

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

*ANNUAL REPORT  
OF  
THE PRESIDENT'S PAY AGENT  
2009*



# The President's Pay Agent

Washington, DC  
December 7, 2009

## MEMORANDUM FOR THE PRESIDENT

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

The law 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 in the following fiscal year if the adjustments were to be made in accordance with section 5304 of title 5, United States Code. In keeping with this statutory requirement, this report shows the adjustments that would be dictated for January 2011 *if the methodology and rates required by current law were to be implemented*. Given the current national emergency, however, we believe it would be unwise to allow the locality pay increases shown in this report to take effect in January 2011. You do not need to make a decision on the 2011 rates at this time.

Our plans for locality pay area boundaries in 2011 and our decisions on the methodology for comparing Federal and non-Federal rates of pay also are contained in this report. The development of these recommendations has been greatly facilitated by the thoughtful work of the Federal Salary Council.

### **The President's Pay Agent:**

**SIGNED**

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**Hilda L. Solis**  
Secretary of Labor

**SIGNED**

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**Peter Orszag**  
Director, Office of  
Management and Budget

**SIGNED**

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**John Berry**  
Director, Office of  
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 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 2011 if such adjustments were made under 5 U.S.C. 5304.





## ACROSS-THE-BOARD AND LOCALITY ADJUSTMENTS

Under FEPCA, General Schedule salary adjustments, beginning in January 1994, consist of two components: (1) a general increase linked to the Employment Cost Index 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 continental United States where non-Federal pay exceeds Federal pay by more than 5 percent.

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

The ECI reference period for the January 2011 increase is the 12-month period ending on September 30, 2009. During that period, the ECI increased by 1.4 percent. Therefore, the January 2011 general increase, if granted, would be 0.9 percent (1.4 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 *according to the methodology required by current law*). 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) program, 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.

The new survey process was not immediately accepted for use in the locality pay program. In fact, the Federal Salary Council recommended that the original NCS methods not be used to set Federal pay. The Pay Agent also concluded that certain major aspects of the NCS program would have to be improved before it would be prudent to use NCS data for making pay comparisons under the locality pay program. In 2002, Pay Agent and BLS staff implemented three of the five planned improvements in the NCS program, and the Federal Salary Council recommended that we begin to phase in the use of NCS data to set locality pay. Since the 2005 report (for locality pay in 2007), we have used only NCS data for the locality pay program.

Four of the five NCS improvements are fully incorporated into surveys used this year:

- 1) The linkage of Federal and non-Federal jobs by developing a crosswalk between General Schedule occupations and the Standard Occupational Classification (SOC) System to permit weighting data by Federal employment.
- 2) The development of methods to identify and exclude survey jobs that would be graded above GS-15 in the Federal Government.
- 3) The development of an econometric model based on survey data to estimate salaries for jobs not found in the probability samples.
- 4) The development and implementation of better methods for grading supervisory jobs selected by probability sampling.

BLS continues to phase in the last improvement, which is the use of a four-factor job grading system with job family guides, as it replaces a portion of its establishment sample each year. BLS replaces all of its State and local government sample at the same time approximately every 10 years, and the private industry sample is replaced over a 5 year period. This improvement is included in about 64 percent of the data this year and will be completed in all survey establishments in surveys delivered in 2011. It is designed to improve grade leveling under the NCS program. All of the improvements are described in the 2002 Pay Agent's Report to the President.

### **Industrial and Establishment Size Coverage**

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

BLS delivered data covering establishments of all employment sizes again this year. BLS collected data from a total of 21,830 establishments. In the 30 separate metropolitan locality pay areas (excluding Raleigh), BLS collected data from 11,370 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 10,460 establishments. The Raleigh survey was discontinued in 2004, but is being reinstated during BLS' six-year transition to a new sample of areas.

The number of areas surveyed in the Rest of U.S. locality pay area remained at 182 areas. The NCS program is undergoing a six-year transition from a sample of areas based on the Office of Management and Budget (OMB) December 1993 metropolitan area definitions to a new sample of areas based on the December 2003 OMB area definitions. The NCS program is phasing in new metropolitan and micropolitan areas as defined by OMB and county clusters defined specifically for the NCS; at the same time, some areas under the December 1993 OMB definitions are being phased out of the sample. A new government sample was completed for the July 2008 delivery, and new private industry sample members will be completed for the July 2013 delivery. See **Appendix IV** of the 2002 Pay Agent's report for a summary of the BLS data collection cycle.

