Order Code RL33158

CRS Report for Congress

Federal White-Collar Pay: FY2006 and FY2007 Salary Adjustments

Updated April 12, 2007

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Prepared for Members and Committees of Congress

Congressional Research Service

Federal White-Collar Pay: FY2006 and FY2007 Salary Adjustments

Summary

Federal white-collar employees are intended by law to receive an annual pay adjustment and a locality-based comparability payment, effective in January of each year, under Section 529 of P.L. 101-509, the Federal Employees Pay Comparability Act (FEPCA) of 1990. The law has never been implemented as originally enacted; annual and locality payments pursuant to the statute have been reduced each year. Federal white-collar employees received a 1.7% annual pay adjustment and a 0.5% locality-based comparability payment in January 2007. President George W. Bush authorized the average 2.2% pay adjustment in Executive Order 13420, issued on December 21, 2006. Although the annual adjustment and the locality payment are sometimes referred to as cost-of-living adjustments, neither is based on changes in the cost of living.

The annual pay adjustment is based on the Employment Cost Index (ECI), which measures change in private-sector wages and salaries. The size of the locality payment is determined by the President and is based on a comparison of nonfederal and General Schedule (GS) salaries in 32 pay areas nationwide. By law, the disparity between nonfederal and federal salaries was to be gradually reduced to 5% during the years 1994 to 2002. Continuing in each year thereafter, FEPCA requires that amounts payable may not be less than the full amount necessary to reduce the pay disparity to 5%. For the January 2007 pay adjustment, the ECI showed that the annual across-the-board increase would be 1.7%. The Federal Salary Council and the Pay Agent recommended that to carry out FEPCA, the 2007 locality payments range from 14.10% in the "Rest of the United States" (RUS) pay area to 49.65% in the San Jose-San Francisco pay area and be 31.36% in the Washington, DC, pay area. Because the new locality rate replaces the existing locality rate, the rate change is derived by comparing 2006 locality payments with those recommended for 2007. This comparison results in recommended net increases for 2007, if the ECI and locality-based comparability payments were granted as required by law, of 3.13% in the RUS pay area, 18.27% in the San Jose-San Francisco pay area, and 13.70% in the Washington, DC, pay area. The nationwide average net pay increase, if the ECI and locality-based comparability payments were granted as required by law, would have been 8.64% in 2007. The Pay Agent stated that it would be unwise for the recommended locality payments to take effect because of "the current national emergency." The President's FY2007 budget proposed a 2.2% federal civilian pay adjustment. A 2.7% adjustment is included in H.R. 5576, the FY2007 Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations bill, as passed by the House of Representatives on June 14, 2006, and as reported by the Senate Committee on Appropriations on July 26, 2006. No further action occurred on the appropriations bill. In July 2005, the Administration released a draft proposal that would extend changes on pay setting similar to those authorized for the Departments of Homeland Security and Defense government-wide, but legislation has not been introduced. S. 3492 would have required a federal employee to receive a summary performance rating of at least fully successful to receive a pay adjustment. This report will be updated.

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Federal White-Collar Pay: FY2006 and FY2007 Salary Adjustments

Introduction

Federal white-collar employees[1] paid under the General Schedule (GS), Foreign Service Schedule, and certain Veterans Health Administration Schedules are intended by law to receive an annual pay adjustment and a locality-based comparability payment, effective in January of each year, under Section 529 of P.L. 101-509, the Federal Employees Pay Comparability Act (FEPCA) of 1990.[2] Although the annual adjustment and the locality payment are sometimes referred to as cost-of-living adjustments, neither is based on measures of the cost of living. FEPCA has never been implemented as originally enacted. The annual pay adjustment was not made in 1994; in 1995, 1996, and 1998, reduced amounts of the annual adjustment were provided. For 1995 through 2006, reduced amounts of the locality payments were provided and are being provided for 2007. **Table 1** shows the annual and locality pay adjustments made under FEPCA for the years 1991 through 2007.

Pay Adjustments

Annual Pay Adjustment

Federal white-collar employees usually receive an annual pay adjustment. The President may annually adjust salaries of administrative law judges. Individuals in senior-level (SL) and scientific and professional (ST) positions may receive the

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[1] This report does not cover salary adjustments for federal executive and judicial branch officials, federal justices and judges, Members of Congress, or the United States Postal Service. See CRS Report RL33245, *Legislative, Executive, and Judicial Officials: Process for Adjusting Pay and Current Salaries*, and CRS Report RS20388, *Salary Linkage: Members of Congress and Certain Federal Executive and Judicial Officials,* by Barbara L. Schwemle, and CRS Report RL33128, *Senior Executive Service Pay for Performance System*, by L. Elaine Halchin. See also, CRS Report 97-615, *Salaries of Members of Congress: Congressional Votes, 1990-2006*; CRS Report 97-1011, *Salaries of Members of Congress: A List of Payable Rates and Effective Dates, 1789-2007*; CRS Report RL30014, *Salaries of Members of Congress: Current Procedures and Recent Adjustments*; and CRS Report RL30064, *Congressional Salaries and Allowances*, by Paul Dwyer.

[2] 104 Stat. 1389, at 1427.

annual adjustment at the discretion of agency heads.[3] Annual adjustments for contract appeals board members depend on whether Executive Schedule pay is adjusted.[4]

The annual pay adjustment is based on the Employment Cost Index (ECI), which measures change in private-sector wages and salaries. Basic pay rates are to be increased by an amount that is 0.5 percentage points less than the percentage by which the ECI, for the quarter ending September 30 of the year before the preceding calendar year, exceeds the ECI for that same quarter of the second year (if at all). The pay adjustment is effective as of the first day of the first applicable pay period beginning on or after January 1 of each calendar year. For example, the annual adjustment for January 2006 is based on the ECI for the quarter ending September 30, 2004. The change in the ECI from the previous September 30 (2.6%) is reduced by 0.5 percentage points, thereby yielding a 2.1% annual adjustment. Therefore, the data used to calculate the annual adjustment are 15 months old at the time of the adjustment.

In the event of a national emergency or serious economic conditions affecting the general welfare, FEPCA authorizes the President to issue an alternative pay plan that uses a different percentage increase than the one required by the ECI-based formula. The alternative plan must be submitted to Congress by September 1 preceding the scheduled effective date.[5] The President did not issue an alternative plan for the January 2006 or the January 2007 annual pay adjustments.

Locality-Based Comparability Payments

GS employees are also intended to receive locality-based comparability payments; the Pay Agent[6] may also extend these payments to employees in other pay systems and has done so for employees in the Foreign Service and in senior-level, scientific and professional, administrative law judge, administrative appeals judge, and contract appeals board member positions.[7] The Pay Agent determines the applicable pay cap level for certain non-General Schedule employees to whom

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[3] According to 5 U.S.C. 5376, the minimum rate of basic pay for SLs and STs is equal to 120% of the minimum rate of basic pay for GS-15; the maximum rate of basic pay for SLs and STs is equal to level IV of the Executive Schedule. For 2006, basic pay ranges from $109,808 to $143,000.

[4] The Executive Schedule is the pay schedule for cabinet officers and other top government officials. It has five levels of pay in 2006 as follows: EX I-$183,500, EX II-$165,200, EX III-$152,000, EX IV-$143,000, and EX V-$133,900.

[5] 104 Stat. 1389, at 1429-1431; 5 U.S.C. §§5301-5303.

[6] The Pay Agent comprises the Secretary of Labor (Elaine L. Chao), the Director of the Office of Management and Budget (Robert J. Portman), and the Director of the Office of Personnel Management (Linda M. Springer).

