

# Report on Locality-Based Comparability Payments for the General Schedule

## *Annual Report of the President's Pay Agent for Locality Pay in 2022*





# The President's Pay Agent

Washington, DC  
December 15, 2021

## 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 to the President each year showing the locality-based comparability payments we would recommend for General Schedule (GS) employees *if the adjustments were to be made as specified in the statute*. To fulfill this obligation, this report shows the adjustments that would be required in 2022 under section 5304, absent overriding legislation or exercise of your alternative plan authority to control locality pay. Section 5304 stipulated that by January 2002 locality rates would not be less than the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent, and the pay disparities in this report fulfill the statutory requirement to submit a report each year showing the locality-based comparability payments the Pay Agent would recommend for GS employees if the adjustments were made as specified in the statute. However, the statutory formula for locality adjustments has not been followed since January 1994 because of budgetary and methodological concerns.

Regarding budgetary concerns, this report includes an estimated cost of \$18.5 billion for reducing disparities as intended by the statute, and that cost is a significant consideration. However, it is also important to emphasize that the underlying methodology for locality pay of relying on one singular locality rate covering a locality pay area has lacked credibility since the beginning of locality pay in 1994 to such a degree that the statutory formula for closing pay gaps has been overridden either by Congress or by successive Presidents each and every year since that first year.

The Federal Salary Council contributes substantial advice to the administration of the locality pay program, and we appreciate the Council's public deliberations and recommendations for the administration of locality pay for the Government's 1.4 million employees who are paid under the General Schedule. At the time of this report, a new Federal Salary Council has not yet been appointed by the Biden Administration. Several of the issues addressed in this report, therefore, should be considered again once a new Council has been established. We are issuing this report in the meantime, however, because it is essential for pay administration purposes that we close out the work of the prior Council. There are many technical issues that the Council considers that are necessary for setting pay for the next year, so we recommend moving ahead so as not to leave critical pay administration issues unresolved.

The Council's recommendations for locality pay in 2022 are included in Appendix I of this report. With the caveat that we are lacking the input of a new Council appointed by the Biden-Harris Administration, we acknowledge that the methods the Council used to calculate the locality pay rates that would go into effect in January 2022 absent another provision of law are appropriate. We also recommend further Council study on the question of whether the GS employment threshold of 2,500 or more GS employees should change for evaluating Rest of U.S. metropolitan areas called "Rest of U.S. research areas" for possible establishment as new locality pay areas based on pay disparities calculated using the current salary survey methodology.

At this time, we are unable to agree to implement all of the Council's January 2021 recommendations for locality pay in 2022. The Council members provided significantly divergent views on the complex issues of administering the locality pay program at its public meeting in October 2020. For example, one issue with divergent points of view was whether pay area boundaries should be changed to reflect recent updates to Office of Management and Budget delineations of metropolitan statistical areas and combined statistical areas (MSAs and CSAs). Similarly, recent Council discussions indicate further study is also needed on the question of whether to change or make exceptions to the criteria by which areas of application are established. Any Council recommendations to change or make exceptions to the criteria by which basic locality pay areas and areas of application (as defined in Attachment 5 of the Council's January 2021 recommendations) are established should discuss and quantify the implications that such changes or exceptions could have on all potentially impacted locations throughout the Country before the Pay Agent would consider them. Further deliberation on these important matters is warranted by the new Council, once constituted.

We look forward to providing staff support for the Council's upcoming deliberations on locality pay under your Administration and hearing the views of all of the members for locality pay in 2023. However, as has been noted in earlier Pay Agent reports and discussed in other venues, we believe there is a need to consider major legislative reforms of the white-collar Federal pay system, which continues to utilize a process requiring a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups. The current pay comparison methodology used in the locality pay program ignores the fact that non-Federal pay in a local labor market may be very different between different occupational groups. As currently applied, locality payments in a local labor market may leave some mission-critical occupations significantly underpaid while overpaying others.

**The President's Pay Agent:**

**SIGNED**

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**Martin J. Walsh**  
**Secretary of Labor**

**SIGNED**

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**Shalanda Young**  
**Acting Director, Office of**  
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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 location-based pay adjustments. The policy contained in 5 U.S.C. 5301 for setting GS pay is that—

- (1) there be equal pay for substantially equal work within each local pay area;
- (2) within each local pay area, pay distinctions be maintained in keeping with work and performance distinctions;
- (3) Federal pay rates be comparable with non-Federal pay rates for the same levels of work within the same local pay area; and
- (4) any existing pay disparities between Federal and non-Federal employees should be completely eliminated.

The across-the-board pay adjustment provides the same percentage increase to the statutory pay systems (as defined in 5 U.S.C. 5302(1)) in all locations. This pay adjustment is linked to changes in the wage and salary component, private industry workers, of the Employment Cost Index (ECI), minus 0.5 percentage points. Locality-based comparability payments for GS employees, which are in addition to the across-the-board increase, are mandated for each locality having a pay disparity between Federal and non-Federal pay of greater than 5 percent. However, the schedule for reducing pay disparities by establishing locality pay adjustments under FEPCA has not been followed through successive Administrations since 1994.