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 2008 GS employment counts for use in weighting survey job data to higher aggregates. (BLS completed delivery of the most recent NCS surveys in July 2009, before March 2009 GS employment data became available.)

### **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. 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. BLS has been using the guides in its ongoing surveys and roughly 64 percent of the data this year are leveled under the new approach.<sup>1</sup> Fully implementing the new leveling system will take several more years because of BLS' data collection cycle. **Appendix VI** of the 2002 Pay Agent's report contains the job family leveling guides.

### **Jobs above GS-15**

For the NCS program, it was necessary to develop generic instructions for identifying white-collar jobs in the random surveys that would be graded above GS-15 (above the highest grade in the General Schedule) if they existed in the Federal Government so that the data could be excluded from pay gap measurements. BLS developed and tested the guidance with assistance from OPM. **Appendix V** of the 2002 Pay Agent's report explains the process for identifying these jobs in the NCS program.

### **Grading Supervisory Positions**

Grading supervisory jobs presented another problem for the NCS program because the Government does not use the FES approach to grade supervisory jobs. OPM occupational classification specialists suggested an approach for most supervisory jobs based on the highest level of work supervised. Under this approach, BLS grades the highest level of work supervised using the appropriate four-factor leveling guide, not the supervisory job itself, and then adds one grade for a first-level supervisor, two grades for a second-level supervisor, and three grades for a third-level supervisor.

### **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 model is described later in this report and in **Appendices II and III. Establishment Size**

In previous years, BLS had delivered data for both establishments with 50 or more workers (large establishments) and all establishments, i.e. including establishments with as few as one employee

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<sup>1</sup> BLS had cited a larger proportion of the sample covered by the new system in earlier years but updated its estimate for this year's report.

(small establishments). Establishments with no employees (single entrepreneur owners) are not covered by the surveys. In the past, we had used data only from large establishments in the locality pay program. Beginning in 2008, we use data from all establishments for the locality pay program.

### **Incentive Pay**

Last year, incentive pay became an issue because it resulted in a 45 percent increase in the estimate for the GS-12 administrative category in the Rest of U.S. (RUS) locality pay area. This increase was unusual because it involved the RUS area, which includes the largest sample since it is a composite of many surveys. Based on information provided by BLS, the estimate increased by 45 percent mainly because it included a job in one of the many surveys conducted for the RUS locality pay area that received uncommonly high earnings (base salary plus incentive pay) of more than \$1 million. This year, BLS delivered data both including and excluding jobs receiving incentive pay.

BLS excludes bonuses and other payments such as premium pay from the survey results used for the locality pay program. However, incentive pay, defined by BLS as payments for meeting job goals where the formula is clearly known by both the employee and the employer beforehand, is included in our estimates for any job where it's the practice of the surveyed establishment to determine pay based on a production driven formula. To the extent such payments were used in jobs surveyed, incentive payments have been included in BLS data used for setting GS pay since the 1970s. These payments are generally included as income for tax purposes, sometimes included as income for annuity computations, and generally not included as base pay for subsequent years. Employees under the General Schedule are eligible for bonuses but generally do not receive payments equivalent to incentive pay in the private sector.

**Table 1.**  
**Pay Disparities with and without Incentive Pay**

<b>Locality</b>	<b>1-Pay Disparity Including Incentive Pay Jobs (percent)</b>	<b>2-Pay Disparity Excluding Incentive Pay Jobs (percent)</b>	<b>3-Difference (column 1 minus column 2)</b>
Atlanta	48.08	45.38	2.70
Boston	55.81	56.66	-0.85
Buffalo	34.22	34.76	-0.54
Chicago	49.85	49.53	0.32
Cincinnati	37.48	37.45	0.03
Cleveland	39.28	39.73	-0.45
Columbus	37.38	36.06	1.32
Dallas	48.17	47.56	0.61
Dayton	30.29	28.24	2.05
Denver	45.54	47.92	-2.38
Detroit	44.75	44.78	-0.03
Hartford	57.66	57.15	0.51
Houston	48.31	46.78	1.53
Huntsville	40.86	41.79	-0.93
Indianapolis	34.58	34.36	0.22
Los Angeles	53.80	52.67	1.13
Miami	47.42	43.73	3.69
Milwaukee	39.34	39.92	-0.58
Minneapolis	47.80	47.55	0.25
New York	61.51	61.49	0.02
Philadelphia	46.49	48.28	-1.79
Phoenix	43.10	42.19	0.91
Pittsburgh	39.14	38.01	1.13
Portland	48.12	48.75	-0.63
Raleigh (not resurveyed)	31.08	31.08	N/A
Richmond	34.31	33.48	0.83
Sacramento	52.15	52.89	-0.74
San Diego	53.71	52.88	0.83
San Francisco	69.36	70.14	-0.78
Seattle	50.31	50.42	-0.11
Washington, DC	68.24	69.90	-1.66
Rest of U.S.	41.25	27.30	13.95

As can be seen in table 1, including incentive pay results in a somewhat higher pay gap in 17 locations, ranging from +0.02 points in New York to 3.69 points in Miami; and a somewhat lower pay gap in 13 locations, ranging from -0.03 points in Detroit to -2.38 points in Denver.