[7] The President, by Executive Order, delegated to the Pay Agent the authority to extend locality-based comparability payments to certain categories of positions not otherwise covered. U.S. President (Clinton), "Delegating a Federal Pay Administration Authority," Executive Order 12883, *Federal Register*, vol. 58, Dec. 1, 1993, p. 63281.

locality pay is extended.[8] OPM published final regulations in December 2001 to clarify and redefine the limitations.[9] Blue-collar workers under the Federal Wage System (FWS) receive a prevailing rate adjustment that is generally capped at the average percentage pay adjustment received by federal white-collar employees.[10] For 2006, notwithstanding the cap, the blue-collar pay adjustment in a particular location is no less than the increase received by GS employees in that location. Blue-collar workers in Alaska, Hawaii, and other nonforeign areas receive a pay adjustment that is no less than the increase received by GS employees in the Rest of the United States (RUS) pay area.[11] GS special-rate employees receive either the special rate supplement or the locality payment, whichever is higher. Law enforcement officers receiving special rates under Section 403 of FEPCA receive both special rates and locality pay. Federal employees in Alaska and Hawaii and outside of the continental United States, receive a cost-of-living (COLA) allowance rather than locality pay.

A locality rate of pay is considered as basic pay in computing danger pay allowances and post differentials for certain employees who are temporarily assigned to foreign areas and for whom the Department of State has established allowances for

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[8] The President, by Executive Order, delegated to the Pay Agent the authority to determine the applicable pay cap level for certain non-General Schedule employees to whom locality pay is extended. U.S. President (Clinton), "Adjustments of Certain Rates of Pay and Delegation of a Federal Pay Administration Authority," Executive Order 13106, *Federal Register*, vol. 63, Dec. 9, 1998, p. 68152.

[9] The proposed regulations stated the following: "To provide consistent treatment between General Schedule (GS) and non-GS employees receiving locality payments, OPM proposes to provide that (1) non-GS positions whose maximum scheduled annual rate of pay is less than or equal to the maximum payable scheduled annual rate of pay for GS-15 will be subject to a locality pay cap equal to the rate for level IV of the Executive Schedule, and (2) non-GS positions whose maximum scheduled annual rate of pay exceeds the maximum payable scheduled annual rate of pay for GS-15, but is not more than the rate for level IV of the Executive Schedule, will be subject to a locality pay cap equal to the rate for level III of the Executive Schedule." U.S. Office of Personnel Management, "Locality-Based Comparability Payments," *Federal Register*, vol. 65, Mar. 24, 2000, pp. 15875-15877. U.S. Office of Personnel Management, "Locality-Based Comparability Payments," *Federal Register*, vol. 66, Dec. 28, 2001, pp. 67069-67070.

[10] For FY2006, this provision is at Section 813 of the Transportation, Treasury, Housing and Urban Development, the Judiciary, and Independent Agencies Appropriations Bill for FY2006 (H.R. 3058), P.L. 109-115. (The bill is commonly referred to as the TTHUD bill.) It was included at Section 913 of the House-passed bill, Section 811 of the Senate-passed bill, and Section 813 of the conference report (H.Rept. 109-307). For FY2007, the provision is included in both the House-passed and Senate-reported versions of H.R. 5576, the TTHUD bill. It is Section 913 of the House bill and Section 813 of the Senate bill.

[11] For FY2006, this provision is at Section 843(b) of the Transportation, Treasury, Housing and Urban Development, the Judiciary, and Independent Agencies Appropriations Bill for FY2006 (H.R. 3058), P.L. 109-115. It was included at Section 943(b) of the House-passed bill , Section 836(b) of the Senate-passed bill, and Section 843(b) of the conference report (H.Rept. 109-307). For FY2007, the provision is included in both the House-passed and Senate-reported versions of H.R. 5576, the TTHUD bill. It is Section 940(b) of the House bill and Section 841(b) of the Senate bill.

danger.[12] (See 5 C.F.R. 531.610 for other purposes for which locality rates are treated as basic pay.)

The locality-based comparability payments procedure established by FEPCA provides that payments are to be made within each locality determined to have a nonfederal/federal pay disparity greater than 5%. When uniformly applied to GS employees within a locality, the adjustment is intended to make their pay rates substantially equal, in the aggregate, to those of nonfederal workers for the same levels of work in the same locality.

FEPCA authorizes the President to fix an alternative level of locality-based comparability payments if, because of a national emergency or serious economic conditions affecting the general welfare, the President considers the level that would otherwise be payable inappropriate. At least one month before these comparability payments would be payable (by November 30, 2006, for the 2007 payment), the President would have to prepare and transmit to Congress a report describing the intended alternative level of payments, including the reasons why the alternative level would be necessary.[13] For January 2006, President Bush did not issue an alternative plan as he signed the legislation that included the January 2006 pay adjustment, P.L. 109-115, on November 30, 2005. The President issued an alternative plan for the January 2007 locality pay adjustment on November 30, 2006.[14]

Once the annual and locality pay percentage amounts are determined, the actual pay rates are calculated as follows. First, the basic General Schedule (GS) is increased by the annual adjustment percentage, resulting in a new GS schedule. These new basic GS rates are then increased by the locality payment. For 2007, the resulting pay rates (annual + locality) are compared with the 2006 pay rates (annual + locality) to derive the net increase in pay.

Methodology for Determining the Locality-Based Comparability Payments. Under the law, the Bureau of Labor Statistics (BLS) conducts surveys that document nonfederal rates of pay in each locality pay area. (In January 2007, there will be 32 pay areas nationwide.) Prior to October 1996, the surveys were conducted under the Occupational Compensation Survey Program (OCSP), which had been approved by the Federal Salary Council[15] and the Pay Agent. Since then,

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[12] U.S. Office of Personnel Management, "Locality-Based Comparability Payments," *Federal Register*, vol. 69, Aug. 5, 2004, pp. 47353-47354. U.S. Office of Personnel Management, "Changes in Pay Administration Rules for General Schedule Employees," *Federal Register*, vol. 70, May 31, 2005, pp. 31279-31280, 31305.

[13] 104 Stat. 1389, at 1429-1436, as amended by 106 Stat. 1355-1356 and 1360; 5 U.S.C. §§5301-5302 and §§5304-5304a.

[14] U.S. President (Bush), "Text of a Letter from the President to the Speaker of the House of Representatives and the President of the Senate," Nov. 30, 2006.

[15] The council includes nine members. Members generally recognized for their impartiality, knowledge, and experience in labor relations and pay policy are Terri Lacy, chair; George Nesterczuk, vice-chair; and Rudy J. Maestas. The other members represent the American Federation of Government Employees (Frank Ferris); the National Treasury Employees (continued...)

the surveys have been conducted under the National Compensation Survey (NCS) program, which was not approved for use with the January 2000 through January 2003 locality payments. In its memorandum to the Pay Agent on the January 2001 locality payments, the council recommended five improvements in the NCS program.[16] For the January 2004 through January 2006 locality payments, a phase-in of NCS survey data was approved.[17] The Federal Salary Council recommends that 100% of the NCS data be used for the January 2007 locality payments and that the OCSP data no longer be used.