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

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

The President's Pay Agent consists of the Secretary of Labor and the respective Directors of the Office of Management and Budget (OMB) and Office of Personnel Management (OPM). This report fulfills the Pay Agent's responsibility under 5 U.S.C. 5304(d) and recommends locality pay adjustments that would occur for 2022 only if such adjustments were to be made as specified under 5 U.S.C. 5304 (i.e., to leave no more than a 5-percent remaining pay gap in each locality pay area). That formula for pay gap closure has not been followed since 1994.



## **Across-the-Board and Locality Adjustments**

Under FEPCA, GS salary adjustments, as of January 1994, consist of two components: (1) a general increase linked to the ECI and applicable to the General Schedule, Foreign Service pay schedules, and certain pay schedules established under title 38, United States Code, for Veterans Health Administration employees; and (2) a GS locality adjustment that applies only to specific areas of the U.S. where non-Federal pay exceeds Federal pay by more than 5 percent.

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

The ECI reference period for the January 2022 increase is the 12-month period ending September 2020. During that period, the ECI wage and salary component, private industry workers, increased by 2.7 percent. Therefore, the January 2022 general increase would be 2.2 percent (2.7 percent minus 0.5 percentage points). (Note that on August 27, 2021, President Biden issued an alternative pay plan for January 2022 pay increases, whereby absent another provision of law the across-the-board base pay increase will be 2.2 percent and locality pay increases will average 0.5 percent, resulting in an overall average increase of 2.7 percent for civilian Federal employees.)

The locality component of the pay adjustment under FEPCA was to be phased in over a nine-year period. In 1994, the minimum comparability increase was two tenths of the “target” pay disparity (i.e., the amount needed to reduce the pay disparity to 5 percent). For each successive year, the comparability increase was scheduled to be at least an additional one tenth of the target pay disparity. For 2002 and thereafter, the underlying law authorized the full amount necessary to reduce the pay disparity in each locality pay area to 5 percent. However, as stated above, the schedule for reducing pay disparities by establishing locality pay adjustments under FEPCA has not been followed through successive Administrations since 1994.



## Locality Pay Surveys

FEPCA requires the use of non-Federal salary survey data collected by the U.S. Bureau of Labor Statistics (BLS) to set locality pay. BLS uses information from two of its programs to provide the data. Data from the National Compensation Survey (NCS) are used to estimate how salaries vary by level of work from the occupational average, and Occupational Employment Statistics (OES) data are used to estimate average salaries by occupation in each locality pay area.<sup>1</sup> The process used to combine the data from the two sources is referred to as the *NCS/OES model*. The March 2020 non-Federal salary estimates are based on the 2018 version of the Standard Occupational Classification (SOC) codes. The estimates for previous years had been based on the 2000 version the SOC codes.

BLS surveys used for locality pay include collection of salary data from establishments of all employment sizes in private industry and State and local governments. The NCS provides comprehensive measures of employer costs for employee compensation, compensation trends, the incidence of employer-provided benefits among workers, and the provisions of selected employer-provided benefits plans. These statistics are available for selected metropolitan areas, regions, and the Nation. An important component of the NCS is an evaluation of jobs to determine a “work level” or grade for the NCS/OES model. The NCS collects data from a total of 11,400 establishments.

The OES survey measures occupational employment and wage rates of wage and salary workers in non-farm establishments in the 50 States and the District of Columbia. Guam, Puerto Rico, and the U.S. Virgin Islands are also surveyed. About 7.9 million in-scope establishments are stratified within their respective States by sub-state area, size, and industry. Sub-state areas include all officially defined metropolitan statistical areas and, for each State, one or more residual balance-of-State areas. The North American Industry Classification System is used to stratify establishments by industry.

For OES, BLS selects semiannual probability samples, referred to as panels, of approximately 180,000 to 200,000 business establishments, and pools those samples across three years (or six panels) for a total sample of 1.1 million business establishments, in order to have sufficient sample sizes to produce estimates for small estimation cells. Responses are obtained by mail, Internet or other electronic means, email, telephone, or personal visit. For most establishments, OES survey data are placed into 12 wage intervals. The Standard Occupational Classification system (SOC) is used to define occupations. Estimates of occupational employment and occupational wage rates are based on a rolling six-panel (or three-year) cycle.

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

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<sup>1</sup> In the spring of 2021, the Occupational Employment Statistics (OES) program began using the name Occupational Employment and Wage Statistics (OEWS) to better reflect the data available from the program. Therefore, the President’s Pay Agent will begin using the program’s new name in its Report for Locality Pay in 2023.

## **Occupational Coverage**

BLS surveys all jobs in establishments for the OES program and selects a sample of jobs within establishments for the NCS program. The jobs from the NCS and OES samples are weighted to represent all non-Federal occupations in the location and, based on the crosswalk published in Attachment 4 of the Federal Salary Council's April 2020 recommendations for locality pay in 2021, also represent virtually all GS employees. OPM provided the crosswalk between GS occupational series and the SOC system used by BLS to group non-Federal survey jobs. OPM also provided March 2019 GS employment counts for use in weighting survey job data to higher aggregates.

## **Matching Level of Work**

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

To conduct work leveling under the NCS program, OPM developed a simplified four-factor leveling system with job family guides. These guides were designed to provide occupational-specific leveling instructions for the BLS field economists. The four factors were derived and validated by combining the nine factors under the existing GS Factor Evaluation System. The four factors are knowledge, job controls and complexity, contacts, and physical environment. The factors were validated against a wide variety of GS positions and proved to replicate grade levels expressed in written GS position classification standards. We find the work level comparison aspect of the current methodology to be a critically important area for further examination.