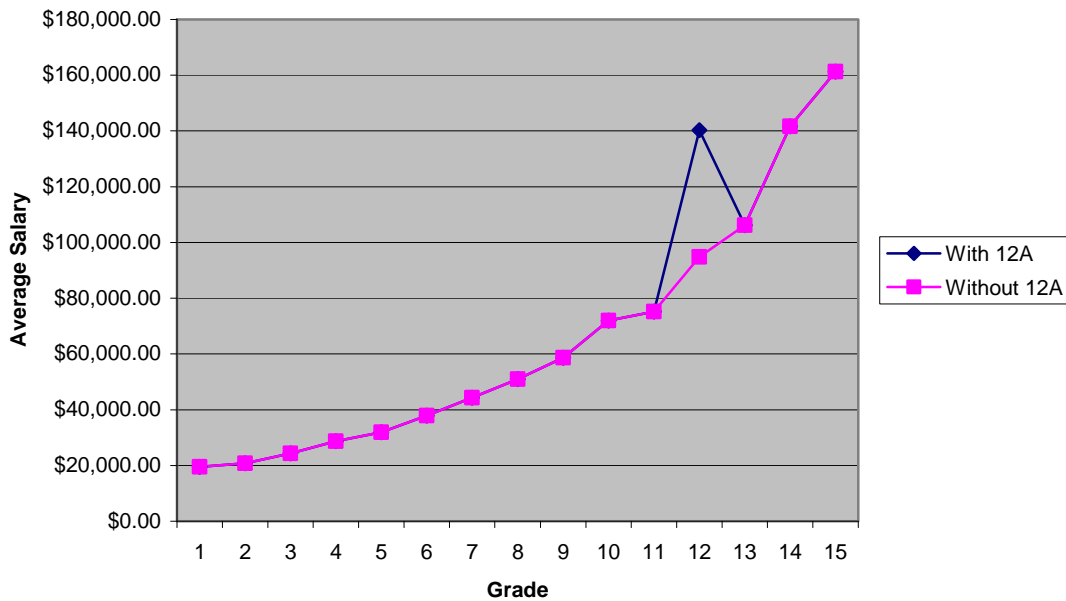
We do not have data without incentive pay for the Raleigh locality pay area. Including incentive pay significantly changes the pay gap only in the Rest of U.S. locality pay area where there is a 13.95 point difference due entirely to incentive pay of over \$1 million in a single establishment for a GS-12 administrative job.

**Effect of Incentive Pay on the Rest of U.S. Pay Gap**

While incentive payments have been included in the surveys for years, 2008 was the first time a large swing in survey results had been attributed to incentive payments. Large fluctuations such as this one cause instability in the pay measures, and for 2008, would have resulted in pay gaps in five locality pay areas (Cincinnati, Dayton, Indianapolis, Raleigh, and Richmond) below that for the RUS locality pay area. This year, eleven locality pay areas and Honolulu would be below the Rest of U.S. pay gap if the million dollar incentive pay were included. (Buffalo, Cincinnati, Cleveland, Columbus, Dayton, Huntsville, Indianapolis, Milwaukee, Pittsburgh, Raleigh, and Richmond.)

Last year, OPM staff recomputed the RUS pay gap using the data supplied by BLS for GS-12 administrative jobs for the prior year. The pay gap with the GS-12 incentive pay was 35.32 percent, while excluding the GS-12 administrative data affected by incentive pay resulted in a pay gap of 29.34 percent. This year, the RUS pay gap is 41.25 percent including the GS-12 administrative category affected by incentive pay and 27.81 if the uncommonly high incentive pay is excluded.

Comparison of 2009 RUS Data  
with and without incentive pay for GS-12 A





As in 2008, the Council recommended that we should use the data as delivered by BLS, including the incentive pay data. We respectfully disagree with the Council about including the incentive pay data for GS-12 administrative jobs found in the RUS survey this year.

