BLS can also produce equivalent estimates using its new OES/NCS model.

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

The reference dates of NCS surveys vary over the cycle of non-Federal salary surveys conducted for the GS locality pay program. To ensure that local pay disparities are measured as of one common date, it is necessary to "age" the NCS survey data to a common reference date before comparing it to GS pay data of the same date. March 2011 is the common reference and comparison date used in this report for 2013 pay adjustments.   The Employment Cost Index (ECI) based on wages and salaries for civilian workers was used to age the NCS data.[1] BLS aged data for the OES model to March 2011 prior to sending it to OPM.

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 (based on survey results or modeled data) are averaged within PATCO[2] category by grade level. Both the NCS and OES programs cover virtually all GS jobs since only jobs that were not randomly selected in any BLS survey area cannot be modeled. For averaging within PATCO category, each job rate is weighted by the nationwide full-time permanent year-round

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1 NCS surveys used in this report had reference dates between December 2009 and February 2011, except for the Anchorage survey with a reference date of December 2005. See **Appendix IV**.
2 "PATCO" categories are 5 broad classes of occupations—professional (P), administrative (A), technical (T), clerical (C), and officer (O).

employment[3] in GS positions that match the job. 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 or OES program, all PATCO/grade categories with Federal incumbents are represented, except for any where BLS had no data at all and could not model results.

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 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 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 or OES programs, 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.

The pay disparity, finally, is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate.[4] See **Appendix V** for more detail on pay gaps using NCS data and **Appendices VII** using the OES/NCS 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.

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3 Employment weights include employees in the 48 contiguous States, the District of Columbia, Alaska, Hawaii, and U.S. territories and possessions.

4 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.

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.

Publishability and Substitute Data

Since the beginning of the locality pay program in 1994, BLS was never able to publish data for all survey jobs in every survey area. The fact that the set of available jobs varies from area to area was a concern because the disparity between Federal and non-Federal pay varies by job as well as by area. If area pay disparities are not based on the same set of jobs in each area, the differences between those disparities are caused not only by differences in the pay of Federal and non-Federal workers for the same jobs (as intended), but also by differences in the set of jobs for which pay data are available.

Since 1995, the Council and the Pay Agent have used estimates of non-Federal pay produced by a multiple regression model to estimate salaries for jobs not available in individual BLS surveys. OPM staff developed the original model to estimate local non-Federal pay rates for the survey jobs with Occupational Compensation Survey Program (OCSP) data. The OCSP model produced estimates of the pay of unpublished jobs based on multiple regression analysis of the pay of published jobs. The model assumed that pay varies with three factors—geographic area, occupation, and work level. A technical report on the original OPM model was provided in **Appendix II** to the 1994 Report, and a summary of subsequent years' models appeared in **Appendices II or III** of later reports.

BLS staff developed and implemented a similar model using NCS data to produce pay estimates for missing non-Federal jobs in NCS. Both the NCS and the OCSP models predict pay as a function of location, occupation, and grade level.[5] The NCS model accounts for about 83 percent of the variations in pay, which is very good for models of this type. BLS also developed a model for use of OES data in locality pay. The OES/NCS model is described in **Appendix VI**.

Use of modeling is a generally accepted practice, and we have used modeled data for most of the history of the locality pay program. The models used in both the original OCSP surveys and the NCS program are similar in concept and form. They are also similar to the curve-fitting process used in the pay comparability system prior to FEPCA. All jobs included on the crosswalk shown in **Appendix VII** to the 2002 Pay Agent's report were included in developing the NCS and OES/NCS models, with the exception of a handful of jobs for which BLS had no data.

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5 The models use a transformed grade level variable, where grades 12 through 15 are treated as 13, 15, 17, and 19 for modeling purposes. This transformation was developed in the 1970s as part of the curve-fitting process used in the pre-FEPCA methodology to reflect the two-grade interval aspect of the GS position classification system.

While the use of modeled data is a standard technique, the Federal Salary Council noted that there is a relatively large amount of data modeled under the NCS program. Based on GS employment weights used to combine the data at the job level, an average of about 74 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 89 percent modeled in Buffalo to a low of 34 percent modeled in the Rest of U.S. locality pay area. The amount of modeled data also varies considerably by grade level and ranges from an average of 36 percent modeled at GS-4 to an average of 97 percent modeled at GS-15. All grade level data used in the pay comparisons under OES/NCS are modeled.