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

## **Combining OES and NCS Data for Locality Pay**

In 2008, the Federal Salary Council asked BLS to explore the use of additional sources of pay data so that the Council could better evaluate the need for establishing additional pay localities, especially in areas where the NCS program could not provide estimates of non-Federal pay. In response, a team of BLS research economists investigated the use of data from the OES program in conjunction with NCS data. After careful investigation, the BLS team recommended a regression method combining NCS and OES data as the best approach to producing the non-Federal pay estimates required to compute area pay gaps with OES data. The President's Fiscal Year (FY) 2011 budget proposed replacing the NCS with the NCS/OES model for measuring pay gaps, the Federal Salary Council recommended using the new method in 2012, and the President's Pay Agent adopted the new approach in its May 2013 report for locality pay in 2014.

## Regression Method

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

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

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

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

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





## Comparing General Schedule and Non-Federal Pay

### How Local Pay Disparities Are Measured

Locality-based comparability payments are a function of local disparities between Federal and non-Federal pay. Pay disparities are measured for each locality pay area by comparing the base GS pay rates of workers paid under the General Schedule pay plan in a geographic area to the annual rates generally paid to non-Federal workers for the same levels of work in the same geographic area. Under the NCS/OES model, BLS models salaries for most non-Federal jobs deemed to match GS positions using the crosswalk published in Attachment 4 of the Federal Salary Council’s April 2020 recommendations for locality pay in 2021.

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

The reference dates of OES data vary over the survey cycle for non-Federal salaries. To ensure that local pay disparities are measured as of one common date, it is necessary to “age” the OES survey data to a common reference date before comparing it to GS pay data of the same date. March 2020 is the common reference and comparison date used in this report for 2022 pay adjustments. For the calculation of the salary estimates delivered to the Pay Agent, BLS used appropriate ECI factors to adjust OES salary data from past survey reference periods to March 2020.

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

<b>Table 1</b>							
<b>Example of NCS/OES Model Estimates—Procurement Clerks—Washington, DC</b>							
	OES Average	GS-4 model estimate	GS-5 model estimate	GS-6 model estimate	GS-7 model estimate	GS-8 model estimate	GS-9 model estimate
Hourly Wage	\$25.50	\$21.40	\$23.70	\$26.10	\$30.70	\$33.90	\$37.40
Ratio to OES Average	100%	84%	93%	102%	120%	133%	147%

Because 5 U.S.C. 5302(6) requires that each local pay disparity be expressed as a single percentage, the comparison of GS and non-Federal rates of pay in a locality requires that the two sets of rates be reduced to one pair of rates, a GS average and a non-Federal average. An

important principle in averaging each set of rates is that the rates of individual survey jobs, job categories, and grades are weighted by Federal GS employment in equivalent classifications. Weighting by Federal employment ensures that the influence of each non-Federal survey job on the overall non-Federal average is proportionate to the frequency of that job in the Federal sector.

We use a three-stage weighted average in the pay disparity calculations. In the first stage, job rates from the NCS/OES model are averaged within PATCO category by grade level. The NCS/OES model covers virtually all GS jobs. The model produces occupational wage information for jobs found only in the OES sample for an area. For averaging within PATCO category, each job rate is weighted by the nationwide full-time, permanent, year-round employment<sup>2</sup> in GS positions that match the job. BLS combines the individual occupations within PATCO-grade cells and sends OPM average non-Federal salaries by PATCO-grade categories. The reason for National weighting in the first stage is explained below.

When the first stage averages are complete, each grade is represented by up to five PATCO category rates in lieu of its original job rates. Under the NCS/OES model, all PATCO-grade categories with Federal incumbents are represented, except where BLS had no data for the PATCO-grade cell in a location.

In the second stage, the PATCO category rates are averaged by grade level to one grade level rate for each grade represented. Thus, at grade GS-5, which has Federal jobs in all five PATCO categories, the five PATCO category rates are averaged to one GS-5 non-Federal pay rate. For averaging by grade, each PATCO category rate is weighted by the local full-time, permanent, year-round GS employment in the category at the grade.

In the third stage, the grade averages are weighted by the corresponding local, full-time, permanent, year-round GS grade level employment and averaged to a single overall non-Federal pay rate for the locality. This overall non-Federal average salary is the non-Federal rate to which the overall average GS rate is compared. Under the NCS/OES model, all 15 GS grades can be represented.

Since GS rates by grade are not based on a sample, but rather on a census of the relevant GS populations, the first two stages of the above process are omitted in deriving the GS average rate. For each grade level represented by a non-Federal average derived in stage two, we average the scheduled rates of all full-time, permanent, year-round GS employees at the grade in the area. The overall GS average rate is the weighted average of these GS grade level rates, using the same weights as those used to average the non-Federal grade level rates.

Finally, the pay disparity is the percentage by which the overall average non-Federal rate exceeds the overall average GS rate.<sup>3</sup> See Appendix III for more detail on pay gaps using the NCS/OES model.

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<sup>2</sup> Employment weights include employees in the United States and its territories and possessions.

<sup>3</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.