The data and survey results are clearly influenced by an extreme outlier that represents salary levels that are more than ten times the typical salary found at the grade. Including this outlier will result in extreme fluctuations in the RUS pay gap if the establishment no longer makes the payments or when it cycles out of the BLS establishment sample. Eleven separate locality pay areas and Honolulu have measured pay gaps below that for the RUS area if the data are included and the RUS locality rate authorized for 2011 would be substantially higher than otherwise warranted if these data are included. Such a higher locality rate for the RUS area would be at the expense of locality pay rates that could otherwise be approved in the other, generally higher paying, locality pay areas.

Therefore, we instructed our staff to replace the GS-12 administrative data for the RUS area with this year's data excluding incentive pay for that category only. These data and this technique were discussed with the Council at its meeting of October 19, 2009.

The President will have the benefit of the Council's recommendations, which are shown in **Appendix I**, and include the incentive pay data as delivered by BLS. But, as in 2008, it is our recommendation to the President that the GS-12 administrative data for this year's RUS survey not be used in the pay comparisons.



## COMPARING GENERAL SCHEDULE AND NON-FEDERAL PAY

### How Local Pay Disparities Are Measured

Locality-based comparability payments are a function of local disparities between Federal and non-Federal pay. Pay disparities are measured for each locality pay area by comparing the annual scheduled rates of basic pay<sup>2</sup> of workers paid under the General Schedule (GS) pay plan in an area to the annual rates generally paid to non-Federal workers for the same levels of work in the same area. 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.

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 the BLS surveys vary over the cycle of non-Federal salary surveys conducted for the GS locality pay program. To ensure that local pay disparities are measured as of one common date, it is necessary to “age” the BLS survey data to a common reference date before comparing it to GS pay data of the same date. March 2009 is the common reference and comparison date used in this report. The Employment Cost Index (ECI) based on wages and salaries for civilian workers was used to age the BLS data.<sup>3</sup>

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 and job categories are weighted by Federal GS employment in equivalent classifications. Weighting by Federal employment ensures that the influence of each non-Federal survey job on the overall non-Federal average is proportionate to the frequency of that job in the Federal sector.

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<sup>4</sup> category by grade level. The NCS program covers 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,

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<sup>2</sup> The annual scheduled rate of basic pay is the General Schedule rate of basic pay for the employee's grade and step (or relative position in the rate range), inclusive of special rates under section 403 of FEPCA, but exclusive of special rates under 5 U.S.C. 5305 and locality rates under subpart F of 5 CFR part 531.

<sup>3</sup> NCS surveys used in this report had reference dates between December 2007 and October 2008, except for the Raleigh survey, which had a reference date of March 2003, the Anchorage survey with a reference date of December 2005, and the Honolulu survey with a reference date of February 2009. See **Appendix IV**.

<sup>4</sup> “PATCO” categories are 5 broad classes of occupations—professional (P), administrative (A), technical (T), clerical (C), and protective officer (O).

each job rate is weighted by the CONUS<sup>5</sup> full-time permanent year-round employment in GS positions that match the job. The reason for CONUS 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 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 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 program, 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.<sup>6</sup>

As indicated above, at the first stage of averaging the non-Federal data, the weights represent CONUS 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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<sup>5</sup> Continental United States, comprising the 48 contiguous States and the District of Columbia. Note that the Non-Foreign Area Retirement Equity Assurance Act of 2009 was enacted after this year's work was completed and presented to the Federal Salary Council. Both the Council and the Pay Agent will need to consider what impact the new geographic coverage of the locality pay program should have on the weighting process next year.

<sup>6</sup> 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 or CONUS weights are used in the first stage of averaging data. CONUS 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.<sup>7</sup>

### **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 OCSP survey data. The 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.<sup>8</sup> The NCS model accounts for about 83 percent of the variations in pay, which is very good for models of this type.

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

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<sup>7</sup> For the introduction of NCS data in 2002, we left the weighting system essentially unchanged, although the first stage is now done by BLS to permit use of all job data, both published and unpublished. Under the NCS program, PATCO and grade weights may not be necessary, since all white-collar jobs at all grades are represented and weighted by CONUS GS employment separately. However, the Pay Agent concluded that continued use of PATCO and grade weighting is desirable to add the local Federal employment distribution to the calculations and to permit BLS to deliver data by PATCO category/grade so that published and unpublished data can be combined before delivery to the Pay Agent.

<sup>8</sup> 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.

in **Appendix VII** to the 2002 Pay Agent's report were included in developing the NCS model, with the exception of a handful of jobs for which BLS had no data.