Data for Locality Pay in 2013

The Federal Salary Council recommended that we use NCS data again this year. The Council concluded the OES/NCS model results were questionable because the model pay gaps increased 10.6 points on average since last year, a result that is out of line with other economic indicators. The Council also reported that about 46 percent of the increase in the OES/NCS model pay gaps was due to dropping about half of the NCS sample used to estimate the model. BLS dropped the sample from its first data delivery because it will not collect that portion of the NCS sample in the future. Since BLS had the additional NCS data for this year, the Council asked BLS to rerun the model using the full NCS sample. Both sets of OES/NCS model pay gaps for 2011 and the 2010 results are shown in the table below.

Table 1.
OES/NCS Model Pay Gaps

AREA	March 2011 GS Base Payroll	2011OES Original Gaps	2010 OES Gaps	Change	2011OES Full NCS Sample Gaps	Compared to Original 2011 Gaps
Albany	$171,522,656	48.38%	39.18%	9.20%	46.99%	1.39%
Albuquerque	$514,173,430	54.17%	36.68%	17.49%	49.97%	4.20%
Anchorage	$484,514,023	68.71%	53.99%	14.72%	65.03%	3.68%
Atlanta	$1,793,721,540	55.82%	43.42%	12.40%	50.04%	5.78%
Bakersfield	$50,692,328	67.22%	58.97%	8.25%	62.11%	5.11%
Boston	$1,647,263,198	66.17%	56.02%	10.15%	61.46%	4.71%
Buffalo	$303,385,070	49.77%	40.23%	9.54%	46.37%	3.40%
Charlotte	$165,592,339	48.31%	42.99%	5.32%	49.93%	-1.62%
Chicago	$1,366,489,414	62.63%	53.68%	8.95%	57.40%	5.23%
Cincinnati	$457,677,756	43.03%	37.15%	5.88%	39.25%	3.78%
Cleveland	$633,832,948	46.06%	38.42%	7.64%	41.93%	4.13%
Columbus	$567,202,360	45.04%	38.19%	6.85%	42.23%	2.81%
Dallas	$1,246,149,515	56.60%	46.12%	10.48%	51.57%	5.03%
Dayton	$736,844,613	48.36%	37.60%	10.76%	43.30%	5.06%
Denver	$1,253,550,161	66.61%	58.19%	8.42%	60.68%	5.93%
Detroit	$829,737,966	61.97%	52.23%	9.74%	57.56%	4.41%
Guam	Included in RUS	-0.80%	-0.46%	-0.34%	-2.95%	2.15%
Harrisburg	$367,911,408	48.09%	37.20%	10.89%	44.57%	3.52%

AREA	March 2011 GS Base Payroll	2011OES Original Gaps	2010 OES Gaps	Change	2011OES Full NCS Sample Gaps	Compared to Original 2011 Gaps
Hartford	$285,834,666	65.51%	56.04%	9.47%	61.50%	4.01%
Honolulu	$898,027,005	50.58%	39.19%	11.39%	46.82%	3.76%
Houston	$882,302,985	66.43%	53.12%	13.31%	60.22%	6.21%
Huntsville	$791,112,530	55.97%	44.72%	11.25%	49.39%	6.58%
Indianapolis	$541,862,549	35.67%	29.65%	6.02%	32.78%	2.89%
Lansing	$46,577,257	43.33%	39.26%	4.07%	39.75%	3.58%
Los Angeles	$2,238,985,443	78.49%	66.33%	12.16%	74.07%	4.42%
Miami	$864,170,325	50.73%	40.65%	10.08%	46.56%	4.17%
Milwaukee	$217,725,602	48.54%	40.83%	7.71%	44.74%	3.80%
Minneapolis	$476,095,848	56.31%	47.67%	8.64%	52.31%	4.00%
New York	$3,208,239,240	77.72%	65.21%	12.51%	72.64%	5.08%
Philadelphia	$1,701,012,166	64.01%	52.85%	11.16%	59.51%	4.50%
Phoenix	$548,320,318	50.11%	39.77%	10.34%	46.54%	3.57%
Pittsburgh	$431,108,668	46.81%	35.35%	11.46%	42.93%	3.88%
Portland OR	$643,900,996	55.80%	43.89%	11.91%	50.93%	4.87%
Portland ME	$54,033,178	43.90%	32.81%	11.09%	41.39%	2.51%
Puerto Rico	Included in RUS	-8.43%	-15.31%	6.88%	-10.31%	1.88%
Raleigh	$888,607,985	46.56%	35.29%	11.27%	43.01%	3.55%
Rest Of US	$32,635,297,941	35.54%	28.14%	7.40%	32.65%	2.89%
Richmond	$574,916,783	43.98%	34.64%	9.34%	40.49%	3.49%
Sacramento	$464,889,599	64.00%	49.76%	14.24%	59.81%	4.19%
San Diego	$1,373,402,558	80.57%	67.68%	12.89%	76.77%	3.80%
San Francisco	$1,640,123,693	96.11%	82.41%	13.70%	89.99%	6.12%
Seattle	$1,633,338,558	66.59%	54.80%	11.79%	62.83%	3.76%
Virgin Islands	Included in RUS	25.81%	15.24%	10.57%	22.37%	3.44%
Washington DC	$21,528,316,542	85.09%	70.40%	14.69%	76.72%	8.37%
All Areas	$87,158,463,160	58.27%	47.67%	10.60%	53.38%	4.89%
Proportion increase due sample reduction						46.09%