The survey results are submitted to the Office of Personnel Management (OPM), which serves as the staff to the Federal Salary Council and the Pay Agent. OPM documents federal rates of pay in each of the pay areas and compares nonfederal and GS salaries, by grade, for each pay area. The average salaries at each grade, both federal and nonfederal, are then aggregated and compared to determine an overall average percentage pay gap for each area. By law, the disparity between nonfederal and federal salaries is to be reduced to 5%. Therefore, the overall average percentage pay gap for each pay area is adjusted annually to this level by OPM. This adjusted gap, called the target gap, is used to determine the locality rates for each pay area recommended to the President by the Pay Agent, after receiving advice from the Federal Salary Council. The pay gaps on which the locality payments are based are 22 months old by the effective date of the adjustment; thus, March 2005 gaps determine the January 2007 locality payments.

FEPCA also stipulates that a certain percentage of the target gap between GS average salaries and nonfederal average salaries in each pay area is to be closed each year. Twenty percent of the gap was closed in 1994, the first year of locality pay, as authorized by FEPCA. An additional 10% of the gap was to be closed each year thereafter, meaning that 30% of the gap was to be closed in 1995, 40% in 1996, 50%

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[15] (...continued)
Union (Colleen M. Kelley); the National Federation of Federal Employees (Richard N. Brown); the Association of Civilian Technicians (Thomas G. Bastas); and the Fraternal Order of Police (James Pasco).

[16] These recommendations, endorsed by the Pay Agent, were that (1) four factors, rather than nine, be used to assign the correct federal grade levels to the nonfederal jobs surveyed, and grade level guides for occupational families be provided; (2) a model be developed to estimate missing data; (3) the matching of federal survey jobs with nonfederal survey jobs be improved, and subcategories be provided for occupations that are not elsewhere classified; (4) for supervisory occupations, the highest level of work supervised be graded and the grade level be adjusted based on the level of supervision, instead of grading the supervisory job itself; and (5) criteria be developed to identify and exclude jobs that would be classified above GS-15 in government. (Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 2001 and Other Matters Pertaining to the Locality Pay Program* [Washington: Oct. 22, 1999], p. 8.) Each of the recommendations has been implemented, and the full effect of the changes will be seen gradually.

[17] For the January 2004 locality payments, equal weights of 50% were applied to the NCS and OCSP results. For January 2005, weights of 75% and 25% were applied to the NCS and OCSP results, respectively. The Federal Salary Council recommended that weights of 90% NCS and 10% OCSP be applied for January 2006.

in 1997, 60% in 1998, 70% in 1999, 80% in 2000, and 90% in 2001. By January 2002, and continuing each year thereafter, FEPCA specified that amounts payable could not be less than the full amount necessary to reduce the pay disparity of the target gap to 5%. In each of the years since 1994, the locality pay increase has been implemented at a much lower percentage than the law requires. As a result, the gap is being reduced slowly; 23.5% of the gap was closed in 1995, 25.9% in 1996, 28.3% in 1997, 29.2% in 1998, 31% in 1999, 33.5% in 2000, 38.1% in 2001, 42.3% in 2002, 44% in 2003, 53.7% in 2004, 58.84% in 2005, and 62.75% in 2006.

Evaluating Areas in the Vicinity of Locality Pay Areas. To evaluate areas currently in the "Rest of the United States" pay area for possible inclusion in adjacent locality pay areas, the following criteria[18] apply:

> **For adjacent Metropolitan Statistical Areas (MSAs) and Combined Statistical Areas (CSAs):** To be included in an adjacent locality pay area, an adjacent MSA or CSA currently in the RUS locality pay area must have at least 1,500 GS employees and an employment interchange measure[19] of at least 7.5%.
>
> **For adjacent counties that are not part of a multi-county MSA or CSA:** To be included in an adjacent locality pay area, an adjacent county that is currently in the RUS locality pay area must have at least 400 GS employees and an employment interchange measure of at least 7.5%.
>
> **For federal facilities that cross locality pay area boundaries:** To be included in an adjacent locality pay area, the whole facility must have at least 500 GS employees, with the majority of those employees in the higher-paying locality pay area, or that portion of a federal facility outside of a higher-paying locality pay area must have at least 750 GS employees; the duty stations of the majority of these employees must be within 10 miles of the separate locality pay area; and a significant number of these employees must commute to work from the higher-paying locality pay area.[20]

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[18] *Report on Locality-Based Comparability Payments for the General Schedule, Annual Report of the President's Pay Agent* (Washington, Dec. 2003), p. 19.

[19] The council recommended that commuting rates be calculated using the employment interchange measure, which is defined by the Census as "A measure of the ties between two adjacent entities." It is "the sum of the percentage of employed residents of the smaller entity who work in the larger entity and the percentage of the employment in the smaller entity that is accounted for by workers who reside in the larger entity." (Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 2005 and Other Matters Pertaining to the Locality Pay Program*, Washington, DC: Oct. 28, 2003, p. 7. [Hereafter referred to as Federal Salary Council Memorandum for January 2005.])

[20] The Federal Salary Council, in its October 21, 2005, memorandum to the Pay Agent on the January 2007 locality payments, recommended that this criteria be revised to also include the requirement that "To be included in an adjacent locality pay area, the whole facility must have at least 500 GS employees, with the majority of those employees in the higher-paying locality pay area or ...." The council recommended that the remainder of the existing criteria text stay the same. (Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 2007 and Other*

(continued...)

Areas already included in a locality pay area through an application of the criteria are not subject to further review.

Requests for Changes in Locality Pay Area Boundaries. To be considered by the council, requests for changes in the boundaries of locality pay areas must include the following information:

- Credentials of the requesting group that establish how the group represents GS employees in the area.
- Identification of the geographic area covered by the proposal.
- The number of GS employees in the area, by agency.
- A detailed explanation of why the area should be added to the adjacent locality pay area.
- Current job vacancy rates in the area for GS positions.
- Documentation of recruitment or retention problems for GS employees in the area.
- Documentation that agencies have tried other pay flexibilities, including requests for special salary rates and use of recruitment, retention, and relocation payments, and that these flexibilities did not solve recruitment and retention problems.
- An indication that the headquarters of affected agencies know about and support the request.
- Distance measures, by road, between the requesting area and the locality pay area.
- A summary of transportation facilities linking the requesting area and the locality pay area, including commuter rail or other mass transit facilities.
- Agency organizational relationships between activities covered by the proposal and activities in another locality pay area.[21]

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[20] (...continued)
Matters Pertaining to the Locality Pay Program, Washington, DC: Oct. 21, 2005, p. 5. [Hereafter referred to as Federal Salary Council Memorandum for January 2007.]) The Pay Agent approved this recommendation. (*Report on Locality-Based Comparability Payments for the General Schedule, Annual Report of the President's Pay Agent* (Washington: Dec. 2005), p. 13.)

[21] Federal Salary Council Memorandum for January 2005, p. 10.