While the use of modeled data is a standard technique, both the Federal Salary Council and the Pay Agent have expressed concern about the 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 72 percent of the NCS data are modeled in this year's surveys. This varies by area from a high of 88 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 34 percent modeled at GS-4 to an average of 98 percent modeled at GS-15.

## LOCALITY PAY AREAS

Under 5 U.S.C. 5304(e)(2)(A), the Federal Salary Council made a recommendation to the Pay Agent on the composition of locality pay areas for 2011. This recommendation was transmitted to the Pay Agent in a memorandum dated November 4, 2009. (See **Appendix I**.)

### Evaluating Additional Areas

The Council reviewed pay gaps for Austin, Louisville, and Memphis again this year. These data are from surveys BLS originally conducted as part of its data collection for the RUS locality pay area. BLS informs us that it has completed its sample redesign in these areas.

**Table 2.**  
**Pay Gaps in Three Areas**

<b>Area</b>	<b>2009 Pay Gap (Percent)</b>	<b>Compared to RUS</b>
Austin-Round Rock, TX MSA	25.53	-2.28
Louisville-Elizabeth- Scottsburg, KY-IN CSA	29.69	1.88
Memphis, TN MSA	25.85	-1.96
Rest of U.S.	27.81	

MSA means Metropolitan Statistical Area and CSA means Combined Statistical Area as defined by the Office of Management and Budget.

Since the results of small scale surveys conducted by BLS in these areas have been consistently below or just above those for the RUS locality pay area, the Council concluded that Austin, Memphis, and Louisville should remain in the RUS locality pay area and that we should request that BLS produce data for Charlotte and New Orleans in lieu of two of these locations next year. The Council concluded we should continue to monitor Louisville, since its pay gap has been slightly above that for the RUS area.

Charlotte and New Orleans were selected from a listing of metropolitan areas already surveyed by BLS as part of the RUS data collection because of the relatively large number of GS employees in those locations, the size of the nonFederal workforce subject to survey, and generic measures of relative pay levels. While we note that removing locations from the RUS area reduces the amount and quality of data for the RUS area, that such actions may result in requests to remove more areas from the RUS sample, and that BLS may not have the budget to expand future surveys in any of these areas, we approve the Council's recommendation and request that BLS produce data files using our methodology for Charlotte, Louisville, and New Orleans in 2010. BLS need not deliver data files for Austin and Memphis next year.

We also note that the Non-Foreign Area Retirement Equity Assurance Act of 2009 extends coverage of the locality pay program to Alaska, Hawaii, and the other non-foreign areas and that Section 1915 includes a sense of Congress that BLS should conduct locality pay salary surveys in Alaska, Hawaii, and the United States Territories including American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. However, BLS recently discontinued its salary surveys in Alaska, is reducing its sample in Honolulu, and does not conduct NCS surveys in the other non-foreign areas. The Pay Agent requests that BLS report to Pay Agent staff on its ability to reinstate the Anchorage survey, increase its sample of establishments in Honolulu, and conduct surveys in the other non-foreign areas.

### **Defining Locality Pay Areas**

The Federal Salary Council reviewed requests from Federal employees in 31 areas for changes in locality pay area boundaries or new locality pay areas. The Council also heard testimony from employees from several of these areas at its public meeting of October 19, 2009. None of these locations meet the current criteria for inclusion in an adjacent locality pay area or can be surveyed by BLS as separate locality pay areas. After reviewing the matter, the Council recommended we not make any of the requested changes for 2011, and we agree.

One reason for the Council's reluctance to recommend changes in pay areas was due to vacancies on the Council. In this regard, the Council plans to hold one or more public meetings within 45 days of appointment of a full complement of members to consider whether data from BLS' Occupational Employment Statistics program could be used in the locality pay program and whether the criteria for evaluating adjacent areas for inclusion in a separate locality pay area should be changed. We look forward to receiving the Council's findings. The Council's 2009 recommendations are in **Appendix I**.

### **Locality Pay Areas for 2011**

As mentioned above, the Non-Foreign Area Retirement Equity Assurance Act of 2009 extends coverage of the locality pay program to employees in Alaska, Hawaii, and the other non-foreign areas beginning in 2010. For 2010, the statute provides that employees in each of these areas receive 1/3 of the locality pay percentage approved for the RUS locality pay area. In 2011, some of these locations could be separate locality pay areas. Under the provisions of the law, the Federal Salary Council will have to make a recommendation on and we must establish by regulation new or revised locality pay areas for 2011 to accommodate the non-foreign areas. Due to the timing of the bill's passage, these actions will occur outside of normal reporting cycle under 5 U.S.C. 5304. With the exception noted above for the non-foreign areas, the Pay Agent intends to provide for the same locality pay areas in 2011 as in 2010.

