



United States Government Accountability Office

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Report to the Committee on Armed  
Services, House of Representatives

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November 2021

# HUMAN CAPITAL Administration and Implementation of the General Schedule Locality Pay Program

Accessible Version

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A Century of Non-Partisan Fact-Based Work

# GAO Highlight

Highlights of [GAO-22-104580](#), a report to the Committee on Armed Services, House of Representatives

## Why GAO Did This Study

FEPCA authorized annual locality-based pay adjustments for GS employees. The act's goal was to reduce reported pay gaps between federal and nonfederal employees in specific areas of the U.S. to no more than 5 percent. While this goal has not been met since its authorization in 1994, some amount of locality pay increases has been provided for 22 of the 28 years since FEPCA took effect.

House Report 116-442 accompanying the bill that would become the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 included a provision for GAO to review the administration of the locality pay program.

This report describes (1) the process for administering the GS locality pay program, including establishing or modifying existing geographical boundaries for locality pay areas and the amount of time required for such changes; (2) the status of incorporating OMB's statistical area definitions to determine the boundaries for locality pay areas; and (3) the council's potential alternatives for administering and implementing the locality pay program.

GAO reviewed legislation, Office of Personnel Management (OPM) regulations, council memorandums and Pay Agent reports, and BLS, OMB, and OPM documents. GAO also interviewed OPM and BLS officials, OMB staff, and council members; and conducted a literature search.

The Department of Labor and OPM provided technical comments on a draft of this report, which GAO incorporated as appropriate. OMB had no comments.

View [GAO-22-104580](#). For more information, contact Jeff Arkin at (202) 512-6806 or [arkinj@gao.gov](mailto:arkinj@gao.gov).

November 2021

## HUMAN CAPITAL

# Administration and Implementation of the General Schedule Locality Pay Program

## What GAO Found

To help determine the locality-based pay adjustments for federal employees paid under the General Schedule (GS) pay system, the Federal Employees Pay Comparability Act of 1990 (FEPCA) created the President's Pay Agent (Pay Agent) and Federal Salary Council (council) to annually recommend locality pay amounts to the President and modifications to locality pay areas (see figure below).

### Annual Process for the General Schedule Locality Pay Program

The Federal Employees Pay Comparability Act of 1990 requires the use of nonfederal salary survey data from the Bureau of Labor Statistics (BLS) to measure pay disparities between federal and nonfederal workers for each locality.

The council submits annual recommendations to the Pay Agent on the modifications to locality pay areas, coverage of BLS salary surveys, the process of comparing federal to nonfederal pay, and pay rates for each locality.

The President may implement the Pay Agent's recommendations or provide alternative pay adjustments. The President sets locality pay percentages through an Executive Order, which takes effect on the first pay period of the calendar year.



The Office of Personnel Management (OPM) staff provides support to the President's Pay Agent (Pay Agent) and Federal Salary Council (council) at their request.<sup>a</sup> For example, OPM reviews all potential jurisdictions that could be added into a locality area.

The Pay Agent will tentatively accept or reject the council's recommendations in its annual report to the President.

Source: GAO analysis of Federal Salary Council and Office of Personnel Management documentation. | GAO-22-104580

<sup>a</sup>Designated by the President, the Pay Agent is comprised of the Secretary of Labor and the Directors of the Office of Management and Budget and OPM. The council is comprised of three experts in labor relations and pay policy and six representatives of employee organizations representing large numbers of General Schedule employees.

Since 1994, the council has recommended defining locality pay areas using the Office of Management and Budget's (OMB) statistical area definitions, which provide nationally consistent delineations for a set of geographic areas. Based on the recommendations of the council, the Pay Agent has updated the locality areas, as needed, when OMB updates its statistical area definitions. Currently, the council uses definitions from OMB's April 2018 update. OMB issued an update in March 2020. Some of the council members told GAO that the council plans to discuss these updates once the administration appoints new council members. Using the 2020 definitions could affect GS employees' pay if locations within existing locality pay areas were moved to separate locality pay areas (higher or lower paying).

In its 2019 memorandum, the council identified five alternatives to the survey methodology for setting locality pay, including verifying Bureau of Labor Statistics (BLS) survey data with other human capital data—such as attrition data—and establishing a commission to periodically review federal civilian compensation. According to council members, these alternatives represent the most recent discussion by the council of different methodologies. This is also consistent with the results of GAO's literature search.

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#### Abbreviations

BLS	Bureau of Labor Statistics
council	Federal Salary Council
FEPCA	Federal Employees Pay Comparability Act of 1990
GS	General Schedule
NCS	National Compensation Survey
OEWS	Occupational Employment and Wage Statistics
OMB	Office of Management and Budget
OPM	Office of Personnel Management
Pay Agent	President's Pay Agent
RUS	Rest of United States

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November 30, 2021

The Honorable Adam Smith  
Chairman  
The Honorable Mike Rogers  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Federal Employees Pay Comparability Act of 1990 (FEPCA) authorized locality pay for federal white-collar employees paid under the General Schedule (GS) pay system in specific areas of the U.S. where nonfederal pay exceeds federal pay by more than 5 percent. The act is intended to address the challenge of federal agencies' recruitment and retention of skilled employees in areas where nonfederal wages exceeded federal wages. Prior to the enactment of FEPCA, national pay comparisons showed that private sector wages averaged about 25 percent higher than federal wages for similar levels of work, as we reported in May 1990.<sup>1</sup> In addition, federal white-collar wages for the same job generally applied nationwide with no variation to reflect differences in prevailing salary rates. For example, entry-level employees performing the same work in Denver and New York City were paid the same despite living in different localities.

FEPCA created annual locality-based pay adjustments for GS employees to reduce reported pay gaps between federal and nonfederal employees in each locality area to no more than 5 percent by 2002.<sup>2</sup> However, the Federal Salary Council (council)—comprised of pay and labor relations experts and organizations representing GS employees—estimated that

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<sup>1</sup>GAO, *Federal Pay: Comparisons With the Private Sector by Job and Locality*, [GAO/GGD-90-81FS](#) (Washington, D.C.: May 15, 1990).

<sup>2</sup>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.

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as of March 2020, the overall remaining pay disparity between federal and nonfederal employees was 23.11 percent.<sup>3</sup>

Since 1994, the council has recommended designating locality pay areas based on the Office of Management and Budget's (OMB) statistical area definitions, among other criteria.<sup>4</sup> While OMB periodically updated its statistical area definitions, the majority of them did not have major implications for how locality pay area boundaries were defined and were incorporated, as applicable. However, since 2018, the council has recommended that the President's Pay Agent (Pay Agent) pause incorporating the updates as a result of the changing statistical area definitions and their effect on the locality pay area boundaries because of the potential implications to GS employees' pay if locations within existing locality pay areas were moved to separate locality pay areas (higher or lower paying).<sup>5</sup>

House Report 116-442, accompanying the bill which would become the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, included a provision for us to review the administration of the locality pay program and the status of incorporating OMB's updated statistical area definitions.<sup>6</sup> This report describes (1) the process for administering the GS locality pay program, including establishing or modifying existing geographical boundaries for locality pay areas and the amount of time required for such changes; (2) the status of incorporating OMB's updated statistical area definitions to determine the boundaries for

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<sup>3</sup>Federal Salary Council, *Level of Comparability Payments for January 2022 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: Jan. 6, 2021). This was the most recent council report at the time of our review.

<sup>4</sup>OMB establishes and maintains the delineations (or definitions) of statistical areas, including metropolitan statistical areas, metropolitan divisions, micropolitan statistical areas, and consolidated statistical areas solely for statistical purposes. These statistical area definitions are to provide nationally consistent delineations for collecting, tabulating, and publishing federal statistics for a set of geographic areas. These definitions are derived from Census data, the American Community Survey, and Census Bureau population estimates. We will describe the other criteria for locality pay later in the report.

<sup>5</sup>Designated by the President, the Pay Agent is comprised of the Secretary of Labor and the Directors of OMB and the Office of Personnel Management. As we describe later in the report, the Pay Agent recommends annual comparability payment amounts to the President and may establish and modify pay localities as it considers appropriate, among other things.

<sup>6</sup>H.R. Rep. No. 116-442, at 199 (2020), accompanying H.R. 6395.

locality pay areas; and (3) the council's potential alternatives for administering and implementing the locality pay program.

To address the first objective, we reviewed legislation, executive orders, Office of Personnel Management (OPM) regulations, annual council memorandums and Pay Agent reports, council working group reports and public meeting minutes, and Bureau of Labor Statistics (BLS) and OPM documentation. We also conducted a literature search to help inform our understanding of the administration of the locality pay program. In addition, we interviewed officials from BLS, OPM, and the Department of Labor; OMB staff; and council members on the council from 2015 to 2021.

To address the second objective, we reviewed OMB bulletins, OPM regulations, annual council memorandums and Pay Agent reports, and council working group reports and public meeting minutes. We also interviewed OPM officials, OMB staff, and council members on the council as of April 2021.

To address the third objective, we reviewed the 2019 council memorandum and Pay Agent report that identified proposed alternatives to update the survey methodology. We also interviewed OPM officials and council members on the council from 2015 to 2021 to determine the status of the proposed alternatives and whether there were additional alternatives not identified in public reports that were under consideration. In addition, we conducted a literature search to determine whether the council identified other potential alternatives within the past 11 years (2010 to 2021).

We conducted this performance audit from October 2020 to November 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

In response to calls for a modernized system to ensure equity in pay setting, the Classification Act of 1949 established the GS system of

classification.<sup>7</sup> The GS pay system covered about 1.5 million or 68 percent of all federal civilian workers as of May 2021.<sup>8</sup> The GS workforce is divided into 15 pay grades, with 10 rates of pay (referred to as steps) within each grade and are classified under five occupational categories—Professional, Administrative, Technical, Clerical, and Other White-Collar.<sup>9</sup>

Until the late 1960s, general pay adjustments for federal employees were made through acts of Congress. The Federal Pay Comparability Act of 1970 permanently authorized the President to adjust GS pay rates annually and established a system for recommending adjustments with the goal of increasing federal pay to be comparable with the private sector.<sup>10</sup> However, we previously found that the gap between average federal and private sector salaries for similar jobs remained after implementation of the act because the recommended adjustments were not always made.<sup>11</sup>

Congress enacted FEPCA in 1990 with the goal of reducing the pay gap between federal and nonfederal employees.<sup>12</sup> Under FEPCA, federal employees covered by the GS pay system receive a pay adjustment comprised of two components. The first is an across-the-board pay adjustment, which is the same for each employee to keep the GS base pay schedule in line with salary growth in the general labor market, similar to what had already existed under the 1970 act. The second is a locality-based pay adjustment to reduce reported gaps between federal and

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<sup>7</sup>Pub. L. No. 429, 63 Stat. 954 (1949).