January 2006 Pay Adjustment

Federal white-collar civilian employees, including those in the Department of Homeland Security and the Department of Defense, received an average 3.1% pay adjustment in January 2006, as authorized in the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Bill for FY2006 (H.R. 3058). The bill was signed by President Bush on November 30, 2005, and became P.L. 109-115.[22] Section 701 of the law requires the pay raises to be funded within appropriated levels and Section 843 authorizes the pay adjustment. On December 22, 2005, the President issued Executive Order 13393, which allocated the average 3.1% pay increase as 2.1% annual and 1.0% locality.[23] OPM published the 2006 salary tables on its website and these are available at [http://www.opm.gov]. **Table 2** shows the recommended locality payments, the authorized locality payments, and the net annual and locality pay increases. A 3.1% pay adjustment for the uniformed military was included in the National Defense Authorization Act for FY2006, enacted as P.L. 109-163 on January 6, 2006.[24]

The Office of Management and Budget's (OMB's) statement of administration policy on the House version of H.R. 3058 expressed strong opposition to the government-wide pay adjustment provision and stated that recruitment or retention problems "are limited to a few areas and occupations." Similarly, the statement on the Senate version of the legislation reflected strong opposition to any provision providing a government-wide pay adjustment in excess of the 2.3% recommended

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[22] H.R. 3058 passed the House of Representatives on June 30, 2005, on a 405-18 (Roll No. 358) vote and the Senate on October 20, 2005, on a 93-1 (No. 264) vote. The House of Representatives agreed to the conference report (H.Rept. 109-307) by a 392-31 (Roll No. 605) vote on November 18, 2005. Under a unanimous consent agreement the same day, the Senate agreed to the adoption of the conference report upon the Senate's receipt of it from the House and notwithstanding the adjournment of the Senate. The Senate agreed to the conference report by unanimous consent on November 21, 2005. The 3.1% pay adjustment is included at Section 943 of the House-passed bill, Section 836 of the Senate-passed bill, and Section 843 of the conference report. U.S. Congress, Conference Committees, 2005, *Making Appropriations for the Departments of Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies for the Fiscal Year Ending September 30, 2006, and For Other Purposes*, conference report to accompany H.R. 3058, 109th Cong., 1st sess., H.Rept. 109-307 (Washington, DC: GPO, 2005).

[23] U.S. President (Bush), "Adjustments of Certain Rates of Pay," Executive Order 13393, *Federal Register*, vol. 70, Dec. 27, 2005, pp. 76655-76664. The Federal Salary Council included a recommendation that the 3.1% pay adjustment in January 2006 be allocated as 2.1% annual and 1.0% locality in its memorandum to the Pay Agent on the January 2007 locality payments. (Federal Salary Council Memorandum for January 2007, Attachment 2.)

[24] See CRS Report RL33446, *Military Pay and Benefits: Key Questions and Answers*, by Charles A. Henning.

by the President in the FY2006 budget.[25] The American Federation of Government Employees (AFGE) and the National Treasury Employees Union (NTEU) issued statements supporting a 3.1% pay adjustment.[26]

A provision to deny federal civilian employees a pay adjustment in January 2006 was included in S. 1928, the SMART Act, introduced by Senator John Ensign on October 27, 2005, and referred to the Senate Committee on Homeland Security and Governmental Affairs.[27] The provision would not have affected a pay adjustment for federal law enforcement officers (LEOs) who are considered LEOs for retirement purposes. No further action occurred during the first session of the 109th Congress on the bill, which identified the pay freeze as one of several spending reductions designed to offset the cost of rebuilding the Gulf Region in the aftermath of Hurricanes Katrina and Rita.

If the annual and locality-based comparability payments had been granted as required by FEPCA, the average net pay increase nationwide in January 2006 would have been 6.93%.

January 2007 Pay Adjustment

Annual Pay Adjustment

Recent ECI data indicate that the annual across-the-board pay adjustment in January 2007 should be 1.7%. This figure reflects the September 2004 to September 2005 change in private-sector wages and salaries of 2.2%, minus 0.5%.[28] Because President Bush did not issue an alternative plan for the annual adjustment, under FEPCA, the annual adjustment must be 1.7% in January 2007.

Locality-Based Comparability Payments

The Federal Salary Council reported that as of March 2005, the overall gap between GS average salaries (excluding existing locality payments, special rates, and

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[25] U.S. Executive Office of the President, Office of Management and Budget, *Statement of Administration Policy, H.R. 3058 — Transportation, Treasury, Housing and Urban Development, the Judiciary, and the District of Columbia Appropriations Bill, FY2006*, June 29, 2005, p. 4. U.S. Executive Office of the President, Office of Management and Budget, *Statement of Administration Policy, H.R. 3058 — Transportation, Treasury, Judiciary, HUD, and Related Agencies Appropriations Bill, FY2006*, Oct. 19, 2005, p. 3.

[26] "AFGE Applauds Senate Bill's Pay Parity Inclusion," Oct. 21, 2005 ([http://www.afge.org]) and "Senate Approves Funding Bill With Pay Parity Provision," Oct. 21, 2005 ([http://www.nteu.org]).

[27] The cosponsors of the bill are Senators Sam Brownback, Tom Coburn, John Cornyn, Jim DeMint, Lindsey Graham, John McCain, and John Sununu.

[28] U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index — September 2005 (Washington, DC: Oct. 28, 2005), pp. 2, 14.

certain other payments) and nonfederal average salaries was 30.36%.[29] The amount needed to reduce this disparity to 5%, as mandated by FEPCA, averages 24.15% for 2007.[30] To meet the target for closing the pay gap, the council recommends locality pay raises ranging from 14.10% in the "Rest of the United States" (RUS) pay area to 49.65% in the San Jose-San Francisco pay area. The payment recommended for the Washington, DC, pay area is 31.36%. Because the new locality rate replaces the existing locality rate, the change in locality rates is derived by comparing 2006 locality payments with those recommended for 2007. This comparison results in recommended net increases for 2007, if the ECI and locality-based comparability payments were granted as required by law, of 3.13% in the RUS pay area, 18.27% in the San Jose-San Francisco pay area, and 13.70% in the Washington, DC, pay area. The nationwide average net pay increase, if the ECI and locality-based comparability payments were granted as required by law, would have been 8.64% in 2007.

The President issued an alternative plan for the January 2007 locality pay adjustment on November 30, 2006, which provides a 0.5% locality payment.[31]

The council recommended that the 32 locality pay areas recommended for 2006 continue in 2007. The Kansas City, Orlando, and St. Louis pay areas were recommended to become part of the "Rest of the United States" pay area in 2006 because the pay gaps in these areas are below that in RUS and, therefore, should receive the same adjustment as RUS.[32] The Pay Agent endorsed this recommendation and OPM published proposed regulations in the *Federal Register* on June 20, 2005, to implement this change.[33] The resources previously used to conduct surveys in Kansas City, Orlando, and St. Louis were to be used to carry out surveys "in as many of the following locations as possible": Phoenix-Mesa-Scottsdale, AZ MSA; Memphis, TN-MS-AR MSA; Austin-Round Rock, TX MSA; Louisville-Elizabethtown-Scottsberg, KY-IN CSA; Buffalo-Cheektowaga-

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[29] The calculation of the overall average pay gap excludes the locality payments made in 2005. The average locality rate paid in 2005 was 14.99%; the overall average pay gap in 2005 was 13.37%.

[30] Federal Salary Council Memorandum for January 2007, p. 3.

[31] U.S. President (Bush), "Text of a Letter from the President to the Speaker of the House of Representatives and the President of the Senate," Nov. 30, 2006.

[32] Under the methodology that has been used since locality pay was first implemented in 1994, areas with little data available in BLS surveys and pay gaps that were two-tenths of a percentage point (0.2%) or more below RUS or below the RUS pay area for three surveys were to be dropped as surveyed discrete pay areas, and the resources used to conduct these surveys were to be redirected to survey new locations.

[33] U.S. Office of Personnel Management, "General Schedule Locality Pay Areas," *Federal Register*, vol. 70, June 20, 2005, pp. 35383-35385. The proposed regulations also would add Fannin County to the Dallas, TX, locality pay area because the Office of Management and Budget revised the Dallas Combined Statistical Area (CSA); make a minor change in the description of the Los Angeles, CA, locality pay area; and note that Culpeper County, VA, is part of the Washington, DC-Baltimore, MD, CSA and therefore part of the Washington/Baltimore locality pay area proper and no longer an area of application.