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

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



## Locality Pay Areas

### Federal Salary Council Recommendations Regarding Locality Pay Areas

The Council made recommendations on five issues related to locality pay area boundaries for 2022:

1. Because no Rest of U.S. research areas meet the standard for establishment as new locality pay areas based on pay disparities calculated using the NCS/OES Model, the Council recommended that no new locality pay areas be established at this time based on such pay disparities.<sup>4</sup>
2. The Council should continue to analyze and discuss the issue of whether the 2,500 GS employment threshold should change for evaluating Rest of U.S. metropolitan areas for possible establishment as new locality pay areas based on pay disparities calculated using data from the NCS/OES Model.
3. The Council's members could not reach consensus on the issue of whether the Pay Agent should adopt the metropolitan statistical areas (MSAs) and combined statistical areas (CSAs) delineated in Office of Management and Budget (OMB) Bulletin No. 20-01 for use in the locality pay program. However, Council members provided their individual recommendations on that issue, as detailed in Attachment 4 of the Council's January 2021 recommendations.
4. The Council did not recommend establishment of any new locality pay areas or areas of application at this time that do not meet approved criteria for such establishment. However, the Council strongly endorsed the approval of all appropriate pay flexibilities—such as recruiting and retention incentives and/or special pay rates—to the agencies that employ Federal workers in the two areas that submitted Human Capital Indicators (HCI) data that were sufficient to support further Council consideration: Charleston, SC, and Southern New Jersey, as defined by proposals the Council received in 2020 regarding those areas.
5. For Carroll County, IL, and other areas that can demonstrate that the only reason they do not meet the GS employment criterion for areas of application is because they have vacancies that keep them below the threshold, the Council recommended that the GS employment criterion be waived.

The Pay Agent addresses these Council recommendations below.

1. *We agree with the Council that NCS/OES Model results do not indicate that any additional Rest of U.S. research areas should be approved at this time for establishment as new locality pay areas.*

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<sup>4</sup> Rest of U.S. research areas are metropolitan areas the Council monitors for possible establishment as new locality pay areas based on pay disparities calculated using the current salary survey methodology.

The Council is now monitoring pay disparities in 38 research areas not approved for establishment as separate locality pay areas. The Council compared the pay disparities for those areas to the Rest of U.S. pay disparity over the three-year period 2018-2020. None of the pay disparities for the 38 research areas exceeded that for the Rest of U.S. locality pay area by 10 percentage points or more on average over the three-year period studied, which since 2015 has been the threshold for triggering a recommendation from the Council to the Pay Agent to establish a research area as a new locality pay area.

- 2. We agree that the Council should continue to study the issue of whether the GS employment threshold should change for studying pay disparities in Rest of U.S. research areas.*

The Council under the previous Administration planned further study in Calendar Year 2021 on the question of whether the GS employment threshold (2,500 or more GS employees) should change for studying Rest of U.S. research areas with the NCS/OES Model. We encourage the Council to continue studying that issue.

- 3. Pending further research and analysis by the Council, the boundaries of locality pay areas will continue to be based on the MSAs and CSAs defined in OMB Bulletin No. 18-03.*

OMB-defined metropolitan areas have been the basis for locality pay area boundaries since locality pay was implemented in 1994. However, OMB does not delineate MSAs and CSAs specifically for use in the locality pay program or any other non-statistical program and has cautioned other agencies to review MSA and CSA delineations carefully before using them for non-statistical purposes—such as administering the locality pay program.

The Pay Agent under the previous Administration noted some concerns about the impact that using the latest MSA/CSA delineations would have on the locality pay program. For example, the Pay Agent pointed out in its December 2020 report that while the Columbus-Auburn-Opelika, GA-AL CSA had a pay disparity below that for the Rest of U.S., due to changes in the geographic boundaries of the Atlanta and Columbus CSAs, the Columbus CSA would now meet both the employment interchange criterion and the GS employment criterion to be included in the Atlanta locality pay area as an area of application. We note that the updated pay disparities the Council included in its recommendations for 2022 continue to show that the Columbus CSA has a pay disparity below that for the Rest of U.S.

The Council under the previous Administration could not reach consensus on this complex issue and provided significantly divergent views on it to the Pay Agent in the Council's January 2021 recommendations. Considering that, we think it best for the Council to take a fresh look at this issue in 2021.

- 4. No new locality pay areas or areas of application will be established at this time for locations that do not meet approved criteria for such establishment, including locations for which the Council under the previous Administration reviewed human capital indicators (HCI) data. Agencies with significant recruitment and retention issues are encouraged to explore the full range of pay and leave flexibilities designed to address such issues.*

As explained in the December 2020 Pay Agent report, current law does not provide the authority to establish locality pay percentages based on HCI data. The law requires that locality pay percentages be based on pay comparisons using BLS surveys. However, the analysis required to prepare HCI data is not without value under current law because such analysis can help agencies identify and address significant recruitment and retention problems. Federal agencies have considerable discretionary authority to provide pay and leave flexibilities to address such problems. [Information on these flexibilities is posted on the OPM website](#). The extent of recruitment and retention problems in a geographic area can vary significantly by occupation and work level. These flexibilities provide agencies with the opportunity to apply targeted solutions to significant recruitment and retention problems. Locality pay, by contrast, is designed to provide a single percentage of base GS rates for all occupations and work levels.