<sup>8</sup>Numbers of federal civilian employees are based on OPM's Enterprise Human Resources Integration-Statistical Data Mart data, which cover most of the nonpostal federal executive branch civilian employees, and do not include the U.S. Postal Service, judicial branch employees, intelligence agencies, nor most legislative branch employees. Non-GS employees are covered under other pay systems, such as the Federal Wage System for blue-collar civilian employees, the Senior Executive Service and the Executive Schedule for high-ranking federal employees, and other unique pay schedules.

<sup>9</sup>The Pay Agent reports also refer to the "O" category as "Officer."

<sup>10</sup>Pub. L. No. 91-656, 84 Stat. 1946 (1971).

<sup>11</sup>GAO, *Recruitment and Retention: Inadequate Federal Pay Cited as Primary Problem by Agency Officials*, [GAO/IGD-90-117](#) (Washington, D.C.: Sept. 11, 1990).

<sup>12</sup>Pub. L. No. 101-509, tit. V, § 529, 104 Stat. 1427-1469 (1990). FEPCA covered numerous pay matters, ranging from basic pay to federal law enforcement pay reform. The pay adjustment provisions discussed herein are found in title I, section 101 of FEPCA, codified as amended, at sections 5303 through 5304a of title 5 of the United States Code.

nonfederal pay in specific areas of the U.S. where nonfederal pay exceeds federal pay by more than 5 percent.<sup>13</sup> As an example, in 2020, GS employees received an across-the-board pay adjustment of 2.6 percent and an average locality pay adjustment of 0.5 percent.

FEPCA includes certain provisions to help meet the goal of reducing the pay gap between federal and nonfederal employees to no more than 5 percent. The law requires that:

- Each GS position in the United States and its territories and possessions be included in a locality pay area.
- A Pay Agent designated by the President is to compare the rates of pay under the GS with rates of pay generally paid to nonfederal workers for the same levels of work within each pay locality, identify each locality in which a pay disparity exists and specify the size of each pay disparity, recommend appropriate comparability payments (also called annual locality pay adjustments), and establish and modify pay localities, while considering the views of the council and other employee organizations.
- The council is to recommend the establishment or modification of locality areas, the coverage of salary surveys conducted by BLS, the process of comparing the rates of pay payable under the GS with rates of pay for the same levels of work performed by nonfederal workers, and the level of comparability payments (or locality pay adjustments) that should be paid to eliminate or reduce pay disparities to the Pay Agent for consideration (see textbox below).
- The boundaries of locality pay areas shall be determined based on appropriate factors, which may include local labor market patterns, commuting patterns, and practices of other employers.
- The establishment and modification of locality pay areas shall be effected by regulations promulgated in accordance with the notice and

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<sup>13</sup>GS employees permanently stationed in foreign countries do not receive locality pay. GS employees in Alaska, Hawaii, and U.S. territories and possessions began receiving locality pay in 2010. The Pay Agent may extend locality pay to certain categories of non-GS employees.

comment rule making requirements of the Administrative Procedure Act.<sup>14</sup>

### **Process for Comparing Federal and Nonfederal Pay to Calculate the Disparity for Each Locality**

The President's Pay Agent (Pay Agent) determines the disparities between federal and nonfederal pay in each locality. It measures federal pay based on Office of Personnel Management (OPM) records that identify General Schedule (GS) employees by occupation and grade level and nonfederal pay based on Bureau of Labor Statistics (BLS) data.

The Pay Agent asks BLS to provide a statistical estimate of nonfederal pay rates by area, occupation, and GS grade level (with occupations classed in five broad occupational groups: Professional, Administrative, Technical, Clerical, and Officer). To do so, BLS combines data from two of its survey programs—the National Compensation Survey (NCS) and Occupational Employment and Wage Statistics (OEWS) program. While OEWS data provide information by occupation for each locality pay area, they do not include information by grade level. The NCS has information on grade level, but for a much smaller sample with which to calculate occupation-area estimates. In combining the NCS and OEWS data, BLS uses a regression model to assess the effect of level of work on occupational earnings, and applies factors derived from the NCS sample to estimate occupational earnings by level of work in each locality pay area. This measurement process is called the NCS/OEWS model.

With technical assistance from OPM staff, the Federal Salary Council (council) and Pay Agent use the estimates from the NCS/OEWS model to calculate pay disparities for federal and nonfederal wages using a three-stage weighted average, as follows: (1) estimates of federal and nonfederal wages within the occupational categories per grade level; (2) estimates of average wages for all occupational categories by grade level to one grade level rate—five occupational categories are averaged to one nonfederal pay rate for each grade level; and (3) estimates of a single overall nonfederal pay rate for the locality. With this output, the council and Pay Agent estimate the pay disparity (i.e., the percentage by which the overall average nonfederal rate exceeds the overall average GS rate for each locality pay area). The Pay Agent bases its locality pay increase recommendations to the President on these disparities.

Source: GAO analysis of BLS, OPM, council, and Pay Agent documentation. | GAO-22-104580

Note: In the spring of 2021, BLS revised the name of the Occupational Employment Statistics program to OEWS to better reflect the range of data available from the program. In addition, BLS designed the OEWS survey to produce wage estimates for metropolitan statistical areas and other sampled areas. Although the OEWS survey is not specifically tailored for the locality pay program, the majority of employment in locality pay areas is within the boundaries of metropolitan statistical areas.

According to council, OPM, and OMB documentation, locality pay areas consist of:

<sup>14</sup> 5 U.S.C. § 5304(d)-(f). The Administrative Procedure Act governs the process by which federal agencies develop and issue regulations. It includes requirements for publishing notices of proposed and final rulemaking in the *Federal Register*, and provides opportunities for the public to comment on notices of proposed rulemaking. 5 U.S.C. § 553(a)(2).

- A basic locality pay area—a main metropolitan area, which is comprised of certain combined statistical areas or metropolitan statistical areas as defined by OMB;<sup>15</sup> and
- Areas of application—locations that are adjacent to a basic locality pay area and meet approved criteria for inclusion in the locality pay area.<sup>16</sup>

As of 2021, there are 54 distinct locality pay areas that cover 51 large metropolitan areas, two entire states (Alaska and Hawaii), and the Rest of U.S. (RUS) which includes the remainder of the U.S. and its territories and possessions.

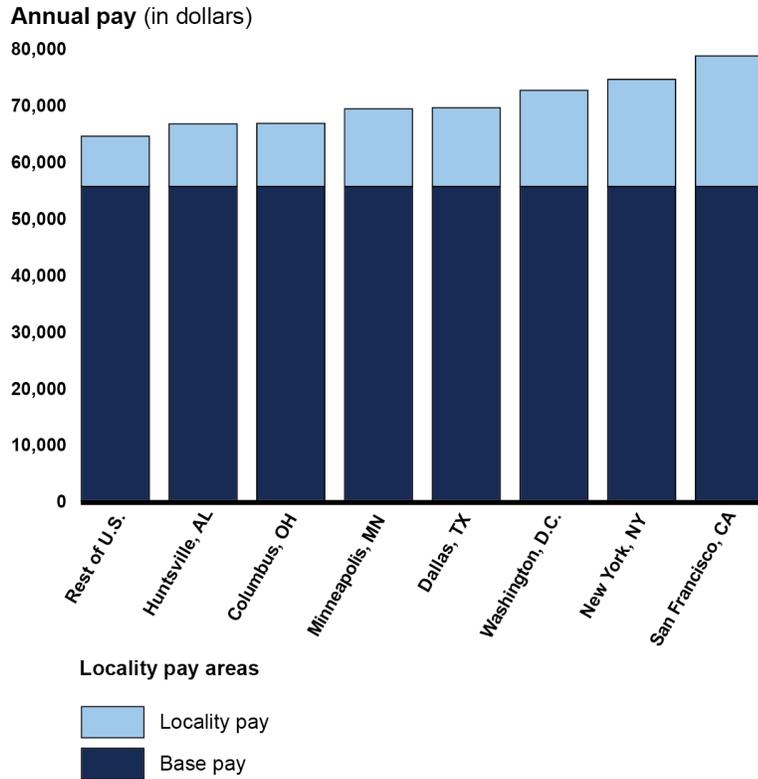
Figure 1 illustrates the annual pay for a GS-11, step 1 employee within RUS (the lowest-paying locality in 2021) and other localities with various pay rates and population sizes. Some positions that a GS-11 employee might hold are Administrative Officer, Scientist, Paralegal Specialist, Accountant, Engineer, Medical Records Administrator, Nurse Specialist, and Information Technology Specialist.

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<sup>15</sup>According to OMB's *2020 Standards for Delineating Core-Based Statistical Areas*, metropolitan statistical areas must have at least one urbanized area with a population of 50,000 or more while micropolitan statistical areas must have at least one urban cluster with a population of at least 10,000 but less than 50,000. In addition, the adjacent territory must have a high degree of social and economic integration with the core as measured by commuting ties. Combined statistical areas are composed of adjacent metropolitan and micropolitan statistical areas in various combinations that have a significant degree of social and economic integration with the core as measured by commuting ties.

<sup>16</sup>Federal Salary Council, *Level of Comparability Payments for January 2022 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: Jan. 6, 2021). Also see <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/fact-sheets/#url=Locality-Pay-Areas>. Accessed on September 29, 2021. While an area of application is a location that is not part of a basic locality pay area, it is included in the locality pay area once approved for inclusion.