Tonawanda, NY MSA; and Raleigh-Durham-Cary, NC CSA.[34] Based on Bureau of Labor Statistics data available to the Federal Salary Council, the council recommends that implementation of the new locality pay areas for Buffalo, Phoenix, and Raleigh be completed, but that Austin, Louisville, and Memphis should not be made separate locality pay areas at this time.[35]

After considering the council's recommendations, the Pay Agent endorsed them in its December 13, 2005, annual report to the President on the 2007 locality payments. The Pay Agent stated that, "Given the current national emergency, however, ... it would be unwise to allow the locality pay increases shown in [its] report to take effect in January 2007."[36]

The Pay Agent estimated that the cost of the January 2007 locality-based comparability payments would be about $5.3 billion if the full amount necessary to reduce the pay disparity of the target gap to 5% were provided in January 2007 as required by FEPCA.[37] **Table 3** shows the council's and the Pay Agent's recommended locality payments for January 2007.

As for the improvements in the BLS National Compensation Survey (NCS) Program, the Pay Agent stated its support of "the Council's recommendation to complete the phase-in of salary survey data collected under the [NCS] program and use that data exclusively to set locality pay."[38] In endorsing the council's recommendation that implementation of the new locality pay areas for Buffalo, Phoenix, and Raleigh be completed, the Pay Agent asked the BLS to "expedite renewal of its salary survey in the Raleigh area" which had been cancelled because of budget reductions.[39]

The Pay Agent reiterated that it "has serious concerns about the utility of a process that requires a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups or the performance of individual employees" and is "encouraged by the discussion resulting from the Administration's draft legislative proposal, the Working for America Act."[40]

The President's Recommendation

The President usually includes a proposal on the federal civilian pay adjustment in the *Budget of the United States* issued in February of each year. In the FY2007

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[34] Federal Salary Council Memorandum for January 2005, pp. 3-4.

[35] Federal Salary Council Memorandum for 2007, p. 4.

[36] *Report on Locality-Based Comparability Payments for the General Schedule, Annual Report of the President's Pay Agent* (Washington: Dec. 2005).

[37] Ibid., p. 19.

[38] Ibid., cover letter and p. 3.

[39] Ibid., p. 12.

[40] Ibid., cover letter.

budget, the President proposed a 2.2% pay adjustment for federal civilian employees. (He also proposed a 2.2% pay raise for the uniformed military.) This is the overall average increase, including locality and special pay adjustments.[41] Prior to the release of the budget, eight Members of Congress from the Washington, DC, metropolitan area wrote a letter to President Bush asking him to "embrace the principle of pay parity" between federal civilian employees and the uniformed military. The Members also stated that they "remain open to initiatives that seek to find ways to more effectively allocate our human capital expenditures" to recruit, retain, and reward federal employees.[42] The FY2007 budget also stated that the Administration would work with Congress to enact the Working for America Act (see the next section below) which, if enacted, could affect the allocation of the pay adjustment between annual, locality, and special pay components.[43]

As stated earlier, the President did not issue an alternative plan for the annual pay adjustment therefore, under FEPCA, the January 2007 annual adjustment must be 1.7%. He issued an alternative plan for the locality pay adjustment on November 30, 2006, which provides a 0.5% January 2007 locality payment. President Bush authorized the average 2.2% January 2007 pay adjustment in Executive Order 13420, issued on December 21, 2006.[44] OPM published the 2007 salary tables on its website, which are available at [http://www.opm.gov]. **Table 3** shows the recommended locality payments, the authorized locality payments, and the net annual and locality pay increases for January 2007.

Congressional Recommendations

The pay adjustment is considered annually by Congress, which may legislate an adjustment that is different from the one recommended by the President or that might be authorized by the President in an alternative plan. The January 1999, January 2000, and January 2002 through January 2006 overall pay adjustment amounts were set by Congress.[45] The Concurrent Resolution on the Budget, which provides the

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[41] U.S. Executive Office of the President, Office of Management and Budget, *Budget of the United States Government Fiscal Year 2007; Analytical Perspectives* (Washington: GPO, 2006), p. 169.

[42] "*Hoyer Leads Bipartisan Fight for Pay Parity; Bipartisan, Regional Delegation Sends Letter to President Bush*," Jan. 17, 2006. The letter was signed by Representatives Benjamin L. Cardin, Thomas M. Davis, III, Steny Hoyer, James P. Moran, Chris Van Hollen, Frank R. Wolf, Albert R. Wynn, and Delegate Eleanor Holmes Norton.

[43] U.S. Executive Office of the President, Office of Management and Budget, *Budget of the United States Government Fiscal Year 2007* (Washington: GPO, 2006), pp. 29 and 305, and *Appendix*, p. 1080. Tim Kauffman, "Proposed New Formula Would Lower Raises for Many," *Federal Times*, Feb. 14, 2006.

[44] U.S. President (Bush), "Adjustments of Certain Rates of Pay," Executive Order 13420, *Federal Register*, vol. 71, Dec. 26, 2006, pp. 77569-77580.

[45] P.L. 105-277, P.L. 106-58, P.L. 107- 67, P.L. 108-7, P.L. 108-199, P.L. 108-447, and P.L. 109-115, respectively, provided the pay adjustments but reserved to the President the decision as to how the increases would be allocated between the annual and locality pay

(continued...)

framework within which Congress subsequently considers spending legislation, has several times in the past included language expressing the sense of Congress on the federal civilian pay adjustment. The FY2007 budget resolution as agreed to by the Senate (S.Con.Res. 83) and the House (H.Con.Res. 376) does not include such a provision.

Any congressional recommendation on the pay adjustment has usually been included in the appropriations bill that funds the Department of the Treasury and General Government. In the 109th Congress, this measure is known as the Department of Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Bill, commonly referred to as the TTHUD bill.

The House of Representatives version of the TTHUD bill for FY2007, H.R. 5576, as passed by the House on a 406 to 22 (Roll No. 286) vote on June 14, 2006, includes a 2.7% pay adjustment for federal civilian employees, including those at the Departments of Defense and Homeland Security. The provision is at Section 940(a) of the bill. Section 801 provides that the pay raise must be funded within appropriated levels. The bill was ordered to be reported on June 6, 2006, and was reported by the Committee on Appropriations (H.Rept. 109-495) on June 9, 2006.[46] The appropriations subcommittee approved the bill by voice vote during markup on May 25, 2006, and the full committee approved it by voice vote during markup on June 6, 2006.

The Senate version of the TTHUD bill for FY2007 also includes a 2.7% pay adjustment. It was ordered to be reported, with an amendment in the nature of a substitute, on July 20, 2006, and was reported by the Committee on Appropriations (S.Rept. 109-293) on July 26, 2006.[47] The appropriations subcommittee approved the bill by voice vote during markup on July 18, 2006, and the full committee approved it by a 28-0 vote during markup on July 20, 2006. The pay adjustment is included at Section 841(a) and must be funded within appropriated levels according to Section 701. No further action occurred on the appropriations bill.

Section 111 of H.J.Res. 20, the Revised Continuing Appropriations Resolution for FY2007, provides increased funding to cover at least half the cost of the 2.2% pay

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[45] (...continued)
adjustments.

[46] U.S. Congress, House Committee on Appropriations, *Departments of Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies Appropriations Bill, 2007*, report to accompany H.R. 5576, 109th Cong., 2nd sess., H.Rept. 109-495 (Washington: GPO, 2006).