The Council concluded we should not use the OES/NCS model data, even with the full NCS sample. The Council will continue to evaluate the model and the impact of dropping half the sample next year. We appreciate the Council's caution. We look forward to reviewing next year's results with the Council, and we will use the NCS pay gaps for the current 34 locality pay areas in 2013 as the Council recommends. The Council's complete recommendations are in **Appendix I**.

LOCALITY PAY AREAS

Evaluating Additional Areas

While the Council recommended not using the results of the 2011 OES/NCS model, it did recommend that 2010 OES/NCS model results, appropriately aged, be used to establish new locality pay areas in Albany, NY; Albuquerque, NM; Bakersfield, CA; Charlotte, NC; and Harrisburg, PA in 2013.

After considering the Council's recommendations, we conclude if the new OES/NCS model cannot be used in the current locality pay areas, we should defer using it anywhere until issues with the model are resolved. Therefore, we have not approved any new pay areas. We also note that the five areas recommended by the Council were not selected using a systematic selection process. Rather, they were selected for testing the new OES/NCS model because employee groups from those areas had requested higher locality pay. In the past, we have used a systematic approach for selecting new areas for study and firmly believe such a process is essential for selection of additional areas to study.

The Council also recommended that BLS provide OES/NCS model data next year for both 2011 and 2012 in all metropolitan areas currently in the Rest of U.S. locality pay area with at least 2,500 GS employees. We believe it is a good idea to test the model in more locations and note this could provide a systematic approach for selecting new locality pay areas; rank order by pay gap if more than 2,500 GS employees. To support this approach, we ask that BLS provide 2011 and 2012 OES/NCS model data for the following locations in 2012, in addition to all locations BLS delivered in 2011:

Table 2.
CSAs/MSAs in the Rest of U.S. Locality Pay Area with 2,500 or More GS Employees

MSA or CSA Code	Area	June 2011 GS Emp	Non-Farm Employment
104	Albany, NY	3,062	541,741
10740	Albuquerque, NM	9,554	381,471
12260	Augusta, GA	5,416	207,976
126	Austin, TX	7,755	760,215
142	Birmingham, AL	4,849	520,534
14260	Boise, ID	3,638	272,019
16700	Charleston, SC	4,330	283,412
172	Charlotte, NC	3,139	1,058,388
17300	Clarksville, TN, KY	3,206	81,124
17820	Colorado Springs, CO	8,023	251,853
192	Columbia, SC	5,287	359,852
194	Columbus, GA	4,719	171,258
204	Corpus Christi, TX	3,034	193,248
18880	Crestview, FL	5,419	78,807