**Figure 1: Annual Pay for a General Schedule Grade 11, Step 1 Employee in Various Pay Localities, 2021**



Source: GAO analysis of Office of Personnel Management data. | GAO-22-104580

**Accessible Data Table for Figure 1**

Locality	Base Pay	Locality Pay	Total Pay
Rest of U.S.	55,756	8,893	64,649
Huntsville, AL	55,756	11,068	66,824
Columbus, OH	55,756	11,162	66,918
Minneapolis, MN	55,756	13,749	69,505
Dallas, TX	55,756	13,928	69,684
Washington, D.C.	55,756	16,994	72,750
New York, NY	55,756	18,946	74,702
San Francisco, CA	55,756	23,105	78,861

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## The President's Pay Agent and Federal Salary Council Have Established a Process to Administer Locality Pay Adjustments

As outlined in FEPCA, the Pay Agent and council are tasked with recommending GS locality pay adjustments to help reduce the gap between federal and nonfederal pay to no more than 5 percent based on data from BLS surveys. To do so, the Pay Agent and council are responsible for various activities, as follows:

- The Pay Agent recommends annual comparability payment amounts to the President via an annual report. The Pay Agent also may establish and modify pay localities as it considers appropriate, subject to rulemaking requirements. The Secretary of Labor and the Directors of OMB and OPM serve as the Pay Agent. In making its recommendations and in establishing and modifying pay localities, the Pay Agent considers the views and recommendations of the council as a whole, any views and recommendations of individual members of the council, and other employee organizations not represented on the council. The Pay Agent includes in its annual report to the President the views and recommendations it receives.<sup>17</sup>
- The council makes annual recommendations to the Pay Agent on locality pay adjustments, including (1) the establishment or modification of pay localities, (2) the coverage of salary surveys used to set locality pay, (3) the process for making pay comparisons, and (4) the level of comparability payments that should be made. The council is to be comprised of three experts in labor relations and pay policy and six representatives of employee organizations—appointed by the President—representing large numbers of GS employees.<sup>18</sup>

BLS and OPM staff may provide support to the Pay Agent and council to carry out their responsibilities. For instance, BLS staff may attend council meetings to present research, explain survey data and processes, and provide statistical and methodological assistance while OPM staff develop

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<sup>17</sup> 5 U.S.C. § 5304(d)-(f).

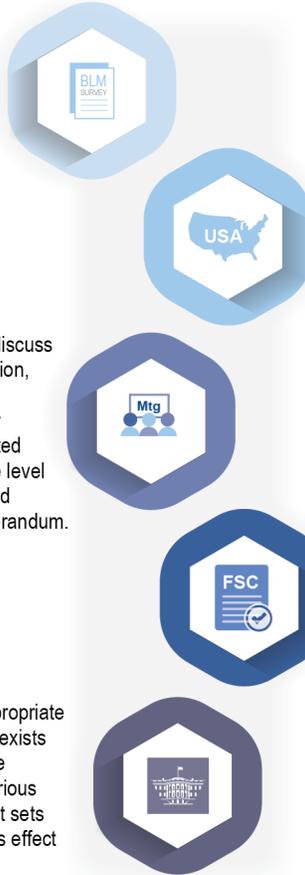
<sup>18</sup> 5 U.S.C. § 5304(e). As of April 2021, the employee organizations represented on the council were the American Federation of Government Employees, the National Treasury Employees Union, the National Federation of Federal Employees, the Fraternal Order of Police, and the Federal Law Enforcement Officers Association.

an initial draft of the Pay Agent's annual reports with assistance from OMB and the Department of Labor staff, according to OPM officials.

Figure 2 provides an overview of the annual process for the locality pay program, including actions taken by various entities involved in the program.

**Figure 2: Annual Process for the General Schedule (GS) Locality Pay Program**

The Federal Employees Pay Comparability Act of 1990 requires the use of nonfederal salary survey data collected by the Bureau of Labor Statistics (BLS) to set locality pay. BLS uses information from its National Compensation Survey and Occupational Employment and Wage Statistics to provide the data used to measure pay disparities between federal and nonfederal workers for each locality.



The Office of Personnel Management (OPM) staff provides support to the President's Pay Agent (Pay Agent) and Federal Salary Council (council) at their request.<sup>a</sup> For example, each year, OPM reviews all potential jurisdictions that could be added into a locality area, including those that requested consideration for inclusion, for the council's working group's initial review.

The council holds at least one working group meeting every year to discuss issues regarding locality pay, such as potential jurisdictions for inclusion, and makes its recommendation to the full council for consideration. The council announces its recommendations on the establishment or modification of locality areas, the coverage of salary surveys conducted by BLS, the process of comparing GS pay to nonfederal pay, and the level of comparability payments for each locality at its annual public meeting and submits these recommendations to the Pay Agent in its annual memorandum.

The Pay Agent will either tentatively accept or reject the council's recommendations in its annual report to the President.<sup>b</sup>

The President reviews the Pay Agent's recommendations for appropriate comparability payments for each locality in which a pay disparity exists and may implement the Pay Agent's recommendations or provide alternative pay adjustments based on a national emergency or serious economic conditions affecting the general welfare.<sup>c</sup> The President sets locality pay percentages through an Executive Order, which takes effect on the first pay period of the calendar year (where applicable).

Source: GAO analysis of Federal Salary Council and Office of Personnel Management documentation. | GAO-22-104580

Note: The locality pay program provides locality-based pay adjustments to federal white-collar employees paid under the GS pay system in specific areas of the U.S. where nonfederal pay exceeds federal pay by more than 5 percent.

<sup>a</sup>Designated by the President, the Pay Agent is comprised of the Secretary of Labor and the Directors of the Office of Management and Budget and OPM. The council is comprised of three experts in labor relations and pay policy and six representatives of employee organizations representing large numbers of General Schedule employees.

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<sup>b</sup>In cases where the Pay Agent tentatively approves the establishment or modification of locality areas, appropriate rulemaking procedures (including notice and comment) must be followed before any changes go into effect.

<sup>c</sup>Congress may legislate an increase that is different from what the President decides.

To determine the locality pay adjustment amounts to recommend to the President, the Pay Agent compares the annual GS base pay rates of federal workers in each area to the annual pay rates of nonfederal workers in the same areas for the same levels of work based on BLS survey data. The President may decide either to provide locality pay adjustments based on the Pay Agent's recommendation or provide for pay adjustments through the President's alternative pay plan authority, which is based on a national emergency or serious economic conditions affecting the general welfare.<sup>19</sup> Further, Congress may legislate an outcome that is different from the Pay Agent's recommendation or President's alternative plan. This is not part of the process specified by FEPCA.

Since the authorization of locality pay adjustments began in 1994, some amount of locality-based pay increase has been authorized, including through the President's alternative pay plans or through legislation passed by Congress for 22 of the 28 years (1994 to 2021).<sup>20</sup> In 1994, the Pay Agent recommended a 3.95 percent average pay increase for GS employees, which went into effect. In all subsequent years through 2021, the effective locality-based pay increase has been far less than the one recommended by the Pay Agent.

For the across-the-board pay adjustment, the President authorized the FEPCA formula increase reported by the Pay Agent in 13 of the 28 years.<sup>21</sup> An amount lower than the formula amount went into effect in the

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<sup>19</sup>In evaluating economic conditions, the President is to consider a range of economic measures, including (but not limited to) gross national product, the unemployment rate, the budget deficit, and the Consumer Price Index.

<sup>20</sup>Pursuant to the President's alternative pay plans, no locality pay increases were provided in 2014, 2015, and 2021 because of budgetary resource constraints. Congress passed a law either specifying the amount of the locality pay adjustment (zero in some years when it froze pay) or an overall percentage increase (for locality and across-the-board increases) in 1995, 1999-2006, 2008-2013, 2019, and 2020. When Congress specified an overall percentage increase, this allowed the President to decide how much would be for locality pay and how much for an across-the-board increase.

<sup>21</sup>Under FEPCA, across-the-board pay adjustments are to be determined using a simple formula: pay rates are to be increased by a percentage equal to the 12-month percentage increase in the Employment Cost Index for private sector workers, minus one-half of 1 percentage point. 5 U.S.C. § 5303.

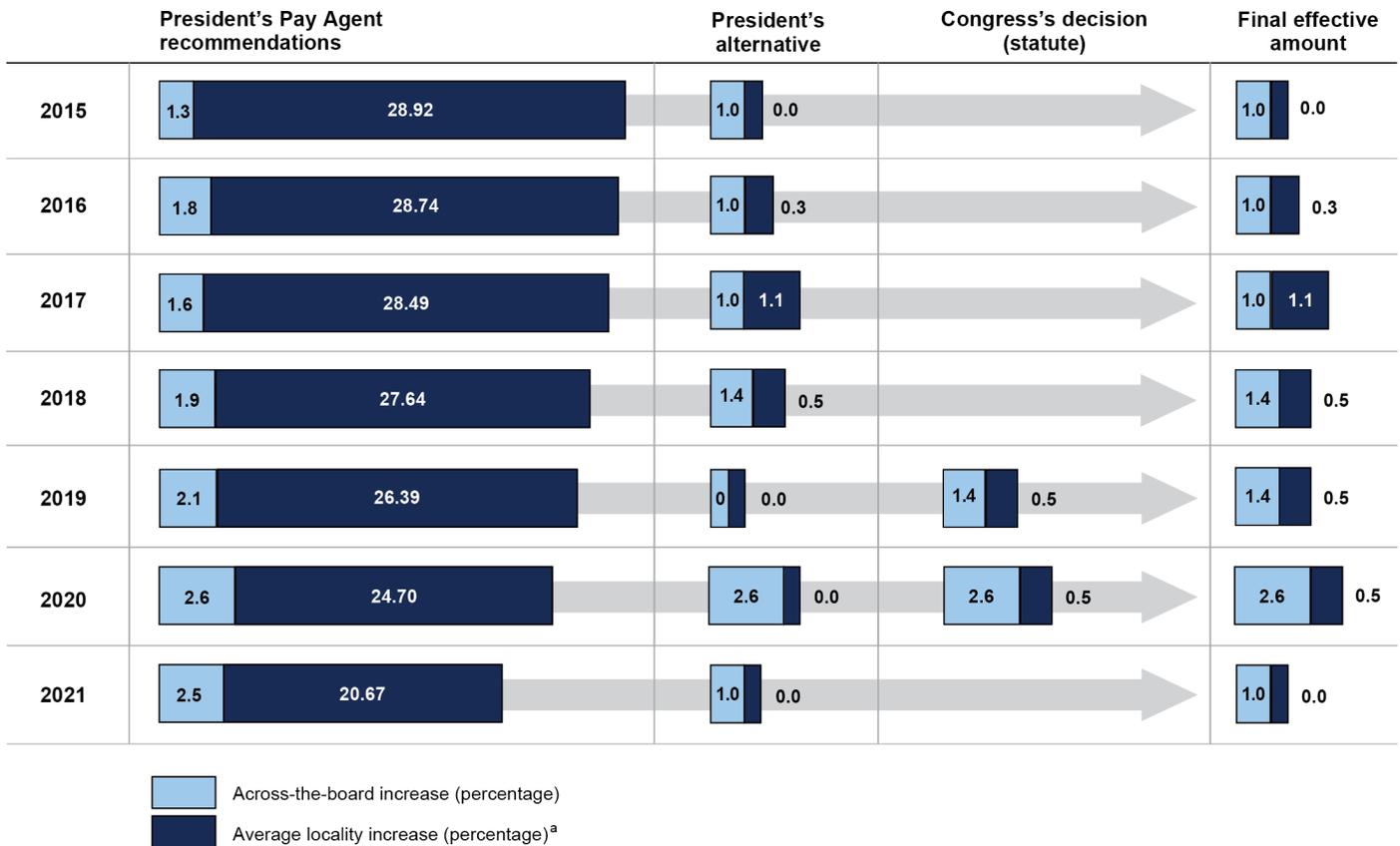
other 15 years. Like locality pay adjustments, the amount for the across-the-board pay adjustment can be set through the President's alternative pay plan—based on a national emergency or serious economic conditions affecting the general welfare—or through legislation passed by Congress.<sup>22</sup>

Figure 3 summarizes the annual pay adjustments during the past 7 years (2015-2021), illustrating the differences between the Pay Agent's recommendations that would be in effect if adjustments were to be made as specified under FEPCA and the final amounts set by Congress or the President. For example, for 2021, the Pay Agent reported a 2.5 percent across-the-board increase to comply with FEPCA, and a 20.67 percent average locality increase based on pay comparisons using BLS salary survey data. The President authorized an alternative pay adjustment of 1 percent for the across-the-board increase and 0 percent for locality pay (or frozen at 2020 levels).