[47] U.S. Congress, Senate Committee on Appropriations, *Transportation, Treasury, Housing and Urban Development, the Judiciary, and Related Agencies Appropriations Bill, 2007*, report to accompany H.R. 5576, 109th Cong., 2nd sess., S.Rept. 109-293 (Washington: GPO, 2006).

adjustment which became effective in January 2007.[48] The resolution, which continues appropriations through September 30, 2007, was passed by the House on a 286 to 140 vote (Roll No. 72) on January 31, 2007. (The rule on consideration of the resolution was passed on a 225 to 191 vote (Roll No. 67) the same day.) The Senate passed H.J.Res. 20 on an 81 to 15 vote (No. 48) on February 14, 2007. The President signed the legislation on February 15, 2007, and it became P.L. 110-5.[49]

Both the John Warner National Defense Authorization Act for FY2007 (H.R. 5122) and the Department of Defense Appropriations Act for FY2007 (H.R. 5631) provide a 2.2% pay adjustment for the uniformed military. H.R. 5122, as passed by the House on a 396 to 31 vote (Roll No. 145) on May 11, 2006, authorized a 2.7% pay adjustment. As passed by the Senate by unanimous consent on June 22, 2006, H.R. 5122 provided a 2.2% pay adjustment.[50] The conference agreement included the Senate provision. The House agreed to the conference report (H.Rept. 109-702) on a 398 to 23 vote (Roll No. 510) on September 29, 2006, and the Senate agreed to it by unanimous consent on September 30, 2006.[51] The President signed the bill on October 17, 2006, and it became P.L. 109-364. The pay provision is at Title VI, Subtitle A, Section 601(b). H.R. 5631, as passed by the House on a 407-19 vote (Roll No. 305) on June 20, 2006, and as passed by the Senate on a 98 to 0 vote (No. 239) on September 7, 2006, included a 2.2% pay adjustment. The House agreed to the conference report (H.Rept. 109-676) on a 394 to 22 vote (Roll No. 486) on September 26, 2006, and the Senate agreed to it on a 100 to 0 vote (No. 261) on September 29, 2006.[52] It became P.L. 109-289 when the President signed the bill the same day.

In a statement of administration policy on H.R. 5576, OMB expressed strong opposition to the 2.7% pay adjustment for federal civilian employees, stating that it exceeds the annual pay increase required by FEPCA for federal employees and the average private sector pay adjustment. According to OMB, "arbitrary across-the-board increases" do not address recruitment or retention challenges which "are limited to a few areas and occupations." Additionally, the Administration opposes

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[48] H.J.Res. 20 was introduced by Representative David Obey on January 29, 2007, and referred to the House Committee on Appropriations.

[49] P.L. 110-5, Feb. 15, 2007, 121 Stat. 8, at 10-11.

[50] The Senate passed its version of the National Defense Authorization Act for FY2007, S. 2766, on a 96-0 vote (No. 186) on June 22, 2006. The same day, the Senate struck all after the enacting clause and inserted the text of S. 2766 into H.R. 5122.

[51] U.S. Congress, Conference Committees, 2006, *John Warner National Defense Authorization Act for Fiscal Year 2007*, conference report to accompany H.R. 5122, H.Rept. 109-702, 109th Cong., 2nd sess. (Washington: GPO, 2006), p. 161.

[52] U.S. Congress, Conference Committees, 2006, *Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 2007, and For Other Purposes*, conference report to accompany H.R. 5631, H.Rept. 109-676, 109th Cong., 2nd sess. (Washington: GPO, 2006). See also these press releases: U.S. Congress, House Committee on Appropriations, *Conferees Approve FY07 Defense Appropriations Bill*, Sept. 22, 2006, and U.S. Congress, Senate Committee on Appropriations, *Conferees Approve FY2007 Defense Spending Bill*, Sept. 21, 2006.

extension of the 2.7% pay adjustment to DHS and DOD employees because it will "unnecessarily complicate" implementation of "modernized pay systems" at these agencies. Further, the Administration believes that continuing to grant prevailing rate employees (blue-collar workers) in a particular location a pay adjustment that is no less than the increase received by GS employees in that location results in paying these employees "at rates higher than those in the private sector and will perpetuate a host of technical and equity pay problems."[53]

Prior to the House appropriations subcommittee markup of the FY2007 TTHUD bill, ten Members of the House sent a letter to the full and subcommittee chairmen and ranking members of the Committee on Appropriations urging them to include language authorizing a 2.7% pay adjustment in the measure. The letter noted that the President's "[b]udget submission recognized the importance of pay parity between military and civilian employees" and stated that "the vast wage gap that exists between public and private sector wages" makes it imperative for parity to continue.[54] Representatives Steny Hoyer, Frank Wolf, and Jim Moran also had prepared an amendment providing for a 2.7% pay adjustment to be offered during full committee markup of the TTHUD bill, but the subcommittee action made that unnecessary.

Changes in the Pay Adjustment Process Advocated

The methodology for setting federal pay adjustments has been questioned since shortly after FEPCA's enactment. For example, in 1993, a draft memorandum from the Pay Agent to the Federal Salary Council concluded that "the current methodology is flawed because the completeness of the data varies greatly among survey areas, because the gaps are not credible in light of other labor market indicators, and because the single percentage adjustment for all jobs in a locality is a poor reflection of market realities."[55] A white paper on compensation issued by OPM in April 2002 reviewed current policies and the need for more flexibility in setting General Schedule pay, but it did not include any recommendations.[56] In forwarding recommendations to the President on locality pay, the Pay Agent stated in December 2003 that although it supported updating the boundaries of locality pay areas, such changes were "an interim measure, pending fundamental reforms in the Federal

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[53] U.S. Executive Office of the President, Office of Management and Budget, *Statement of Administration Policy, H.R. 5576 — Transportation, Treasury, Housing, the Judiciary, and the District of Columbia Appropriations Bill, FY2007*, June 14, 2006, pp. 4-5.

[54] Letter to Representatives Jerry Lewis , Joe Knollenberg, David Obey, and John Olver from Representatives Tom Davis, Steny Hoyer, Frank Wolf, Jim Moran, Jon Porter, Henry Waxman, Chris Van Hollen, Albert Wynn, and Danny Davis and Delegate Eleanor Holmes Norton, May 15, 2006. Provided to CRS by electronic mail by House Appropriations Committee staff, May 23, 2006.

[55] Draft memorandum from the President's Pay Agent to Anthony F. Ingrassia, Acting Chairman, Federal Salary Council (Mar. 1993).

[56] U.S. Office of Personnel Management, *A White Paper; A Fresh Start for Federal Pay: The Case for Modernization* (Washington, DC: OPM, April 2002).

white-collar pay system." The Agent expressed "serious concerns about the utility of a process that requires a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups or the performance of individual employees."[57]

The Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia of the Committee on Governmental Affairs conducted a hearing to examine the progress made in implementing human capital flexibilities on July 20, 2004. Testifying before the subcommittee, OMB's Deputy Director for Management, Clay Johnson III, identified pay increases targeted to meet specific recruitment or retention needs as an eventuality for the federal workforce. According to Mr. Johnson,

> Today, we have targeted, not widespread, recruitment and retention problems in our civilian workforce, and pay surveys reveal that we are currently overpaying employees in some occupational groups in some locations.... [W]e certainly should not grant all civilian employees the same increase no matter what the need because that wouldn't be focusing on the desired result: that would be providing too small an increase where we do have recruitment and retention problems, and too large an increase where we do not have a problem.[58]

In August 2004, the Coalition for Effective Change[59] released a paper that strongly endorsed implementation of a pay-for-performance system in the federal government. The group identified several factors as essential to establishing such a system, including that it be flexible, reviewable, periodically evaluated and adjusted, and adequately funded.[60] Implementation of new personnel systems at the Department of Homeland Security (DHS) and the Department of Defense (DOD) is underway, with the publication of final regulations in the *Federal Register*[61] and the

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[57] *Report on Locality-Based Comparability Payments for the General Schedule, Annual Report of the President's Pay Agent* (Washington, DC: Dec. 2003), cover letter.