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



- (3) Buffalo-Niagara-Cattaraugus, NY—consisting of the Buffalo-Niagara-Cattaraugus, NY CSA;
- (4) Chicago-Naperville-Michigan City, IL-IN-WI—consisting of the Chicago-Naperville-Michigan City, IL-IN-WI CSA;
- (5) Cincinnati-Middletown-Wilmington, OH-KY-IN—consisting of the Cincinnati-Middletown-Wilmington, OH-KY-IN CSA;
- (6) Cleveland-Akron-Elyria, OH—consisting of the Cleveland-Akron-Elyria, OH CSA;
- (7) Columbus-Marion-Chillicothe, OH—consisting of the Columbus-Marion-Chillicothe, OH CSA;
- (8) Dallas-Fort Worth, TX—consisting of the Dallas-Fort Worth, TX CSA;
- (9) Dayton-Springfield-Greenville, OH—consisting of the Dayton-Springfield-Greenville, OH CSA;
- (10) Denver-Aurora-Boulder, CO—consisting of the Denver-Aurora-Boulder, CO CSA, plus the Ft. Collins-Loveland, CO MSA;
- (11) Detroit-Warren-Flint, MI—consisting of the Detroit-Warren-Flint, MI CSA, plus Lenawee County, MI;
- (12) 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;
- (13) Houston-Baytown-Huntsville, TX—consisting of the Houston-Baytown-Huntsville, TX CSA;
- (14) Huntsville-Decatur, AL—consisting of the Huntsville-Decatur, AL CSA;
- (15) Indianapolis-Anderson-Columbus, IN—consisting of the Indianapolis-Anderson-Columbus, IN CSA, plus Grant County, IN;
- (16) 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;
- (17) Miami-Fort Lauderdale-Pompano Beach, FL—consisting of the Miami-Fort Lauderdale-Pompano Beach, FL MSA, plus Monroe County, FL;
- (18) Milwaukee-Racine-Waukesha, WI—consisting of the Milwaukee-Racine-Waukesha, WI CSA;
- (19) Minneapolis-St. Paul-St. Cloud, MN-WI—consisting of the Minneapolis-St. Paul-St. Cloud, MN-WI CSA;
- (20) 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;
- (21) Philadelphia-Camden-Vineland, PA-NJ-DE-MD—consisting of the Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ;
- (22) Phoenix-Mesa-Scottsdale, AZ—consisting of the Phoenix-Mesa-Scottsdale, AZ MSA;
- (23) Pittsburgh-New Castle, PA—consisting of the Pittsburgh-New Castle, PA CSA;
- (24) Portland-Vancouver-Beaverton, OR-WA—consisting of the Portland-Vancouver-Beaverton, OR-WA MSA, plus Marion County, OR, and Polk County, OR;
- (25) 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;
- (26) Richmond, VA—consisting of the Richmond, VA MSA;

- (27) Sacramento—Arden-Arcade—Yuba City, CA-NV—consisting of the Sacramento—Arden-Arcade—Yuba City, CA-NV CSA, plus Carson City, NV;
- (28) San Diego-Carlsbad-San Marcos, CA—consisting of the San Diego-Carlsbad-San Marcos, CA MSA;
- (29) 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;
- (30) Seattle-Tacoma-Olympia, WA—consisting of the Seattle-Tacoma-Olympia, WA CSA, plus Whatcom County, WA;
- (31) 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
- (32) Rest of U.S.—consisting of those portions of the continental United States 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 for each pay locality. Table 3 also derives the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2011 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 48.08 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 41.03 percent  $(148.08/141.03-1) \times 100 = 5.00$  percent).

The table does not include Alaska, Hawaii, and the other non-foreign areas because these areas have not yet been established by the Council and the Pay Agent. Based on the data provided by BLS, the Anchorage pay gap of 54.98 percent would yield a target pay gap and locality rate of 47.60 percent, and the Honolulu pay gap of 38.41 percent would yield a target pay gap and locality rate of 31.82 percent for 2011.

The actual remaining pay disparity as of January 2011 may differ from the calculations for two reasons. First, Federal pay will have increased by the amount of the across-the-board increases that become effective in January 2010 and January 2011. Second, non-Federal pay will have increased by some amount from March 2009 to January 2011. For the purpose of this report, we assume that future changes in Federal and non-Federal pay will effectively cancel each other out and the pay disparities will remain about the same.