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<sup>22</sup>In 1995, 1996, 1998, 2004, 2005, 2010-2019, and 2021, the President set a different across-the-board pay adjustment amount from the FEPCA formula through the alternative pay plan authority. In some of those years, Congress also weighed in along with the President. Congress passed a law either specifying the amount of the across-the-board pay adjustment (zero in some years when it froze pay or said no adjustment) or an overall percentage increase (for locality and across-the-board increases) in 1994, 1995, 1999-2006, 2008-2013, 2019, and 2020.

**Figure 3: Actions to Establish Across-the-Board and Locality Pay Adjustments for General Schedule (GS) Employees, 2015 to 2021**



Source: GAO analysis of legislation and President's Pay Agent, Executive Office of the President, and Office of Personnel Management data. | GAO-22-104580

**Accessible Data Table for Figure 3 (Parts 1 of 4)**

**President's Pay Agent's Recommendations**

Year	Across-the-board increase	Additive locality increase
2015	1.3%	28.92%
2016	1.8%	28.74%
2017	1.6%	28.49%
2018	1.9%	27.64%
2019	2.1%	26.39%
2020	2.6%	24.70%
2021	2.5%	20.67%

Note: Under the Federal Employees Pay Comparability Act of 1990 (FEPCA), GS pay adjustments consist of two components: (1) an across-the-board increase that is the same for each employee, and (2) a locality-based increase to reduce reported gaps between federal and nonfederal pay in specific

areas of the U.S. The formula for the across-the-board increase provides that pay rates are to be increased by a percentage equal to the 12-month percentage increase in the Employment Cost Index for private sector workers, minus one-half of 1 percentage point. For the locality component of the pay adjustment, the President's Pay Agent reports the annual locality-based comparability payments required under FEPCA to the President.

<sup>3</sup>Average locality increase: the average percentage by which a GS employee's salary would increase from the previous year due to locality pay. Employees in localities with below-average pay gaps would receive lower locality adjustments, and those in localities with above-average pay gaps would receive higher adjustments.

**Accessible Data Table for Figure 3 (Parts 2 of 4)**

**President's alternative**

Years	Across the board	Locality
2015	1.0%	0.0%
2016	1.0%	0.3%
2017	1.0%	1.1%
2018	1.4%	0.5%
2019	0.0%	0.0%
2020	2.6%	0.0%
2021	1.0%	0.0%

**Accessible Data Table for Figure 3 (Parts 3 of 4)**

**Congress's decision (statute)**

Years	Across the board	Locality
2015	N/A	N/A
2016	N/A	N/A
2017	N/A	N/A
2018	N/A	N/A
2019	1.4%	0.5%
2020	2.6%	0.5%
2021	N/A	N/A

**Accessible Data Table for Figure 3 (Parts 4 of 4)**

**Final effective amount**

Years	Across the board	Locality
2015	1.0%	0.0%
2016	1.0%	0.3%
2017	1.0%	1.1%
2018	1.4%	0.5%
2019	1.4%	0.5%
2020	2.6%	0.5%
2021	1.0%	0.0%

In addition to recommending annual locality pay adjustment amounts, the Pay Agent includes the council's views and recommendations on establishing new, or modifying existing, locality pay areas in its report to the President. According to OPM officials, OPM assists the council by conducting a comprehensive review of all potential jurisdictions that could be added into a locality area any time new data are released. OPM also conducts a rolling review of specific jurisdictions that request consideration for inclusion in the locality pay program to determine if they meet certain criteria.

According to FEPCA, the boundaries of locality pay areas must be based on appropriate factors, which may include local labor market patterns, commuting patterns, and practices of other employers.<sup>23</sup> Based on our review of council memorandums, these factors are applied through the following criteria for new locality areas and modification of existing localities to add areas of application:

- **New locality areas.** The OMB-defined combined statistical area or metropolitan statistical area on which a new area would be based must meet the following criteria:
  - a GS employment threshold of 2,500 or more GS employees; and
  - an estimated pay disparity exceeding the RUS pay disparity by 10 or more percentage points over a 3-year period.
- **Modifications to an existing locality area to add areas of application.** Areas of application that are adjacent to the locality pay area must meet both:
  - a GS employment threshold;<sup>24</sup> and

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<sup>23</sup>5 U.S.C. § 5304(f)(1)(B).

<sup>24</sup>For an area of application, the GS employment threshold must be met as follows: (1) at least 1,500 GS employees for a multicounty, core-based statistical area; and (2) at least 400 GS employees for a single county that is not part of a multicounty, non-metropolitan core-based statistical area. In addition, criteria for evaluating federal facilities that cross county lines into a separate locality pay area include at least 500 GS employees (with the majority of those employees in the higher-paying locality pay area to be included in an adjacent locality pay area) or 750 GS employees (for a federal facility outside of a higher-paying locality pay area whereby the duty stations of the majority of those employees must be within 10 miles of the separate locality pay area and a significant number of those employees must commute to work from the higher-paying locality pay area). Such facilities do not require meeting an employment interchange rate.

- an employment interchange rate—the sum of (1) the percentage of employed residents of the area under consideration who work in the locality pay area and (2) the percentage of the employment in the area under consideration that is accounted for by workers who reside in the locality pay area.<sup>25</sup>

In its May 2019 memorandum to the Pay Agent, the council recommended that the council and Pay Agent consider exceptions to the GS employment criteria when considering the designation of locality pay areas or areas of application that did not meet the GS employment threshold (or the minimum number of GS employees that work within the area of consideration).<sup>26</sup> The council proposed the use of human capital indicators, such as attrition or recruitment data, as a supplement or replacement to the GS employment threshold criteria. With the use of these indicators, the council would allow localities requesting inclusion in the locality pay program that did not meet the GS employment threshold to provide empirical evidence that shows extraordinary and persistent recruiting or retention difficulties that may not otherwise be evident from pay disparities as currently estimated through BLS surveys. The Pay Agent noted in its December 2020 report, which was the most recent report at the time of our review, that the council's use of these data was a promising new avenue of research for areas not meeting the locality pay program's criteria. As of August 2021, the Pay Agent had not approved use of such data for inclusion in the program.

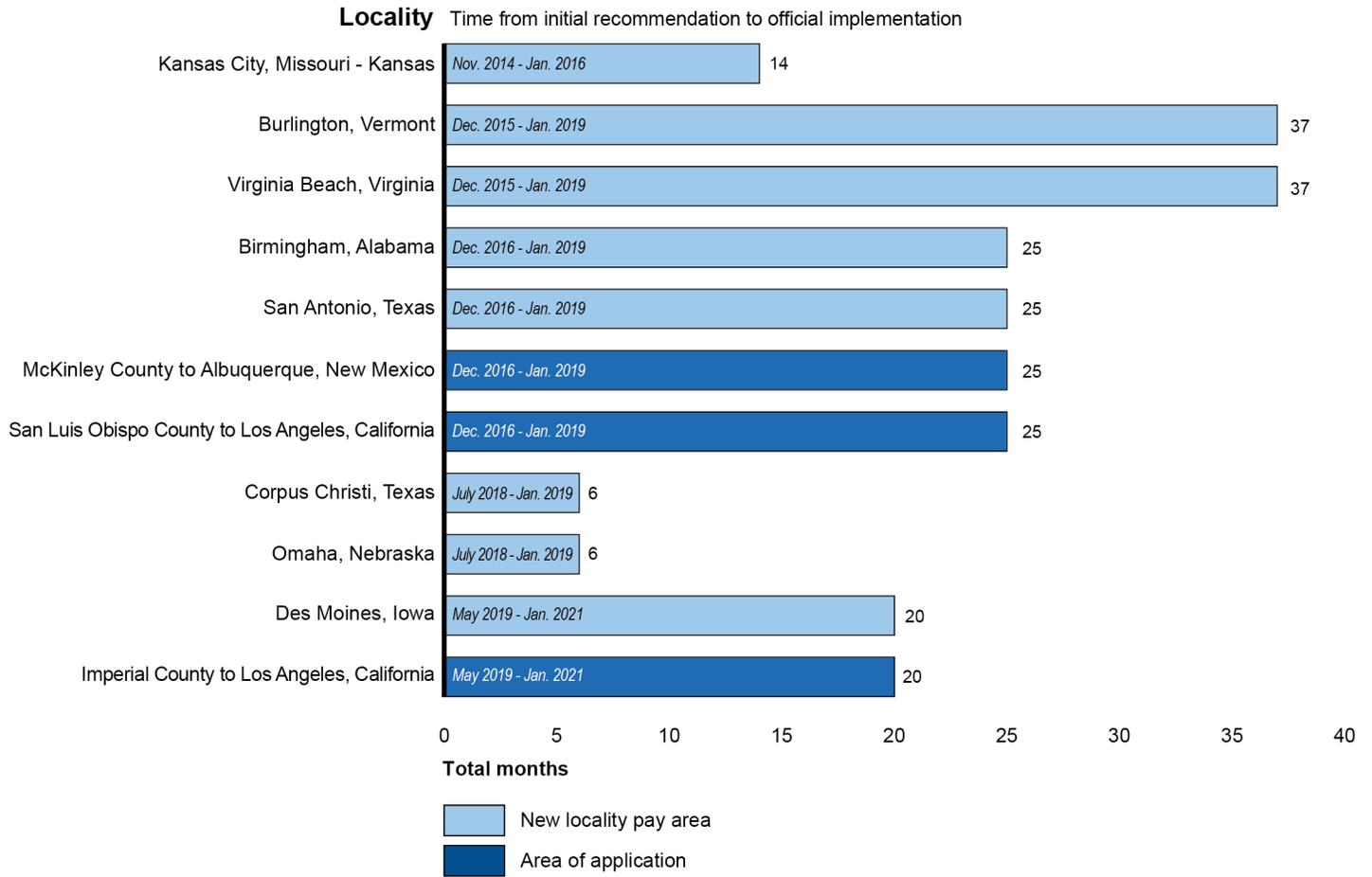
The process of establishing new or modifying existing locality pay areas generally occurs on a rolling basis over the course of the year, according to OPM officials and council members. Between 2014 and 2021, we found that the timing of implementation of new locality areas or modifications to existing locality pay areas ranged from 6 to 37 months starting from when the council made its initial recommendations to the Pay Agent to when recommended areas were formally implemented as a new locality pay area or modified as an area of application to an existing locality pay area following the regulatory process (see fig. 4).