[58] U.S. Congress, Senate Committee on Governmental Affairs, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, *Building the 21st Century Federal Workforce: Assessing Progress in Human Capital Management*, hearing, 108th Cong., 2nd sess., July 24, 2004 (Washington, DC: GPO, 2004), p. 39.

[59] The coalition includes the American Foreign Service Association, Blacks in Government, Executive Women in Government, the Federal Bar Association, the Federal Librarians Round Table, the National Association of Retired Federal Employees, the National Academy of Public Administration, and the Senior Executives Association.

[60] Coalition for Change, *Linking the Pay of Federal Employees to Their Performance*, Aug. 2004.

[61] The Department of Homeland Security and the Department of Defense published final regulations on their new personnel systems in the *Federal Register* on Feb. 1, 2005, and November 1, 2005, respectively. See U.S. Department of Homeland Security and U.S. Office of Personnel Management, "Department of Homeland Security Human Resources Management System," *Federal Register*, vol. 70, Feb. 1, 2005, pp. 5271-5347, and U.S. Department of Defense and U.S. Office of Personnel Management, "Department of Defense (continued...)

development of implementing directives (DHS) and implementing issuances (DOD). Broad pay bands (replacing the General Schedule) and performance management processes tied to agency missions and specific performance standards are central features of the systems at both departments.

Reform of the federal government's pay and performance management systems is identified as a top priority in a report entitled "OPM's Guiding Principles for Civil Service Transformation." The report advocates government-wide legislation that provides personnel flexibilities similar to those provided to DHS and DOD to other executive branch agencies. Replacing the 15 grades of the General Schedule with broad pay bands encompassing ranges of pay rates and basing pay adjustments on performance expectations met and exceeded rather than time in service requirements fulfilled are among the flexibilities mentioned in the report.[62]

OMB released a draft legislative proposal, the Working For America Act, in mid-July 2005 and circulated it among Members of Congress and staff, the executive branch departments and agencies, and other interested parties.[63] The draft bill would change the process for adjusting federal pay by providing

- a national increase that would vary by occupational group and pay band and would be based on national labor market rates for employees whose performance is "fully successful" or better;

- a locality increase that would vary by occupational group, pay band, and location and would be based on local labor market rates for employees whose performance is "fully successful" or better; and

- performance increases based on an employee's rating level within a pay pool funded with monies that would have been used for step increases, quality step increases, and promotions.

Details on how such changes would be implemented were not included with the draft legislation, and The Working For America Act has not been introduced. The President's FY2007 budget states that OPM will work to support implementation of "a modern classification, pay, and performance management system" for the civil service as proposed in the Working for America Act.[64]

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[61] (...continued)
Human Resources Management and Labor Relations Systems: Final Rule," *Federal Register*, vol. 70, Nov. 1, 2005, pp. 66115-66220.

[62] U.S. Office of Personnel Management, *OPM's Guiding Principles for Civil Service Transformation*, (Washington, 2004), p. 6.

[63] "President's Management Agenda, Working for America Act," available at [http://www.whitehouse.gov/results/agenda/working.html].

[64] U.S. Executive Office of the President, Office of Management and Budget, *Budget of the United States Government Fiscal Year 2007* (Washington: GPO, 2006), p. 305.

On June 13, 2006, Senator George Voinovich, Chairman of the Senate Homeland Security and Governmental Affairs' Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, introduced S. 3492, the Federal Workforce Performance Appraisal and Management Improvement Act of 2006.[65] It was referred to the Senate Committee on Homeland Security and Governmental Affairs. The subcommittee conducted a hearing entitled "Enhancing Employee Performance," which included consideration of the bill, on June 29, 2006.[66] No further action occurred on the bill. Among other provisions, the bill would have required agencies to establish one or more performance appraisal systems having at least three summary rating levels — unacceptable, fully successful, and above fully successful; made it mandatory that managers and supervisors receive training in performance management; and required agencies to establish comprehensive management succession programs providing training to develop employees to become managers. S. 3492 also would have required an employee to receive a summary performance rating of at least fully successful to receive a within-grade increase, an annual pay adjustment, a locality pay adjustment, a special rate, or a prevailing rate (blue-collar) adjustment. Agencies would have been required to provide employees with annual performance evaluations in writing.

Under current law (5 U.S.C. §5376(b)(1)(B)) Senior-Level (SL) and scientific and professional (ST) employees may receive basic pay up to Level IV of the Executive Schedule ($145,400, as of January 2007). In a significant change, S. 3492 would have amended current law to provide that SL and ST employees in agencies whose performance appraisal systems had been certified by OPM as making meaningful distinctions in performance, could have received basic pay up to Level II of the Executive Schedule ($168,000, as of January 2007). In agencies whose performance appraisal systems had not been so certified by OPM, SL and ST employees could have received basic pay up to Level III of the Executive Schedule ($154,600, as of January 2007).

In his statement upon introducing the legislation, Senator Voinovich said that he thought it would be easier for federal agencies, and cause less anxiety among federal workers, "to implement enhanced employee appraisals first." He noted that the proposal "is not set in stone, and I imagine that it will undergo many changes." His intention is to

> transform the culture of the Federal workforce into a high-performing, continually improving organization that focuses on achieving results for the American people. The Federal workforce must be as agile, nimble, and intellectually energetic as the leading nongovernmental organizations or dot-com companies, capable of addressing the wide ranging challenges facing the [United States] ....[67]

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[65] In the 110th Congress, Senator Voinovich introduced similar legislation — S. 1045 and S. 1046. (See CRS Report RL33732 for a discussion of the bills.)

[66] The hearing testimony is available at [http://hsgac.senate.gov].

[67] Statement of Senator George Voinovich, *Congressional Record*, daily edition, vol. 152, June 13, 2006, p. S5782.

Representatives of the Federal Executive Boards in Los Angeles and San Francisco, California, reportedly met with Members of Congress in late July 2006, to discuss a proposal to replace locality-based comparability payments with a variable housing allowance patterned after that provided to members of the uniformed military. Under the proposal, reportedly, the housing allowance would not be taxable or count towards retirement or the salary cap, the locality pay rate for the Rest of the United States pay area "would become the new base pay for federal employees in the continental United States," and employees in certain metropolitan areas where the cost of housing is high would receive a housing allowance.[68]

[68] Aimee Curl, "Housing Allowance for Feds? Some Execs Say Yes," *Federal Times*, July 10, 2006, pp. 1,4; and Aimee Curl, "Hard Sell on the Hill; California Execs Hone Strategy to Get Support on Pay Proposal," *Federal Times*, July 24, 2006, p. 10.