5. *We do not support the Council recommendation to waive the GS employment criterion at this time for Carroll County, IL, or any other location; however, we note that Carroll County, IL, now meets the GS employment criterion for establishment as an area of application to the Davenport locality pay area, and we tentatively approve such establishment pending appropriate rulemaking.*

As noted in the December 2020 Pay Agent report, the Pay Agent has used a GS employment criterion since locality pay began in 1994. The GS employment criterion is useful in that it identifies whether there is a major Federal employer in a location under consideration to become an area of application, which in turn may indicate that the location has a substantial employment base sufficient to draw significant numbers of candidates for employment who reside in the adjacent locality pay area. In the past, the Pay Agent has suggested that the Council consider recommending other criteria that could be used if the GS employment criterion were to be eliminated or reduced.

While we understand the point that an area's GS employment could be below the GS employment threshold due to vacancies, we do not know how many similarly situated locations there may be, or if agencies actually intend to fill vacant positions. It has been the practice in the locality pay program to apply criteria consistently for all locations in the Country. The Council can revisit the January 2021 Council recommendation regarding Carroll County through further analysis of the potential impact of including vacant positions in addition to encumbered positions to meet the established GS employment threshold. The Council should also feel free to consider the broader issue of whether the GS employment criterion or other approved criteria for defining locality pay areas should change.

However, Carroll County, IL, has had increases in GS employment since the Council met on October 21, 2020, and now in addition to continuing to meet the employment interchange criterion for establishment as an area of application to the Davenport locality pay area, Carroll County also meets the GS employment criterion for such establishment. Accordingly, we tentatively approve that change in the geographic definition of the Davenport locality pay area pending appropriate rulemaking.

## Locality Pay Areas for 2022

Until the regulatory process is complete to make the change to the geographic definition of the Davenport locality pay area that we have tentatively approved above, locality pay areas will continue to be defined as follows:

The Pay Agent plans no changes in the geographic definitions of locality pay areas for 2022, and locality pay areas will continue to be defined geographically as listed below. Note that component counties of the metropolitan statistical areas and combined statistical areas (MSAs and CSAs) comprising basic locality pay areas are listed in OMB Bulletin No. 18-03.

- (1) Alaska—consisting of the State of Alaska;
- (2) Albany-Schenectady, NY-MA—consisting of the Albany-Schenectady, NY CSA and also including Berkshire County, MA;
- (3) Albuquerque-Santa Fe-Las Vegas, NM—consisting of the Albuquerque-Santa Fe-Las Vegas, NM CSA and also including McKinley County, NM;
- (4) Atlanta—Athens-Clarke County—Sandy Springs, GA-AL—consisting of the Atlanta—Athens-Clarke County—Sandy Springs, GA CSA and also including Chambers County, AL;
- (5) Austin-Round Rock, TX—consisting of the Austin-Round Rock, TX MSA;
- (6) Birmingham-Hoover-Talladega, AL—consisting of the Birmingham-Hoover-Talladega, AL CSA and also including Calhoun County, AL;
- (7) Boston-Worcester-Providence, MA-RI-NH-ME—consisting of the Boston-Worcester-Providence, MA-RI-NH-CT CSA, except for Windham County, CT, and also including Androscoggin County, ME, Cumberland County, ME, Sagadahoc County, ME, and York County, ME;
- (8) Buffalo-Cheektowaga, NY—consisting of the Buffalo-Cheektowaga, NY CSA;
- (9) Burlington-South Burlington, VT—consisting of the Burlington-South Burlington, VT MSA;
- (10) Charlotte-Concord, NC-SC—consisting of the Charlotte-Concord, NC-SC CSA;
- (11) Chicago-Naperville, IL-IN-WI—consisting of the Chicago-Naperville, IL-IN-WI CSA;
- (12) Cincinnati-Wilmington-Maysville, OH-KY-IN—consisting of the Cincinnati-Wilmington-Maysville, OH-KY-IN CSA and also including Franklin County, IN;
- (13) Cleveland-Akron-Canton, OH—consisting of the Cleveland-Akron-Canton, OH CSA and also including Harrison County, OH;



- (14) Colorado Springs, CO—consisting of the Colorado Springs, CO MSA and also including Fremont County, CO, and Pueblo County, CO;
- (15) Columbus-Marion-Zanesville, OH—consisting of the Columbus-Marion-Zanesville, OH CSA;
- (16) Corpus Christi-Kingsville-Alice, TX—consisting of the Corpus Christi-Kingsville-Alice, TX CSA;
- (17) Dallas-Fort Worth, TX-OK—consisting of the Dallas-Fort Worth, TX-OK CSA and also including Delta County, TX;
- (18) Davenport-Moline, IA-IL—consisting of the Davenport-Moline, IA-IL CSA;
- (19) Dayton-Springfield-Sidney, OH—consisting of the Dayton-Springfield-Sidney, OH CSA and also including Preble County, OH;
- (20) Denver-Aurora, CO—consisting of the Denver-Aurora, CO CSA and also including Larimer County, CO;
- (21) Des Moines-Ames-West Des Moines, IA—consisting of the Des Moines-Ames-West Des Moines, IA CSA;
- (22) Detroit-Warren-Ann Arbor, MI—consisting of the Detroit-Warren-Ann Arbor, MI CSA;
- (23) Harrisburg-Lebanon, PA—consisting of the Harrisburg-York-Lebanon, PA CSA, except for Adams County, PA, and York County, PA, and also including Lancaster County, PA;
- (24) Hartford-West Hartford, CT-MA—consisting of the Hartford-West Hartford, CT CSA and also including Windham County, CT, Franklin County, MA, Hampden County, MA, and Hampshire County, MA;
- (25) Hawaii—consisting of the State of Hawaii;
- (26) Houston-The Woodlands, TX—consisting of the Houston-The Woodlands, TX CSA and also including San Jacinto County, TX;
- (27) Huntsville-Decatur-Albertville, AL—consisting of the Huntsville-Decatur-Albertville, AL CSA;
- (28) Indianapolis-Carmel-Muncie, IN—consisting of the Indianapolis-Carmel-Muncie, IN CSA and also including Grant County, IN;
- (29) Kansas City-Overland Park-Kansas City, MO-KS—consisting of the Kansas City-Overland Park-Kansas City, MO-KS CSA and also including Jackson County, KS, Jefferson County, KS, Osage County, KS, Shawnee County, KS, and Wabaunsee County, KS;