**Table 3.  
Local Pay Disparities and 2011 Comparability Payments**

<b>Locality</b>	<b>1-Pay Disparity (percent)</b>	<b>2-Disparity to Close and Locality Payment (percent)</b>	<b>3-Remaining Disparity (percent)</b>
Atlanta	48.08	41.03	5.00
Boston	55.81	48.39	5.00
Buffalo	34.22	27.83	5.00
Chicago	49.85	42.71	5.00
Cincinnati	37.48	30.93	5.00
Cleveland	39.28	32.65	5.00
Columbus	37.38	30.84	5.00
Dallas	48.17	41.11	5.00
Dayton	30.29	24.09	5.00
Denver	45.54	38.61	5.00
Detroit	44.75	37.86	5.00
Hartford	57.66	50.15	5.00
Houston	48.31	41.25	5.00
Huntsville	40.86	34.15	5.00
Indianapolis	34.58	28.17	5.00
Los Angeles	53.80	46.48	5.00
Miami	47.42	40.40	5.00
Milwaukee	39.34	32.70	5.00
Minneapolis	47.80	40.76	5.00
New York	61.51	53.82	5.00
Philadelphia	46.49	39.51	5.00
Phoenix	43.10	36.29	5.00
Pittsburgh	39.14	32.51	5.00
Portland	48.12	41.07	5.00
Raleigh (large establishments only)	31.08	24.84	5.00
Richmond	34.31	27.91	5.00
Sacramento	52.15	44.90	5.00
San Diego	53.71	46.39	5.00
San Francisco	69.36	61.30	5.00
Seattle	50.31	43.15	5.00
Washington, DC	68.24	60.23	5.00
Rest of U.S.	27.81	21.72	5.00

**Average Locality Rate**

The average locality comparability rate in 2011, using the basic GS payroll as of March 2009 to weight the individual rates, would be 38.88 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2009 was 19.40 percent. At this

time, we do not know what locality rates will be approved for 2010. The locality rates included in this report would represent a 16.3 percent average pay increase over 2009 locality rates. Note these calculations do not consider Alaska, Hawaii, or the other non-foreign areas.

### Overall Remaining Pay Disparities

The full pay disparities contained in this report average 45.82 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 2009) are included in the comparison, the overall remaining pay disparity as of March 2009 was  $(145.82/119.40-1) \times 100$ , or 22.13 percent. Table 4, below, shows the overall remaining pay disparity in each of the 32 approved locality pay areas as of March 2009. Note this calculation does not consider Alaska, Hawaii, or the other non-foreign areas.

**Table 4.**  
**Remaining Pay Disparities in 2009**

<b>Locality Pay Area</b>	<b>Remaining Disparity</b>	<b>Locality Pay Area</b>	<b>Remaining Disparity</b>
Atlanta	24.91%	Milwaukee	18.44%
Boston	25.67%	Minneapolis	22.80%
Buffalo	15.32%	New York	26.22%
Chicago	20.39%	Philadelphia	20.82%
Cincinnati	16.23%	Phoenix	23.28%
Cleveland	17.87%	Pittsburgh	20.09%
Columbus	17.80%	Portland	23.73%
Dallas	23.53%	Raleigh	11.67%
Dayton	12.42%	Richmond	15.68%
Denver	19.27%	Sacramento	25.20%
Detroit	17.15%	San Diego	24.52%
Hartford	26.05%	San Francisco	26.06%
Houston	15.61%	Seattle	24.16%
Huntsville	22.00%	Washington, DC	36.67%
Indianapolis	17.81%	Rest of U.S.	12.25%
Los Angeles	21.57%		
Miami	22.64%	Average	22.13%



## **COST OF LOCALITY PAYMENTS**

### **Estimated Cost of Locality Payments**

The cost of locality payments is estimated using OPM records of all Federal employees with duty stations within the continental United States (CONUS) as of March 2009 and covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 3. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in CONUS in 2011 will not differ substantially from the number and distribution in March 2009. The estimate does not include increases in premium pay costs or Government contributions for retirement, life insurance, or other employee benefits that may be attributed to locality payments.