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<sup>25</sup>The employment interchange rate must be at least 7.5 percent for a multicounty core-based statistical area or single county and is calculated by including all workers in assessed locations, not only federal employees.

<sup>26</sup>Federal Salary Council, *Level of Comparability Payments for January 2020 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: May 2, 2019).

**Figure 4: Number of Months for New Locality Pay Area or Area of Application Recommendations to Be Implemented, 2014-2021**



Source: GAO analysis of Federal Salary Council memorandums and President's Pay Agent reports. | GAO-22-104580

**Accessible Data Table for Figure 4**

Locality	Total Months
Kansas City, Missouri - Kansas (Nov. 2014 - Jan 2016)	14
Burlington, Vermont (Dec. 2015 – Jan. 2019)	37
Virginia Beach, Virginia (Dec. 2015 – Jan. 2019)	37
Birmingham, Alabama (Dec. 2016 – Jan. 2019)	25
San Antonio, Texas (Dec. 2016 – Jan. 2019)	25
McKinley County to Albuquerque, New Mexico (Dec. 2016 – Jan. 2019)	25
San Luis Obispo County to Los Angeles, California (Dec. 2016 – Jan. 2019)	25
Corpus Christi, Texas (July 2018 – Jan. 2019)	6
Omaha, Nebraska (July 2018 – Jan. 2019)	6
Des Moines, Iowa (May 2019 – Jan. 2021)	20
Imperial County to Los Angeles, California (May 2019 – Jan. 2021)	20

Note: The Federal Salary Council (comprised of pay and labor relations experts and organizations representing General Schedule (GS) employees) recommends new locality pay areas or areas of application based on criteria, such as the GS employment threshold, to the President's Pay Agent (comprised of the Secretary of Labor and Directors of the Office of Management and Budget (OMB) and Office of Personnel Management) for inclusion in the locality pay program. New locality areas are based on the OMB-defined statistical areas while areas of application are adjacent to the basic locality pay area.

Based on our review of annual council memorandums, Pay Agent reports, and OPM regulations, we found that the time it takes to establish new or modify existing locality pay areas varies due to the timing of several factors. These factors include when (1) the council makes its initial recommendations to the Pay Agent, (2) the Pay Agent tentatively approves the council's recommendations, and (3) the initiation of the federal regulatory process occurs. For example, we found that Corpus Christi, Texas and Omaha, Nebraska were formally designated as new locality pay areas relatively quickly because the Pay Agent tentatively approved both localities within 4 months after the council made its initial

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recommendations, and OPM issued final regulations within the same calendar year.<sup>27</sup>

In contrast, we found that it took 37 months for Burlington, Vermont and Virginia Beach, Virginia to become formally designated as new locality pay areas because it required approval by two Pay Agents under two different administrations.<sup>28</sup> In these cases, the Pay Agent as of 2016 tentatively approved Burlington and Virginia Beach as new localities for 2017. However, the Pay Agent did not initiate the regulatory process required to establish them as new locality pay areas until after the change in administration in 2017. The final regulations establishing both new locality pay areas in January 2019 were issued in December 2018.

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## The Federal Salary Council Continues to Analyze the Potential Effects of Using OMB's Updated Statistical Area Definitions for Locality Pay

Since 1994, the council recommended the use of OMB's statistical area definitions for defining locality pay boundaries to the Pay Agent.<sup>29</sup> While OMB has defined metropolitan statistical areas primarily for use by the federal statistical data community, the council and Pay Agent determined

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<sup>27</sup>The council initially recommended that Corpus Christi and Omaha be established as new locality pay areas in its July 2018 memorandum for locality payments in 2019. The Pay Agent agreed with this recommendation and tentatively approved both localities in its annual report issued in the November 2018 report for locality pay in 2019. OPM issued final regulations formally establishing Corpus Christi and Omaha as new locality pay areas in December 2018, which became applicable on the first day of the first pay period beginning on or after January 1, 2019. See, *General Schedule Locality Pay Areas*, 83 Fed. Reg. 63042 (Dec. 7, 2018).

<sup>28</sup>The council initially recommended Burlington and Virginia Beach be established as new locality pay areas in its December 2015 memorandum for locality payments in 2017 as well as in December 2016 and July 2018 for locality payments in 2018 and 2019. The Pay Agent initially agreed with this recommendation and tentatively approved both localities in its annual report issued in December 2016 for locality pay in 2017. OPM issued final regulations formally establishing Burlington and Virginia Beach as new locality pay areas in December 2018, which became applicable on the first day of the first pay period beginning on or after January 1, 2019. 83 Fed. Reg. 63042.

<sup>29</sup>The statistical area definitions upon which the council has relied are OMB's delineations of statistical areas. For purposes of this report, we refer to OMB's delineations as "definitions" to comport with the council's terminology.

that the definitions were suitable as the basis for defining locality pay areas.<sup>30</sup> The council considered the definitions to be suitable based on a number of reasons, including (1) metropolitan statistical areas were based on important labor market factors, such as commuting rates, population size, and population density; and (2) metropolitan statistical areas already existed so they did not need to be defined.<sup>31</sup>

While OMB has updated its statistical area definitions on 17 occasions since the council adopted its use for locality pay setting in 1994, the majority of these updates did not have major implications for how locality pay areas would be defined and were incorporated, as applicable, once the updated data were analyzed. According to OPM officials, the majority of OMB's updates affecting locality pay areas were minor—such as making clarifying changes to the names of statistical areas—with no potential impact on locality pay area boundaries. In addition, when the regulations defining locality pay areas specified that any location added by OMB to the statistical areas comprising the locality pay area would be added to the basic locality pay area automatically, OPM applied such additions to the locality pay area at the request of the Pay Agent.

However, according to council and Pay Agent documentation we reviewed, the council and Pay Agent required additional time to analyze the impact on locality pay areas for major updates to OMB's statistical area definitions, such as those tied to the release of the 2000 and 2010

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<sup>30</sup>OMB delineates statistical areas for use in federal statistical activities pursuant to its responsibilities to develop and oversee the implementation of government-wide policies, principles, standards, and guidelines concerning federal statistical activities and to improve the compilation, analysis, publication, and dissemination of statistical information by executive agencies. 44 U.S.C. § 3504(e)(3) and 31 U.S.C. § 1104(d).

<sup>31</sup>While OMB defines the statistical areas and issues bulletins with periodic updates, they are not specifically designed or tailored for nonstatistical purposes, including the locality pay program. Agencies that conduct statistical activities use OMB's statistical area definitions, which are intended to provide nationally consistent delineations for collecting, tabulating, and publishing federal statistics for a set of geographic areas. However, according to its March 2020 bulletin, OMB recognizes that its statistical area definitions may be used to implement other government programs. It recommends that those definitions be used to develop and implement federal, state, and local nonstatistical programs and policies only upon full consideration of the effects of using them for such purposes. The statistical area definitions are not designed to serve as a general purpose geographic framework for nonstatistical activities, and they may or may not be suitable for use in program funding formulas. OMB Bulletin No. 20-01, *Revised Delineations of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas, and Guidance on the Uses of the Delineations of These Areas* (2020).

decennial Census data.<sup>32</sup> Specifically, the Pay Agent's practice for major updates was not to adopt them automatically, but to provide additional time for the council to analyze them carefully and advise the Pay Agent on whether the updates should be reflected in the definitions of the locality pay areas. After using the additional time for analyzing the OMB updates using the 2000 and 2010 decennial Census data, the council recommended and the Pay Agent accepted them both times.

The council recommended and the Pay Agent tentatively approved use of OMB's April 2018 update of its statistical area definitions to the locality pay areas. After that update, the council recommended that the Pay Agent pause automatically incorporating all future updates. In July 2018, at the Pay Agent's request, OPM issued proposed regulations to de-link the automatic updates.<sup>33</sup> By proposing to de-link the process, the Pay Agent would have additional time to assess minor and major impacts to the locality pay areas before deciding whether to apply and use the new statistical area definitions. The final regulations took effect as of January 5, 2019.<sup>34</sup>

According to its April 2020 memorandum, the council reviewed OMB updates from September 2018 and deferred on incorporating the updates into the locality pay areas given the potential changes to GS employees' pay.<sup>35</sup> OMB's March 2020 update, the most recent update at the time of our review, included additional minor updates to the September 2018

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<sup>32</sup>OMB's June 2003 and February 2013 updates incorporated new definitions based on the 2000 and 2010 Census, respectively. For instance, OMB used the 2000 Census data for its June 2003 update to reflect the most recent information on population distribution and commuting patterns and redefined metropolitan statistical areas accordingly, among other things. The council reviewed how OMB's update would affect GS employees who would no longer be covered under the updated statistical area definitions. As a result, the council reviewed its area of application criteria at that time and modified it to exclude population density and only include the GS employment threshold and employment interchange rate criterion. In addition, the council did not apply the same criteria that OMB used for its February 2013 update based on 2010 Census data. Specifically, the council retained GS employees in locality pay areas that would have otherwise moved to RUS as a result of OMB's February 2013 update.