- (30) Laredo, TX—consisting of the Laredo, TX MSA;
- (31) Las Vegas-Henderson, NV-AZ—consisting of the Las Vegas-Henderson, NV-AZ CSA;
- (32) Los Angeles-Long Beach, CA—consisting of the Los Angeles-Long Beach, CA CSA and also including Imperial County, CA, Kern County, CA, San Luis Obispo County, CA, and Santa Barbara County, CA;
- (33) Miami-Fort Lauderdale-Port St. Lucie, FL—consisting of the Miami-Fort Lauderdale-Port St. Lucie, FL CSA and also including Monroe County, FL;
- (34) Milwaukee-Racine-Waukesha, WI—consisting of the Milwaukee-Racine-Waukesha, WI CSA;
- (35) Minneapolis-St. Paul, MN-WI—consisting of the Minneapolis-St. Paul, MN-WI CSA;
- (36) New York-Newark, NY-NJ-CT-PA—consisting of the New York-Newark, NY-NJ-CT-PA CSA and also including all of Joint Base McGuire-Dix-Lakehurst;
- (37) Omaha-Council Bluffs-Fremont, NE-IA—consisting of the Omaha-Council Bluffs-Fremont, NE-IA CSA;
- (38) Palm Bay-Melbourne-Titusville, FL—consisting of the Palm Bay-Melbourne-Titusville, FL MSA;
- (39) Philadelphia-Reading-Camden, PA-NJ-DE-MD—consisting of the Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA, except for Joint Base McGuire-Dix-Lakehurst;
- (40) Phoenix-Mesa-Scottsdale, AZ—consisting of the Phoenix-Mesa-Scottsdale, AZ MSA;
- (41) Pittsburgh-New Castle-Weirton, PA-OH-WV—consisting of the Pittsburgh-New Castle-Weirton, PA-OH-WV CSA;
- (42) Portland-Vancouver-Salem, OR-WA—consisting of the Portland-Vancouver-Salem, OR-WA CSA;
- (43) Raleigh-Durham-Chapel Hill, NC—consisting of the Raleigh-Durham-Chapel Hill, NC CSA and also including Cumberland County, NC, Hoke County, NC, Robeson County, NC, Scotland County, NC, and Wayne County, NC;
- (44) Richmond, VA—consisting of the Richmond, VA MSA and also including Cumberland County, VA, King and Queen County, VA, and Louisa County, VA;
- (45) Sacramento-Roseville, CA-NV—consisting of the Sacramento-Roseville, CA CSA and also including Carson City, NV, and Douglas County, NV;

- (46) San Antonio-New Braunfels-Pearsall, TX—consisting of the San Antonio-New Braunfels-Pearsall, TX CSA;
- (47) San Diego-Carlsbad, CA—consisting of the San Diego-Carlsbad, CA MSA;
- (48) San Jose-San Francisco-Oakland, CA—consisting of the San Jose-San Francisco-Oakland, CA CSA and also including Monterey County, CA;
- (49) Seattle-Tacoma, WA—consisting of the Seattle-Tacoma, WA CSA and also including Whatcom County, WA;
- (50) St. Louis-St. Charles-Farmington, MO-IL—consisting of the St. Louis-St. Charles-Farmington, MO-IL CSA;
- (51) Tucson-Nogales, AZ—consisting of the Tucson-Nogales, AZ CSA and also including Cochise County, AZ;
- (52) Virginia Beach-Norfolk, VA-NC—consisting of the Virginia Beach-Norfolk, VA-NC CSA;
- (53) Washington-Baltimore-Arlington, DC-MD-VA-WV-PA—consisting of the Washington-Baltimore-Arlington, DC-MD-VA-WV-PA CSA and also including Kent County, MD, Adams County, PA, York County, PA, King George County, VA, and Morgan County, WV; and
- (54) 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.