Cost estimates are derived as follows. First, both the “scheduled annual rate of pay,” as defined in 5 CFR 531.602, and the annual rate inclusive of special rates are determined for each employee. These rates are adjusted to include an assumed 2.0 percent across-the-board increase in January 2010 and the 0.9 percent across-the-board increase that would become effective in January 2011 under current law (under FEPCA, across-the-board increases are based on the change in the applicable ECI minus 0.5 percentage points). Both annual rates are converted to expected annual earnings by multiplying each by an appropriate work schedule factor.<sup>9</sup> The “gross locality payment” is computed for each employee by multiplying expected annual earnings from the scheduled annual 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.

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

### **Estimated Cost of Locality Payments in 2011**

Table 5, below, compares the cost of the projected 2010 locality rates to those that would be authorized in 2011 under 5 U.S.C. 5304(a)(3)(I), as identified in Table 3. For the purpose of this cost estimate, we have assumed that there will be a 2.0 percent across-the-board increase in January 2010 and locality pay percentages will stay at 2009 levels. The “2010 Baseline” cost

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<sup>9</sup> 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.

would be the cost of locality pay in 2011 if the assumed 2010 locality rates are not increased, i.e., the percentage locality payments in 2010 on top of 2009 (we are using a 2009 data file) base pay rates including an assumed 2.0 percent across-the-board adjustment in January 2010 and an assumed 0.9 percent adjustment in January 2011.

The “2011 Locality Pay” columns show what the total locality payments would be and the net increase in 2011. The “2011 Increase” column shows the 2011 total payment minus the 2010 baseline—i.e., the increase in locality payments in 2011 attributable to higher locality pay rates. Based on the assumptions outlined above, we estimate the total cost attributable to the locality rates shown in Table 3 to be about \$16 billion on an annual basis. This amount does not include the cost of benefits or the cost of the 0.9 percent increase in rates of basic pay that would take effect in January 2011 under current law.

This cost estimate excludes 501 records (out of 1.2 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 \$7 million to the net cost of locality payments. The cost estimate also excludes a cost of about \$210 million 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 extends locality pay to employees in the non-foreign 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 the CPDF. 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 2011 (in millions of dollars)**

Cost Component	2010 Baseline	2011 Locality Pay	
		Total Payments	2011 Increase
Gross locality payments	\$13,415	\$29,810	\$16,395
Special rates offsets	\$538	\$874	\$336
Net locality payments	\$12,877	\$28,936	\$16,059



## 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:

J. David Cox	National Secretary-Treasurer American Federation of Government Employees
Colleen M. Kelley	National President, National Treasury Employees Union;
Frank D. Ferris	National Executive Vice President, National Treasury Employees Union; and
James Pasco	Executive Director, Fraternal Order of Police

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 VII**.



## **FUTURE SURVEYS**

### **Survey Improvements**

BLS has implemented four of the five improvements designed for its National Compensation Survey (NCS) program:

- (1) Problems associated with random selection of survey jobs.

Progress: BLS has designed an econometric model that is used to estimate salaries for jobs not randomly selected in a locality survey. NCS program data used for this report include modeled data when survey data were not available.

- (2) Matching Federal and non-Federal jobs.

Progress: OPM formed an interagency working group that developed a crosswalk between Federal job classifications and the Standard Occupational Classification system, which BLS uses in its surveys. OPM staff made a few improvements designed to better match certain jobs, and BLS used the crosswalk and March 2008 GS employment data to weight the NCS job data used in this report.

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

Progress: BLS developed methods for identifying and excluding non-Federal jobs that would be classified above GS-15 in the Federal Government. These jobs were excluded from data delivered to the Pay Agent for use in the locality pay program.

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

Progress: BLS identified survey establishments where supervisory jobs were surveyed, discussed new collection procedures with its staff, and tested a new method of grading supervisory jobs based on grading the highest level of work supervised. BLS used the new approach in its surveys beginning with the 2006 delivery.

The final NCS improvement continues to be phased into the surveys, but will not be completely implemented for 2 more years:

- (5) Assigning GS grades to randomly selected survey jobs.

Progress: OPM designed and tested a four-factor evaluation system for use in the surveys, and BLS successfully used the new approach in field tests. OPM also developed 20 job family grade leveling guides that cover the range of work under the General Schedule and provide occupation-specific information for use in the surveys. BLS developed several additional guides for its own uses. BLS has been phasing in the new approach over the last

several years and about 64 percent of the data were graded under the new approach this year. This improvement takes 5 years to fully implement in private sector establishments because BLS conducts detailed job leveling interviews only when it first adds an establishment to its surveys and replaces only 1/5 of its private sector establishment sample each year. An additional year is needed to introduce the new leveling process in State and local governments, bringing the total to 6 years for full implementation.