<sup>33</sup>This de-linking was done by anchoring the statistical area definitions to those contained in OMB Bulletin No. 18-03. *General Schedule Locality Pay Areas*, 83 Fed. Reg. 31694 (July 9, 2018).

<sup>34</sup>83 Fed. Reg. 63042.

<sup>35</sup>Federal Salary Council, *Level of Comparability Payments for January 2021 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: Apr. 2, 2020).

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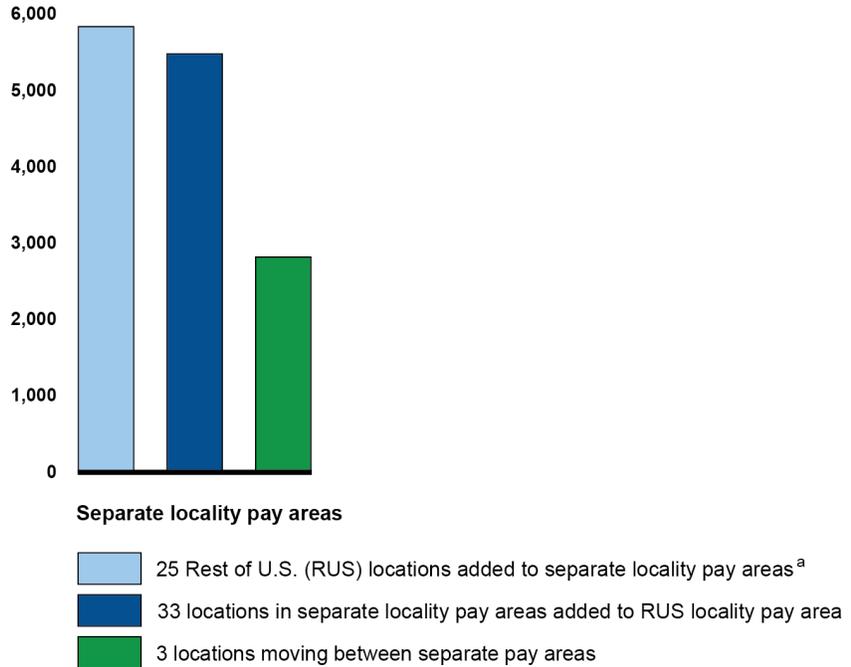
update.<sup>36</sup> As shown in figure 5, use of the March 2020 statistical area definitions could result in locations within the Rest of U.S. (RUS) locality pay area moving to separate locality pay areas (which are higher paying), and locations in separate locality pay areas moving to the RUS locality pay area. About 0.9 percent of the overall GS workforce would be affected if the September 2018 and March 2020 updates to the statistical area definitions were implemented as is.

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<sup>36</sup>OPM staff analyzed the potential impact of the March 2020 update to the September 2018 update and found that it was negligible. However, the same issues related to adding and removing localities between RUS and higher locality pay areas cited in the September 2018 version remain in the latest update.

**Figure 5: Potential Impact on General Schedule Employees of Using the Office of Management and Budget's Revised Statistical Area Definitions from March 2020**

**Number of impacted employees**



Source: GAO analysis of Office of Personnel Management data. | GAO-22-104580

**Accessible Data Table for Figure 5**

Locations	Number of impacted employees
Rest of U.S. (RUS)	5,834
Separate locality pay areas	5,478
Moving between separate pay areas	2,815

<sup>a</sup>As of 2021, there are 54 distinct locality pay areas that cover 51 large metropolitan areas, two entire states (Alaska and Hawaii), and RUS, which includes the remainder of the U.S. and its territories and possessions. In 2021, the RUS locality pay area was the lowest paying locality.

According to the council and OPM analyses, the potential scenarios and impacts of using OMB's September 2018 and March 2020 updated statistical area definitions may include, but are not limited to, the following four scenarios. The council and Pay Agent use the first two scenarios in practice while they have been considering the last two scenarios.

1. Expanding an existing locality pay area to include counties that were previously RUS, resulting in added employees that were moved from RUS receiving higher locality pay.

2. Excluding counties that changed to RUS or another separate pay area, resulting in employees retaining their previous locality pay.
3. Moving counties in separate locality pay areas to RUS or another separate pay area, which may trigger pay retention rules for GS employees, according to OPM officials (see textbox on hypothetical scenario).<sup>37</sup>

**Hypothetical Scenario for a General Schedule Grade 9, Step 6 Employee Moving from the Washington D.C. to the Rest of U.S. Locality Pay Area**

A General Schedule (GS) grade 9, step 6 employee worked in the Washington, D.C. locality pay area and received an annual salary of \$67,093 in 2019. As a result of the Office of Management and Budget's updated statistical area definitions for 2020, the GS employee's duty station is no longer included in the Washington, D.C. locality area and instead becomes part of the Rest of U.S. (RUS) locality area effective the first pay period in January 2020.

Under the simultaneous pay action rule in 5 CFR 531.206, an agency must process general pay adjustments before an individual pay action that takes effect at the same time. This means that the employee would receive the 2020 pay increase applicable to the GS-9, step 6 rate in the Washington, D.C. locality pay area first, resulting in an annual salary of \$69,457. According to Office of Personnel Management (OPM) officials, given that the GS-9, step 6 employee's pay exceeded the highest rate of her applicable grade in her new locality pay area (i.e., rate of pay for the GS-9, step 10 in RUS was \$68,777 in 2020), she would be entitled to retain her salary of \$69,457 per pay retention rules.

In future years, she would be entitled to 50 percent of the dollar increase in the GS-9, step 10 RUS rate until her pay becomes equal to or lower than the GS-9, step 10 rate, at which her pay converges with the "normal" schedule (i.e., the schedule of the new locality pay area, RUS). If the employee had remained a GS-9, step 6 employee in the Washington, D.C. locality pay area, the employee would have received a pay increase of \$693 in 2021. Instead, the employee would receive a pay increase of \$343 in 2021 as a result of receiving 50 percent of the increase in the GS-9, step 10 RUS rate.

Source: OPM. | GAO-22-104580

4. Conducting a case-by-case approach by assessing the effect of OMB's updated statistical area definitions to every affected locality pay area (see textbox for an example).

<sup>37</sup>According to OPM officials, in cases where an eligible employee's existing locality rate was greater than the maximum rate of the new locality rate range for the grade of the employee's position of record, the employee would be entitled to a retained rate equal to the former locality rate. 5 U.S.C. §§ 5363, 5365. However, this scenario has never occurred because affected localities that qualified under approved criteria in the past were retained as areas of application after locality pay area definitions were updated based on updates to the statistical area definitions.

### **Example of Effect of Updated Statistical Definitions: Columbus, Georgia Consolidated Statistical Area**

Using the updated statistical area definitions from March 2020 would have moved the Columbus, Georgia consolidated statistical area from the Rest of U.S. (RUS) to the Atlanta, Georgia locality pay area as an area of application, if it had been adopted as is. However, the pay disparity for the Columbus consolidated statistical area was below the RUS pay disparity over a 3-year period. In this case, the Federal Salary Council and President's Pay Agent did not agree with moving the Columbus consolidated statistical area to the Atlanta locality pay area because of the inconsistencies between the Office of Management and Budget definitions and the pay disparity criteria.

Source: GAO analysis of Federal Salary Council January 2021 memorandum and President's Pay Agent December 2020 report. | GAO-22-104580

In 2021, council members told us there have been no further discussions or plans to incorporate the updates to OMB statistical area definitions from March 2020. Some of them noted that this discussion would resume when the new council members were appointed by the current administration. As of August 2021, no appointments for new council members had been made, according to OPM officials. In addition, according to OMB staff, OMB plans on releasing its next major statistical area definition update in June 2023, which will incorporate data from the 2020 decennial Census.

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## **The Federal Salary Council Identified Five Alternative Methodologies for Administering Locality Pay**

The council identified five options for alternatives to the survey methodology for setting locality pay in its May 2019 memorandum to the Pay Agent.<sup>38</sup> According to council members, these alternatives represent the most recent discussion by the council of different methodologies. This is also consistent with the results of our literature search.<sup>39</sup> Prior to 2019, the Pay Agent's adoption of the NCS/OEWS model for measuring pay gaps for locality pay in 2014 was the most recent major change to the BLS surveys and models.

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<sup>38</sup>Federal Salary Council, *Level of Comparability Payments for January 2020 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: May 2, 2019).

<sup>39</sup>We conducted a literature search to determine potential alternatives identified by the council within the past 11 years (2010 to 2021).

Executive Order 12764 specifies that the council provide views and recommendations to the Pay Agent regarding the coverage of the annual BLS surveys, including occupations and establishment sizes, and how the pay localities are to be surveyed.<sup>40</sup> In its May 2019 memorandum, the council stated that it would review the current methodology used by BLS and OPM to determine if it should recommend improvements to the Pay Agent.

In developing the alternative methodologies, the council members considered how each option compared to the current NCS/OEWS model, the cost of implementation, and whether the alternatives could be implemented administratively within the council and Pay Agent or whether they would require a change in law.

In its May 2019 memorandum, the council stated that all of the members could not reach consensus on which alternative methodology, if any, should be recommended to the Pay Agent for consideration or even if these options should be studied further. As of August 2021, the council continues to use the current NCS/OEWS methodology for setting locality pay. See table 1 for the five alternative options and the council's comments on each option.

**Table 1: Five Alternative Survey Methodologies Proposed by the Federal Salary Council (council) to the President's Pay Agent, May 2019**

Proposed alternative	Description of the proposed alternative	Requires a change in law as reported by the council (Y or N)	Requires additional funding as reported by the council (Y or N) <sup>a</sup>	Council comments
<b>Maintain the status quo – continue use of the National Compensation Survey/Occupational Employment and Wage Statistics (NCS/OEWS) model</b>	Continue use of the current salary survey methodology.	N	N	<ul style="list-style-type: none"> <li>Provides the data necessary to measure the pay disparity between federal and nonfederal pay as a single percentage by locality as required under current law.</li> <li>Concern according to some council members that it relies heavily on statistical modeling to measure pay disparities and is limited by budget constraints.</li> </ul>

<sup>40</sup>Exec. Order No. 12764, *Federal Salary Council*, 56 Fed. Reg. 26587 (June 5, 1991).