## Pay Disparities and Comparability Payments

It is important to emphasize that the underlying methodology for locality pay of relying on one singular locality rate covering a locality pay area has lacked credibility since the beginning of locality pay in 1994 to such a degree that the statutory formula for closing pay gaps has been overridden either by Congress or by successive Presidents each and every year since that first year. However, the pay disparities listed below fulfill the statutory requirement to submit a report each year showing the locality-based comparability payments the Pay Agent would recommend for GS employees if the adjustments were made as specified in the statute.<sup>5</sup>

Table 2 below lists the pay disparity based on the current NCS/OES model for each current locality pay area. Table 2 also shows the recommended local comparability payments under 5 U.S.C. 5304(a)(3)(I) for 2022 based on the pay disparities, as well as the pay disparities that would remain if the recommended payments were adopted.

The law requires comparability payments only in localities where the pay disparity exceeds 5 percent. The goal in 5 U.S.C 5304(a)(3)(I) was to reduce local pay disparities to no more than 5 percent over a nine-year period. The “Disparity to Close” shown in Table 2 represents the pay disparity to be closed in each area based on the 5 percent remaining disparity threshold. The “Locality Payment” shown in the table represents 100 percent of the disparity to close. The last column shows the pay disparity that would remain in each area if the indicated payments were made. For example, in Alaska, the 60.50 percent pay disparity would be reduced to 5.00 percent if the locality rate were increased to 52.86 percent (160.50 / 152.86 - 1 rounds to 5 percent).

Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity	Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity
Alaska	60.50%	52.86%	5.00%	Indianapolis	33.79%	27.42%	5.00%
Albany	49.61%	42.49%	5.00%	Kansas City	40.35%	33.67%	5.00%
Albuquerque	37.50%	30.95%	5.00%	Laredo	56.07%	48.64%	5.00%
Atlanta	43.58%	36.74%	5.00%	Las Vegas	42.04%	35.28%	5.00%
Austin	44.48%	37.60%	5.00%	Los Angeles	77.76%	69.30%	5.00%
Birmingham	39.70%	33.05%	5.00%	Miami	39.12%	32.50%	5.00%
Boston	67.11%	59.15%	5.00%	Milwaukee	38.79%	32.18%	5.00%
Buffalo	44.90%	38.00%	5.00%	Minneapolis	57.82%	50.30%	5.00%
Burlington	46.26%	39.30%	5.00%	New York	75.48%	67.12%	5.00%
Charlotte	43.19%	36.37%	5.00%	Omaha	41.66%	34.91%	5.00%
Chicago	54.15%	46.81%	5.00%	Palm Bay	31.68%	25.41%	5.00%
Cincinnati	39.34%	32.70%	5.00%	Philadelphia	61.88%	54.17%	5.00%
Cleveland	40.63%	33.93%	5.00%	Phoenix	49.35%	42.24%	5.00%
Colorado Springs	44.19%	37.32%	5.00%	Pittsburgh	41.57%	34.83%	5.00%
Columbus	47.53%	40.50%	5.00%	Portland	49.35%	42.24%	5.00%
Corpus Christi	30.83%	24.60%	5.00%	Raleigh	41.14%	34.42%	5.00%
Dallas	53.75%	46.43%	5.00%	Rest of U.S.	29.98%	23.79%	5.00%
Davenport	40.36%	33.68%	5.00%	Richmond	48.35%	41.29%	5.00%
Dayton	49.38%	42.27%	5.00%	Sacramento	62.67%	54.92%	5.00%
Denver	64.80%	56.95%	5.00%	St. Louis	46.16%	39.20%	5.00%
Des Moines	40.10%	33.43%	5.00%	San Antonio	42.49%	35.70%	5.00%
Detroit	51.13%	43.93%	5.00%	San Diego	71.92%	63.73%	5.00%

<sup>5</sup> Since the Council developed its January 2021 recommendations, BLS made a minor adjustment to the occupation codes used in the delivery of the March 2020 non-Federal salary estimates to OPM staff, so the locality pay rates and the total pay disparities the Council initially reported have been adjusted accordingly in this report.

Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity	Locality	Pay Disparity	Disparity to Close and Locality Payment	Remaining Disparity
Harrisburg	45.75%	38.81%	5.00%	San Jose	90.62%	81.54%	5.00%
Hartford	58.75%	51.19%	5.00%	Seattle	74.20%	65.90%	5.00%
Hawaii	52.64%	45.37%	5.00%	Tucson	41.83%	35.08%	5.00%
Houston	60.52%	52.88%	5.00%	Virginia Beach	44.08%	37.22%	5.00%
Huntsville	45.10%	38.19%	5.00%	Washington, DC	70.82%	62.69%	5.00%

### Average Locality Rate

The average locality comparability rate in 2022, using the basic GS payroll as of March 2020 to weight the individual rates, would be 45.05 percent under the methodology used for this report (based on the disparity to close). The average rate authorized in 2020 was 23.60 percent using 2020 payroll weights. The locality rates included in this report would represent a 17.35 percent average pay increase over 2020 locality rates.

### Overall Remaining Pay Disparities

The full pay disparities contained in this report average 52.30 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 2020) are included in the comparison, the overall remaining pay disparity as of March 2020 was (152.30/123.60-1), or 23.22 percent. Table 3 below shows the overall remaining pay disparity in each of the 54 current locality pay areas as of March 2020.