MSA or CSA Code	Area	June 2011 GS Emp	Non-Farm Employment
19340	Davenport, IL-IA	4,723	185,582
21340	El Paso, TX	9,020	271,382
260	Fresno, CA	7,699	400,811
274	Gulfport, MS	5,512	160,766
276	Harrisburg, PA	5,796	364,007
298	Jackson, MS	3,681	247,722
27260	Jacksonville, FL	8,905	590,433
27340	Jacksonville, NC	2,866	45,923
312	Kansas City, MO-KA	18,250	1,007,144
28660	Killeen-Temple, TX	6,738	123,857
29700	Laredo, TX	2,755	88,672
29740	Las Cruces, NM	2,985	69,105
332	Las Vegas, NV	4,901	917,087
30020	Lawton, OK	2,906	41,955
336	Lexington, KY	3,178	328,220
340	Little Rock, AR	5,949	390,341
350	Louisville, KY	8,952	644,127
356	Macon, GA	10,352	161,736
358	Madison, WI	2,667	372,462
31740	Manhattan, KS	2,817	52,761
32820	Memphis, TN	7,411	606,962
388	Montgomery, AL	4,177	186,100
400	Nashville, TN	6,187	787,249
406	New Orleans, LA	7,340	520,377
416	Oklahoma City, OK	12,770	579,988
420	Omaha, NE	4,977	464,517
422	Orlando, FL	6,048	1,217,662
37340	Palm Bay, FL	4,403	199,902
37860	Pensacola, FL	3,582	157,702
438	Portland, ME (2,815/869)	3,684	306,929
482	Salt Lake City, UT	19,267	853,387
41700	San Antonio, TX	21,318	837,491
496	Savannah, GA	4,397	170,448
476	St. Louis, MO	14,436	1,333,618
45300	Tampa, FL	10,861	1,170,824
46060	Tucson, AZ	7,314	369,485
47260	Virginia Beach, VA	30,462	740,397
49740	Yuma, AZ	2,649	65,819

We note that some of these locations have very small local labor markets and ask the Federal Salary Council to evaluate how the OES/NCS model performs in these smaller locations. We also note that GS employment in Portland, ME, is split between the Boston (2,815 GS employees) and RUS locality pay areas (869 GS employees).

Expanding Existing Locality Pay Areas

We use MSA and CSA definitions established by OMB as the basis for locality pay areas. We also have criteria recommended by the Federal Salary Council and approved by the Pay Agent for evaluating adjacent areas for possible inclusion in the locality pay area. The current criteria are based on the number of GS employees in the adjacent area and the level of commuting to/from the MSA or CSA comprising the locality pay area.

The Council reviewed its criteria for evaluating adjacent areas and recommend the GS employment criterion be dropped and the commuting criterion be raised from 7.5 percent to 20 percent for evaluating adjacent single counties. This recommendation is similar to one the Council made in 2010. If approved, the changes would add a number of multi-county metropolitan areas and single counties to existing locality pay areas.

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 included in a CSA with at least one MSA (*Federal Register* Vol. 69, No. 183, page 56722, September 22, 2004). The Council recommends we treat Micropolitan Areas the same as MSAs.

New Commuting Pattern Data

New commuting pattern data are available this year. The data were collected as part of the American Community Survey in 2006-2008. The current release includes only counties in the United States with populations of more than 20,000 persons and the full data set will not be available until 2013. While a substantial number of counties is missing from the data, which could affect the results, the data are more current than the 2000 census data we have been using and the Council recommends using the new data.

Counting GS Employment in the Portland, ME CSA; Granville County, NC; and Kern County, CA

If the GS employment criterion is not dropped, the Council recommends we include GS employment in counties that are currently split between the Rest of U.S. locality pay area and an independent locality pay area. This involves the Portland, ME CSA where 2,815 GS employees in 5 townships in York County, ME, were retained in the Boston locality pay area while the remaining 869 GS employees in the Portland CSA are in the Rest of U.S. (RUS) locality pay area; Granville County, NC, where 1,248 GS employees are included in the Raleigh locality pay area at a Federal Prison that lies in both Durham and Granville Counties while the remaining 16 employees are in the RUS area; and Kern County (Bakersfield MSA), CA, where 869 GS employees are in the Los Angeles locality pay area at Edwards Air Force Base that lies in both Los Angeles and Kern Counties while the remaining 1,130 are in the RUS area.

Pay Agent Views on the Council's Recommendations on Expanding Locality Pay Areas

Dropping the GS Employment Criterion

We do not share the Council's view that the GS employment criterion is difficult to explain and not relevant, and we will not adopt this recommendation. The GS employment criterion assesses the degree of the problem of adjacent areas in terms of Federal employment levels—a large number of affected employees/agencies signifies a bigger problem. We have used a GS employment criterion since locality pay began in 1994.