Proposed alternative	Description of the proposed alternative	Requires a change in law as reported by the council (Y or N)	Requires additional funding as reported by the council (Y or N) <sup>a</sup>	Council comments
<b>Modify the existing salary survey methodology</b>	Use benchmark jobs and increase the sample of firms with more jobs matching federal jobs to improve the validity of the statistical modeling.	N	Y	<ul style="list-style-type: none"> <li>• Would enhance market sensitivity in terms of providing a potentially more accurate overall nonfederal average pay in each locality pay area by increasing the sample size in the model and comparing to benchmark jobs by occupation and grade level.</li> <li>• Costs and implementation time would be correlated with sample size and data reliability.</li> </ul>
<b>Verify the results of the methodology</b>	Continue use of the NCS/OEWS model, while using other human capital data, such as attrition data, to assess the effects of the statistically modeled salary estimates.	N	Y	<ul style="list-style-type: none"> <li>• The current methodology the council uses for determining locality pay estimates do not include human capital data.</li> <li>• Federal attrition data and other human capital data could be compiled and analyzed by the Office of Personnel Management (OPM).</li> <li>• To the extent findings from analysis of other salary data and/or attrition data would be consistent with findings from the NCS/OEWS model, this option might help address the current methodology's credibility problem, according to some council members and the Pay Agent.</li> </ul>

Proposed alternative	Description of the proposed alternative	Requires a change in law as reported by the council (Y or N)	Requires additional funding as reported by the council (Y or N) <sup>a</sup>	Council comments
<b>Assess the total compensation gap</b>	Compare the cost of major benefits such as health and life insurance and pensions to assess disparities in total federal and nonfederal compensation.	Y	Y	<ul style="list-style-type: none"> <li>• Employee benefits cannot be considered in setting federal pay under current law.</li> <li>• Concern of some council members that federal and nonfederal total compensation comparisons are not considered.</li> <li>• Concern of some council members that comparing the cost of federal and nonfederal retirement benefits is not a valid comparison given the federal government is restricted in some of its pension investment options, which may affect the rate of return.</li> <li>• Any estimates of benefit costs would need to be evaluated to ensure they meet the confidentiality and reliability standards of the Bureau of Labor Statistics (BLS) before they could be released. Also, if feasible, BLS would provide measures of reliability to accompany the estimates.</li> </ul>
<b>Establish a commission to periodically review federal civilian compensation</b>	Conduct a comprehensive, periodic review of total compensation for white-collar federal civilians, patterned after the Department of the Defense's Quadrennial Review of Military Compensation.	Y	Y	<ul style="list-style-type: none"> <li>• It would provide for a bicameral, bipartisan forum to review and make recommendations on those reforms that deal with major changes to civil service pay and benefits.</li> <li>• It would ensure that the government has a compensation system that enables it to recruit and retain the talent needed.</li> <li>• Costs of conducting a comprehensive and periodic review of total compensation for white-collar federal civilians would be high.</li> </ul>

Source: Federal Salary Council. | GAO-22-104580

<sup>a</sup>The additional funding would be for OPM or BLS, as reported by the council.

In response to the five alternative methodologies, the Pay Agent said in its December 2019 report that it appreciated the council's thorough review of the survey methodology and made the following comments on the flaws with the current methodology and process for setting locality pay. The Pay Agent stated that:

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- while the current locality pay methodology allows it to make distinctions in GS pay levels on a singular geographic basis for each locality pay area, it has found that important labor market factors are not considered and the overall scale of the pay disparities presented by the council each year using the current locality pay methodology lacks credibility; and
  - it believed there is a need for fundamental legislative reforms of the federal compensation system to develop a system that is performance sensitive and makes the government more citizen centered, results oriented, and market based.

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## Agency Comments

We provided a draft of this report to the Secretary of Labor, the Acting Director of OMB, and the Director of OPM for their review and comment. The Department of Labor and OPM provided technical comments, which we incorporated as appropriate. OMB had no comments.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Labor, the Acting Director of OMB, the Director of OPM, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or [arkinj@gao.gov](mailto:arkinj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.



Jeff Arkin  
Director, Strategic Issues

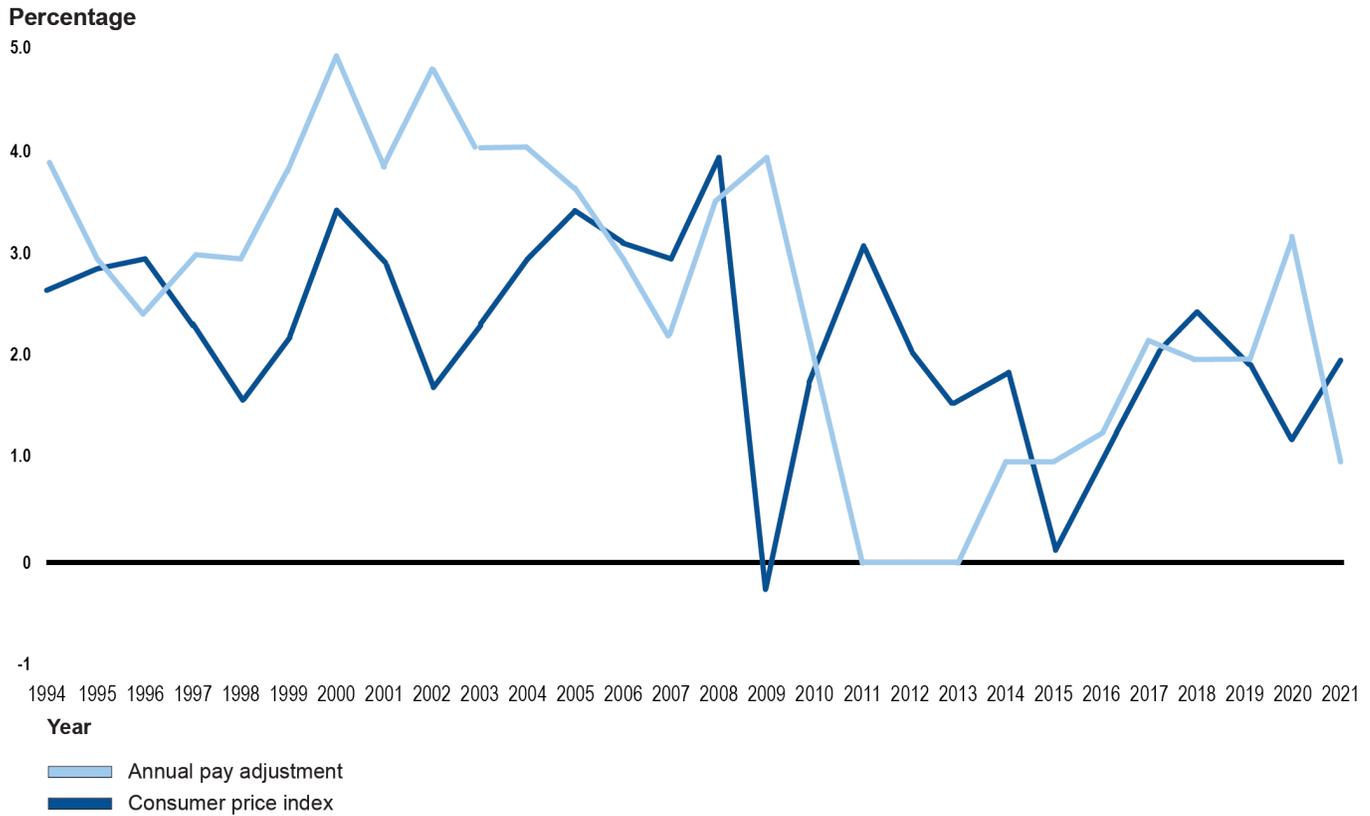
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## Appendix I: Information on Effective Annual Pay Adjustments, 1994 to 2021

The Federal Employees Pay Comparability Act of 1990 (FEPCA) required the President's Pay Agent (Pay Agent) to make annual recommendations for appropriate comparability payments to the President regarding General Schedule (GS) locality pay. In addition, FEPCA maintained an annual across-the-board pay adjustment that is the same for each employee to keep the GS base pay schedule in line with salary growth in the general labor market. Figure 6 shows the percentages of the annual pay adjustment (locality pay adjustment and across-the-board pay adjustment) relative to the consumer price index to highlight how the annual pay adjustments tracked with inflation from 1994 through 2021.

Appendix I: Information on Effective Annual Pay Adjustments, 1994 to 2021

Figure 6: Percentages of Annual Pay Adjustment and Consumer Price Index, Calendar Years 1994 to 2021



Source: GAO analysis of Office of Personnel Management pay tables, the U.S. Department of Labor, and Congressional Budget Office projections. | GAO-22-104580