Locality	Remaining Disparity	Locality	Remaining Disparity
Alaska	23.78%	Kansas City	19.82%
Albany	26.92%	Laredo	31.28%
Albuquerque	17.84%	Las Vegas	20.70%
Atlanta	17.53%	Los Angeles	34.25%
Austin	22.26%	Miami	12.64%
Birmingham	20.16%	Milwaukee	14.74%
Boston	29.43%	Minneapolis	26.60%
Buffalo	20.55%	New York	30.97%
Burlington	25.13%	Omaha	21.77%
Charlotte	21.93%	Palm Bay	12.81%
Chicago	19.88%	Philadelphia	28.44%
Cincinnati	15.59%	Phoenix	24.33%
Cleveland	16.40%	Pittsburgh	18.57%
Colorado Springs	22.42%	Portland	20.70%
Columbus	22.92%	Raleigh	17.14%
Corpus Christi	12.24%	Rest of U.S.	12.10%
Dallas	23.02%	Richmond	23.68%
Davenport	19.92%	Sacramento	28.73%
Dayton	25.34%	St. Louis	24.23%
Denver	29.63%	San Antonio	22.03%
Des Moines	20.83%	San Diego	32.48%
Detroit	18.70%	San Jose	34.77%
Harrisburg	24.36%	Seattle	37.14%
Hartford	22.60%	Tucson	21.03%
Hawaii	27.67%	Virginia Beach	23.66%
Houston	20.40%	Washington, DC	30.92%
Huntsville	21.07%		
Indianapolis	14.43%	<b>Average</b>	<b>23.22%</b>

## Cost of Locality Payments

### Estimating the Cost of Locality Payments

We estimate the cost of locality payments using OPM records of Federal employees in locality pay areas as of March 2020 who are covered by the General Schedule or other pay plan to which locality pay has been extended, together with the percentage locality payments from Table 2 above. The estimate assumes that the average number and distribution of employees (by locality, grade, and step) in 2022 will not differ substantially from the number and distribution in March 2020. The estimate does not include increases in premium pay costs or Government contributions for retirement, life insurance, or other employee benefits that may be attributed to locality payments. It also accounts for cost offsets in the non-foreign areas where cost-of-living allowance payments are reduced as locality pay is phased in and for the impact of statutory pay caps on payable rates.

Cost estimates are derived as follows. First, we determine either the regular GS base rate or any applicable special rate as of 2020 for each employee. These rates were adjusted for the 1.0-percent across-the-board base GS increase in January 2021, plus a 2.2 percent across-the-board base GS increase that would take effect in January 2022 absent another provision of law. Annual rates are converted to expected annual earnings by multiplying each annual salary by an appropriate work schedule factor.<sup>6</sup> The “gross locality payment” is computed by multiplying expected annual earnings from the GS base rate by the proposed locality payment percentage for the employee’s locality pay area and applying the applicable locality pay cap if necessary. The sum of these gross locality payments is the cost of locality pay before offset by special rates.

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

### Estimated Cost of Locality Payments in 2022

Table 4 below compares the cost of estimated baseline 2021 locality pay rates to those that would be authorized in 2022 under 5 U.S.C. 5304(a)(3)(I), as identified above in Table 2. The “2021 Baseline” cost would be the cost of locality pay rates in 2022 if the locality percentages were not increased.

The “2022 Locality Pay” columns show what the total locality payments would be and the net increase in 2022. The “2022 Increase” column shows the 2022 total payment minus the 2021 baseline—i.e., the increase in locality payments in 2022 attributable to higher locality pay

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<sup>6</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.

percentages. Based on the assumptions outlined above, we estimate the total cost attributable to the locality rates shown in Table 2 over rates currently in effect to be about \$18.530 billion on an annual basis. This amount does not include the cost of benefits affected by locality pay raises.

This cost estimate excludes 1,588 records (out of 1.4 million) of white-collar workers which were unusable because of errors. Many of these employees may receive locality payments. Including these records would add about \$21 million to the net cost of locality payments. The cost estimate also excludes a locality pay cost of about \$385 million net of cost-of-living allowance offsets for white-collar employees in Alaska, Hawaii, and the other non-foreign areas under the Non-Foreign Area Retirement Equity Assurance Act of 2009 that extended locality pay to employees in the non-foreign areas.

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

<b>Cost Component</b>	<b>2021 Baseline</b>	<b>2022 Locality Pay</b>	
		<b>Total Payments</b>	<b>2022 Increase</b>
Gross locality payments	\$23.651	\$42.722	\$19.071
Special rates offsets	\$1.147	\$1.688	\$0.541
Net locality payments	\$22.504	\$41.034	\$18.530



## **Recommendations of the Federal Salary Council and Employee Organizations**

The Federal Salary Council's deliberations and recommendations have had an important and constructive influence on the findings and recommendations of the Pay Agent. The Council's recommendations developed in the October 21, 2020, Council meeting appear in Appendix I of this report. The members of the Council at that meeting were:

Dr. Ronald Sanders, DPA	Chairman
Mr. Douglas Fehrer	Vice Chairman
Ms. Katja Bullock	Expert
Mr. Robert Creighton	Employee Organization Representative Fraternal Order of Police
Mr. Randy Erwin	Employee Organization Representative National Federation of Federal Employees
Mr. Andrew Rakowsky	Employee Organization Representative Federal Law Enforcement Officers Association
Mr. Anthony M. Reardon	Employee Organization Representative National Treasury Employees Union
Ms. Jacqueline Simon	Employee Organization Representative American Federation of Government Employees

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