If the GS employment criterion is dropped, we should consider other criteria, including reinstating a population density requirement for adjacent counties to insure "metropolitan areas" are added to locality pay areas, not rural counties. Most of the counties affected by the Council's recommendation have fewer than 200 persons per square mile. Under our rules in the 1990s, 200 or more persons per square mile was one of the requirements for including adjacent counties in locality pay areas.

Micropolitan Areas

The Pay Agent has already stated it would not use micropolitan areas in the locality pay program unless associated with a metropolitan area (FR Vol. 69, No. 183, page 56722, 1st full paragraph). These 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.

New Commuting Pattern Data

The new commuting pattern data currently available exclude all counties in the United States with fewer than 20,000 residents. Since a significant number of counties is excluded, we intend to wait for the full commuting pattern data currently scheduled for 2013 before using the new commuting pattern data to evaluate areas. In this way, all locations in the country can be evaluated using the same complete data set at the same time.

Counting GS Employment in the Portland, ME CSA; Granville County, NC; and Kern County, CA

We agree with the Council that it would be unfair to not count all the employees in affected areas and will do so in 2013 when new commuting pattern data and new MSA definitions are available.

Summary of Pay Agent Views on Locality Pay Areas

We believe that a significant expansion of Federal locality pay areas while we are under significant budgetary constraints would be difficult to explain and hard for the general public to understand and support. Likewise, the cost of expanding locality pay areas will further stress

agency budgets. Agency headquarters have not contacted OPM about pay issues or recruitment and retention problems in these areas. We note the full commuting data including all counties and new MSA definitions will be issued in 2013. This is similar to the schedule after the 2000 census when new commuting patterns and MSA definitions were issued in 2003. At that time we deferred making changes suggested by the Council in 2002 and plan to do the same now— i.e., wait for the full commuting pattern data release and new MSA definitions before considering any major revisions of locality pay areas. As mentioned before, we note that the President has called for a Commission to study Federal pay and we anticipate the Commission may want to also explore how locality pay areas are defined.

We also note that under the new OES/NCS model, it is now possible to evaluate nonFederal pay levels in areas adjacent to locality pay areas. Evaluating pay in adjacent areas was not an option in the 1990s when the area of application concept and criteria were first developed. Since comparative pay levels form the basis for locality pay, we urge the Council to reconsider and update its area of application concept and criteria.

While we appreciate the Council's work, the Pay Agent concludes it will not make any changes in locality pay area boundaries or add any additional pay areas at this time.

Locality Pay Areas for 2013

The Pay Agent plans no changes in pay areas in 2013 and will continue current locality pay areas.

(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 identified in OMB Bulletins available on the Internet at http://www.whitehouse.gov/omb/bulletins/index.html.

PAY DISPARITIES AND COMPARABILITY PAYMENTS

Table 3, below, lists the pay disparity based on NCS data for each pay locality. Table 3 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2013 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 was to reduce local pay disparities to no more than 5 percent over a 9-year period (5 U.S.C. 5304(a)(3)(I)). The "Disparity to Close" shown in Table 3 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 48.21 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 41.15 percent (148.21/141.15-1) X 100 = 5.00 percent).

Table 3.
Local Pay Disparities and 2013 Comparability Payments

Locality	1-Pay Disparity (percent)	2-Disparity to Close and Locality Payment (percent)	3-Remaining Disparity (percent)
Alaska	58.00	50.48	5.00
Atlanta	48.21	41.15	5.00
Boston	61.33	53.65	5.00
Buffalo	42.23	35.46	5.00
Chicago	58.67	51.11	5.00
Cincinnati	43.62	36.78	5.00
Cleveland	43.84	36.99	5.00
Columbus	42.46	35.68	5.00
Dallas	52.15	44.90	5.00
Dayton	42.09	35.33	5.00
Denver	51.69	44.47	5.00
Detroit	51.17	43.97	5.00
Hartford	64.77	56.93	5.00
Hawaii	45.92	38.97	5.00
Houston	50.97	43.78	5.00
Huntsville	50.32	43.16	5.00
Indianapolis	39.63	32.99	5.00
Los Angeles	61.83	54.12	5.00
Miami	49.42	42.31	5.00
Milwaukee	44.62	37.74	5.00
Minneapolis	53.95	46.62	5.00
New York	68.63	60.60	5.00
Philadelphia	51.76	44.53	5.00
Phoenix	48.69	41.61	5.00
Pittsburgh	37.80	31.24	5.00
Portland	55.59	48.18	5.00
Raleigh	41.33	34.60	5.00
Richmond	39.13	32.50	5.00
Sacramento	56.29	48.85	5.00
San Diego	65.23	57.36	5.00
San Jose	75.56	67.20	5.00
Seattle	59.55	51.96	5.00
Washington, DC	70.05	61.96	5.00
Rest of U.S.	35.87	29.40	5.00

Average Locality Rate

The average locality comparability rate in 2013, using the basic GS payroll as of March 2011 to weight the individual rates, would be 44.16 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2011 was 19.85 percent using 2011 weights. The locality rates included in this report would represent a 20.28 percent average pay increase over 2011 locality rates.