Appendix I: Information on Effective Annual Pay Adjustments, 1994 to 2021

Accessible Data Table for Figure 6

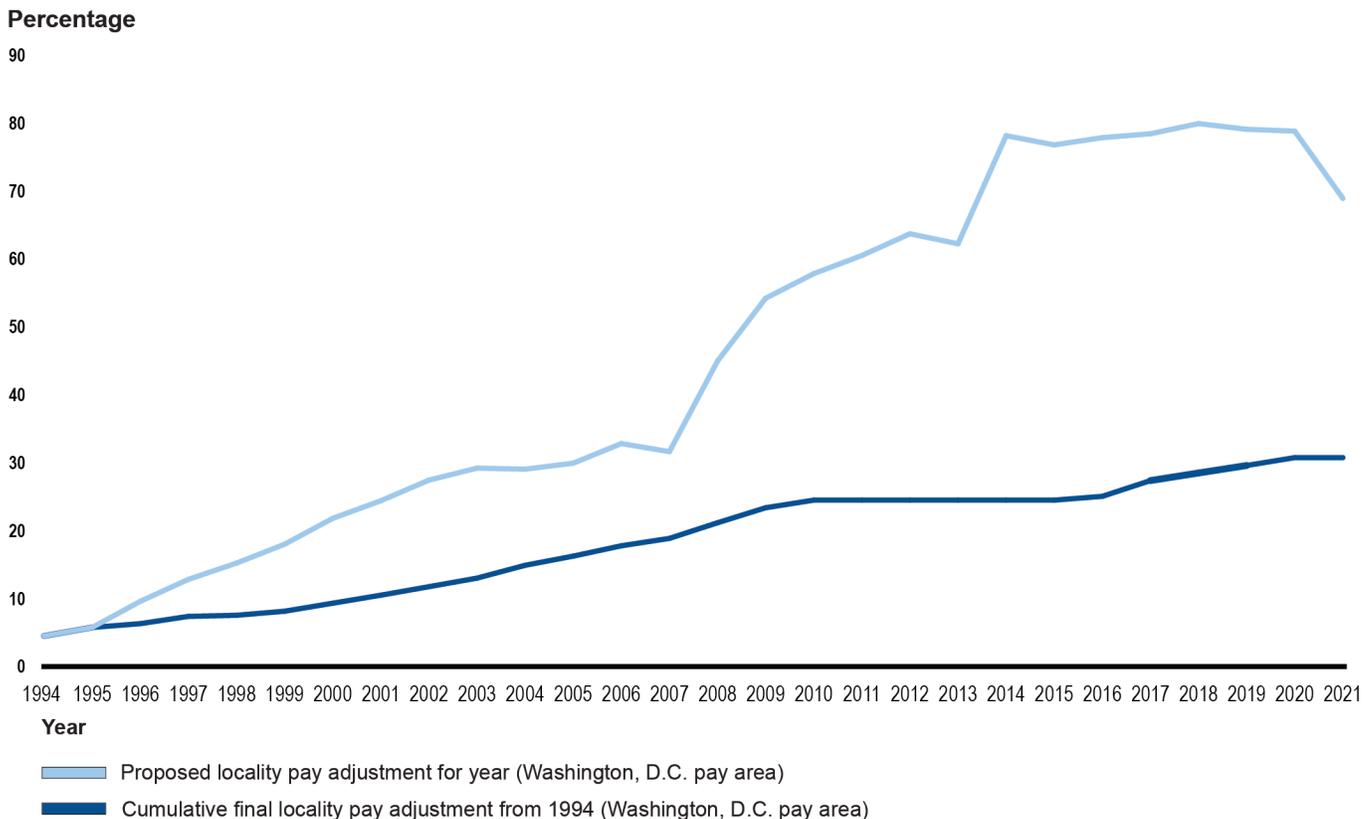
Years	Effective Annual Pay Adjustment	Consumer Price Index
1994	3.95%	2.6%
1995	2.6%	2.8%
1996	2.4%	2.9%
1997	3.0%	2.3%
1998	2.8%	1.5%
1999	3.6%	2.2%
2000	4.8%	3.4%
2001	3.7%	2.8%
2002	4.6%	1.6%
2003	4.1%	2.3%
2004	4.1%	2.7%
2005	3.5%	3.4%
2006	3.1%	3.2%
2007	2.2%	2.9%
2008	3.5%	3.8%
2009	3.9%	-0.3%
2010	2.0%	1.6%
2011	0.0%	3.1%
2012	0.0%	2.1%
2013	0.0%	1.5%
2014	1.0%	1.6%
2015	1.0%	0.1%
2016	1.3%	1.3%
2017	2.1%	2.1%
2018	1.9%	2.4%
2019	1.9%	1.8%
2020	3.1%	1.2%
2021	1.0%	1.9%

While the full locality payments recommended by the Pay Agent to the President have not been provided since the first year that locality pay was implemented in 1994, some locality pay increase has been provided each year except for 2011 through 2015 and 2021. As we reported earlier, the effective locality-based pay increase has been lower than what the Pay Agent recommended either due to the President’s alternative pay plans or because of actions legislated by Congress.

Appendix I: Information on Effective Annual Pay Adjustments, 1994 to 2021

Figures 7 and 8 show the annual proposed and cumulative final percentages of locality pay adjustments for Washington, D.C. and the Rest of U.S. (RUS) locality pay areas.<sup>1</sup>

**Figure 7: Annual Proposed and Cumulative Final Percentages of Locality Pay Adjustments for Washington, D.C., Calendar Years 1994 to 2021**



Source: GAO analysis of Pay Agent reports and Office of Personnel Management pay tables. | GAO-22-104580

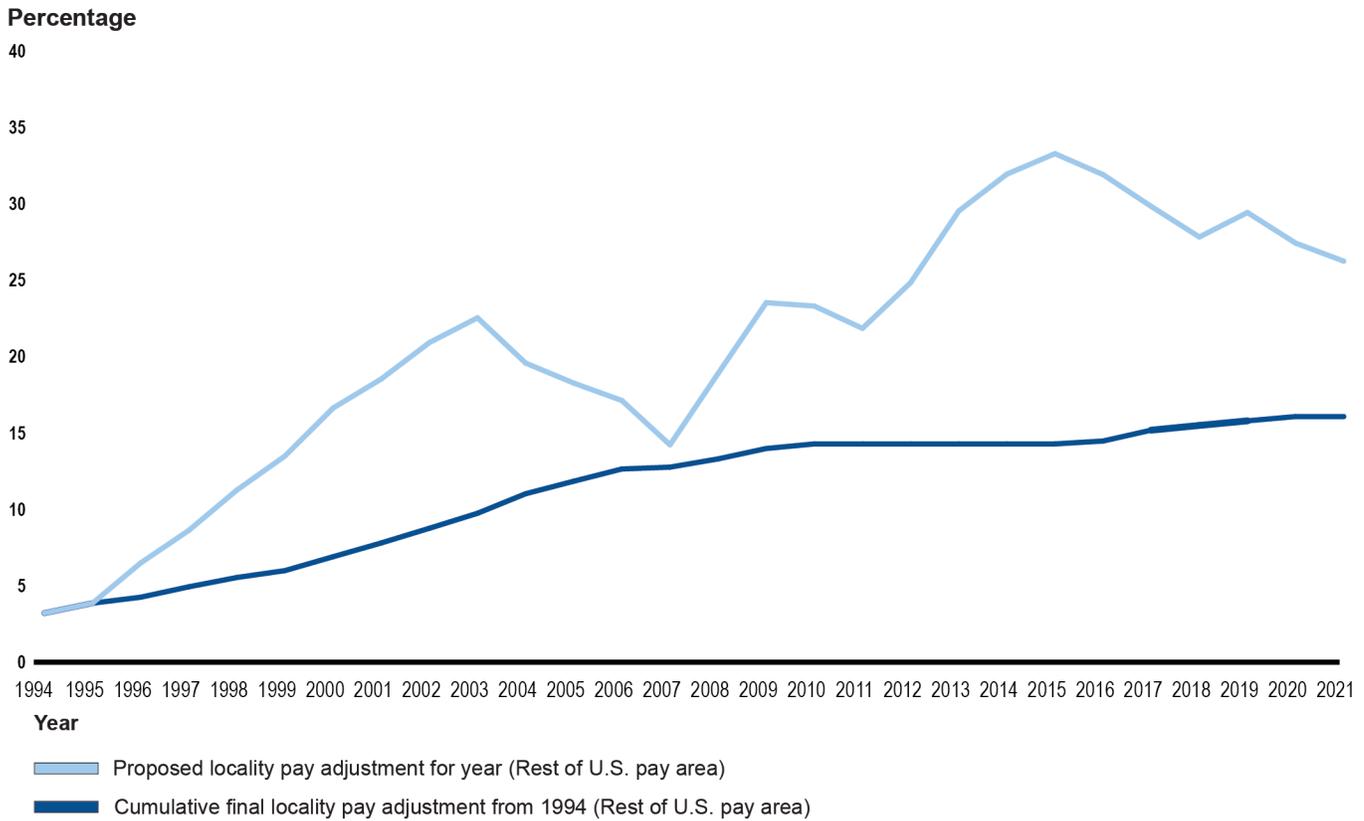
<sup>1</sup>We selected the Washington, D.C. locality area because it has been a part of the locality pay program since its inception in 1994. This area also has a higher locality pay rate than the RUS locality area, which is a residual locality that covers areas not included in one of the other pay localities. These are illustrative examples of the locality pay program. For the locality pay amounts by area and by year, see the Office of Personnel Management’s pay tables: <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>. Accessed on September 10, 2021.

Appendix I: Information on Effective Annual  
Pay Adjustments, 1994 to 2021

**Accessible Data Table for Figure 7**

<b>Year, Locality: Washington, D.C. pay area</b>	<b>Proposed pay adjustment</b>	<b>Final pay adjustment</b>
1994	4.23%	4.23%
1995	5.48%	5.48%
1996	9.33%	6.04%
1997	12.56%	7.11%
1998	14.95%	7.27%
1999	17.73%	7.87%
2000	21.54%	9.05%
2001	24.13%	10.23%
2002	27.17%	11.48%
2003	28.93%	12.74%
2004	28.78%	14.63%
2005	29.66%	15.98%
2006	32.55%	17.50%
2007	31.36%	18.59%
2008	44.69%	20.89%
2009	53.94%	23.10%
2010	57.56%	24.22%
2011	60.23%	24.22%
2012	63.43%	24.22%
2013	61.96%	24.22%
2014	77.87%	24.22%
2015	76.51%	24.22%
2016	77.58%	24.78%
2017	78.15%	27.10%
2018	79.65%	28.22%
2019	78.81%	29.32%
2020	78.54%	30.48%
2021	68.64%	30.48%

**Figure 8: Annual Proposed and Cumulative Final Percentages of Locality Pay Adjustments for Rest of U.S., Calendar Years 1994 to 2021**



Source: GAO analysis of Pay Agent reports and Office of Personnel Management pay tables. | GAO-22-104580

**Appendix I: Information on Effective Annual  
Pay Adjustments, 1994 to 2021**

**Accessible Data Table for Figure 8**

<b>Year, Locality: Rest of U.S. pay area</b>	<b>Proposed pay adjustment</b>	<b>Final pay adjustment</b>
1994	3.09%	3.09%
1995	3.74%	3.74%
1996	6.37%	4.13%
1997	8.50%	4.81%
1998	11.14%	5.42%
1999	13.37%	5.87%
2000	16.51%	6.78%
2001	18.41%	7.68%
2002	20.79%	8.64%
2003	22.41%	9.62%
2004	19.45%	10.90%
2005	18.14%	11.72%
2006	17.00%	12.52%
2007	14.10%	12.64%
2008	18.77%	13.18%
2009	23.40%	13.86%
2010	23.18%	14.16%
2011	21.72%	14.16%
2012	24.71%	14.16%
2013	29.40%	14.16%
2014	31.81%	14.16%
2015	33.15%	14.16%
2016	31.78%	14.35%
2017	29.70%	15.06%
2018	27.70%	15.37%
2019	29.30%	15.67%
2020	27.30%	15.95%
2021	26.12%	15.95%

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## Appendix II: GAO Contact and Staff Acknowledgments

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### GAO Contact

Jeff Arkin, (202) 512-6806 or [arkinj@gao.gov](mailto:arkinj@gao.gov)

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### Staff Acknowledgments

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