Overall Remaining Pay Disparities

The full pay disparities contained in this report average 51.37 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 2011) are included in the comparison, the overall remaining pay disparity as of March 2011 was (151.37/119.85-1) X 100, or 26.30 percent. Table 4, below, shows the overall remaining pay disparity in each of the 34 locality pay areas as of March 2011.

Table 4.
Remaining Pay Disparities in 2011

Locality Pay Area	Remaining Disparity	Locality Pay Area	Remaining Disparity
Atlanta	24.24%	Milwaukee	22.46%
Boston	29.27	Minneapolis	27.28
Buffalo	21.59	New York	31.01
Chicago	26.83	Philadelphia	24.61
Cincinnati	21.15	Phoenix	27.35
Cleveland	21.20	Pittsburgh	18.41
Columbus	21.59	Portland	29.28
Dallas	26.08	Raleigh	20.14
Dayton	22.24	Richmond	19.45
Denver	23.81	Sacramento	27.90
Detroit	21.82	San Diego	33.05
Hartford	30.96	San Jose	29.90
Houston	17.30	Seattle	30.99
Huntsville	29.57	Washington, DC	36.90
Indianapolis	21.76	Rest of U.S.	19.01
Los Angeles	27.27		
Miami	23.70	Average	26.30

COST OF LOCALITY PAYMENTS

Estimated Cost of Locality Payments

We estimate the cost of locality payments using OPM records of Federal employees in locality pay areas as of March 2011 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 3. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in 2013 will not differ substantially from the number and distribution in March 2011. 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 excludes the nonforeign areas where cost-of-living allowance payments are reduced as locality pay is phased in.

Cost estimates are derived as follows. First, we determine either the regular GS base rate or any applicable special rate as of 2011 for each employee. These rates were adjusted for the scheduled 2013 across-the-board pay increase slated to be 1.2 percent. Annual rates are converted to expected annual earnings by multiplying each annual salary by an appropriate work schedule factor.[6] 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. The sum of these gross locality payments is the cost of locality pay before offset by special rates.

For employees receiving a special rate, the gross locality payment is compared to the amount the special rate exceeds the regular rate. This amount is the "cost" of any special rate. If the gross locality payment is less than or equal to the cost of any special rate, the net locality payment is set at 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 2013

Table 5, below, compares the cost of the projected 2013 locality rates to 2010 rates that will still be in effect in 2012 under the pay freeze. The "2012 Baseline" cost would be the cost of locality pay in 2013 if the 2012 locality rates are not increased.

The "2013 Locality Pay" columns show what the total locality payments would be and the net increase in 2013. The "2013 Increase" column shows the 2013 total payment minus the 2012 baseline—i.e., the increase in locality payments in 2013 attributable to higher locality pay rates. Based on the assumptions outlined above, we estimate the total cost attributable to the locality

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6 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.

rates shown in Table 3 to be about $18.5 billion on an annual basis. This amount does not include the cost of benefits affected by locality pay raises.

This cost estimate excludes 1,681 records (out of 1.5 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 $22 million to the net cost of locality payments. The cost estimate also excludes a cost of about $418 million 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 General Schedule 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 5.
Cost of Local Comparability Payments in 2013 (in millions of dollars)

Cost Component	2012 Baseline	2013 Locality Pay	
		Total Payments	**2013 Increase**
Gross locality payments	$16,644	$35,565	$18,921
Special rates offsets	$650	$1,035	$ 385
Net locality payments	$15,994	$34,530	$18,536

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**. The members of the Federal Salary Council are:

Stephen E. Condrey, Ph.D.	Chairman, American Society for Public Administration
Rex L. Facer II, Ph.D.	Brigham Young University
Louis Cannon	Fraternal Order of Police
J. David Cox	National Secretary-Treasurer 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 IX**.