Table 1. Annual and Locality Pay Adjustments Under FEPCA, 1991 to 2007

Year	ECI-Based Annual Adjustment Required by FEPCA	Annual Adjustment Authorized	Locality Payments Required by FEPCA (National Average)	Locality Payments Authorized (National Average)	Net Increase, Annual and Locality Pay (National Average, weighted)
1991	—	4.1%	—	—	4.1%
1992	4.2%	4.2%	—	—	4.2%
1993	3.7%	3.7%	—	—	3.7%
1994	2.2%	0	3.95%	3.95%	3.95%
1995	2.6%	2.0%	6.44%	5.05%	3.08%
1996	2.4%	2.0%	8.58%	5.56%	2.49%
1997	2.3%	2.3%	11.29%	6.37%	3.09%
1998	2.8%	2.3%	14.30%	6.93%	2.84%
1999	3.1%	3.1%	16.95%	7.50%	3.65%
2000	3.8%	3.8%	20.62%	8.62%	4.89%
2001	2.7%	2.7%	23.12%	9.77%	3.76%
2002	3.6%	3.6%	25.92%	10.95%	4.72%
2003	3.1%	3.1%	27.59%	12.12%	4.21%
2004	2.7%	2.7%	25.71%	13.81%	4.24%
2005	2.5%	2.5%	25.51%	15.01%	3.54%
2006	2.1%	2.1%	25.85%	16.22%	3.19%
2007	1.7%	1.7%	24.15%	16.80%	2.24%

Sources: For the ECI-required annual adjustment, see U.S. Department of Labor, Bureau of Labor Statistics, *Employment Cost Index*, September of each year. For the locality payments required by FEPCA, see *Report on Locality-Based Comparability Payments for the General Schedule, Annual Report of the President's Pay Agent*, December of each year. For the annual and locality pay adjustments authorized, see E.O. 12736, Dec. 12, 1990; E.O. 12786, Dec. 26, 1991; E.O. 12826, Dec. 30, 1992; Presidential memorandum of Dec. 1, 1993; E.O. 12944, Dec. 28, 1994; E.O. 12984, Dec. 28, 1995; E.O. 13033, Dec. 27, 1996; E.O. 13071, Dec. 29, 1997; E.O. 13106, Dec. 7, 1998; E.O. 13144, Dec. 21, 1999; E.O. 13182, Dec. 23, 2000; E.O. 13249, Dec. 28, 2001; E.O.'s 13282, Dec. 31, 2002, and 13291, Mar. 21, 2003; E.O.'s 13322, Dec. 30, 2003, and 13332, Mar. 3, 2004; E.O. 13368, Dec. 30, 2004; E.O. 13393, Dec. 22, 2005; and E.O. 13420, Dec. 21, 2006.

Notes: Locality-based comparability payments began in 1994. The actual pay rates are calculated as follows. First, the basic General Schedule (GS) is increased by the annual adjustment percentage, resulting in a new GS schedule. The new basic GS rates are then increased by the locality payment. The resulting pay rates (annual + locality) are compared with the pay rates (annual + locality) for the previous year to derive the net increase in pay for the current year. Salary tables for 2007 are available on the Internet at [http://www.opm.gov].

Table 2. January 2006 Recommended Locality Payments, Authorized Locality Payments, and Net Annual and Locality Pay Increase

Pay Areas	2006 Recommended Locality Payments	2006 Authorized Locality Payments	Net Increase, Annual and Locality Pay (weighted)
Atlanta-Sandy Springs-Gainesville, GA-AL CSA	26.38%	15.10%	3.20%
Boston-Worcester-Manchester, MA-NH CSA, plus the Providence-New Bedford-Fall River, RI-MA MSA, Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME	31.96%	19.99%	3.39%
Buffalo-Niagara-Cattaraugus, NY CSA	21.27%	13.52%	3.75%
Chicago-Naperville-Michigan City, IL-IN-WI CSA	31.06%	21.15%	3.34%
Cincinnati-Middletown-Wilmington, OH-KY-IN CSA	22.16%	17.08%	3.02%
Cleveland-Akron-Elyria, OH CSA	24.89%	15.41%	3.15%
Columbus-Marion-Chillicothe, OH CSA	18.50%	14.85%	2.88%
Dallas-Fort Worth, TX CSA	28.10%	16.39%	3.27%
Dayton-Springfield-Greenville, OH CSA	20.76%	13.83%	2.98%
Denver-Aurora-Boulder, CO CSA, plus the Ft. Collins-Loveland, CO MSA and Weld County, CO	30.56%	19.49%	3.34%
Detroit-Warren-Flint, MI, CSA, plus Lenawee County, MI	28.43%	21.00%	3.23%
Hartford-West Hartford-Willimantic, CT CSA, plus the Springfield, MA MSA and New London County, CT	38.03%	21.30%	3.62%
Houston-Baytown-Huntsville, TX CSA	34.16%	26.37%	3.41%
Huntsville-Decatur, AL CSA	19.77%	13.35%	2.94%
Indianapolis-Anderson-Columbus, IN CSA, plus Grant County, IN	17.92%	12.85%	2.87%

Pay Areas	2006 Recommended Locality Payments	2006 Authorized Locality Payments	Net Increase, Annual and Locality Pay (weighted)
Kansas City-Overland Park-Kansas City, MO-KS CSA	17.00%	12.52%	2.25%
Los Angeles-Long Beach-Riverside, CA CSA, plus the Santa Barbara-Santa Maria, CA MSA and all of Edwards Air Force Base, CA	32.61%	23.18%	3.38%
Miami-Fort Lauderdale-Miami Beach, FL MSA, plus Monroe County, FL	22.88%	17.84%	3.04%
Milwaukee-Racine-Waukesha, WI CSA	23.96%	14.74%	3.11%
Minneapolis-St. Paul-St. Cloud, MN-WI CSA	28.22%	17.31%	3.26%
New York-Newark-Bridgeport, NY-NJ-CT-PA CSA, plus Monroe County, PA and Warren County, NJ	42.28%	22.97%	3.77%
Orlando-The Villages, FL CSA	17.00%	12.52%	2.80%
Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ	29.33%	18.04%	3.30%
Phoenix-Mesa-Scottsdale, AZ MSA	19.87%	12.65%	2.95%
Pittsburgh-New Castle, PA CSA	20.25%	13.81%	2.96%
Portland-Vancouver-Beaverton, OR-WA MSA, plus Marion County, OR, and Polk County, OR	26.23%	17.16%	3.18%
Raleigh-Durham-Cary, NC CSA, plus the Fayetteville, NC MSA, the Goldsboro, NC MSA, and the Federal Correctional Complex, Butner, NC	24.51%	15.57%	5.62%
Richmond, VA MSA	21.27%	14.15%	3.00%
Sacramento — Arden-Arcade — Truckee, CA-NV CSA, plus Carson City, NV	29.91%	17.91%	3.33%
St. Louis-St. Charles-Farmington, MO-IL CSA	17.00%	12.52%	2.49%
San Diego-Carlsbad-San Marcos, CA MSA	32.23%	19.19%	3.41%

Pay Areas	2006 Recommended Locality Payments	2006 Authorized Locality Payments	Net Increase, Annual and Locality Pay (weighted)
San Jose-San Francisco-Oakland, CA CSA, plus the Salinas, CA MSA and San Joaquin County, CA	49.01%	28.68%	3.95%
Seattle-Tacoma-Olympia, WA CSA	29.88%	17.93%	3.33%
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA, plus the Hagerstown-Martinsburg, MD-WV MSA, the York-Hanover-Gettysburg, PA CSA, Culpeper County, VA, and King George County, VA	32.55%	17.50%	3.44%
Rest of the U.S. (RUS)	17.00%	12.52%	2.83%
Average	25.85%	16.22%	3.19%

Sources: Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 2007 and Other Matters Pertaining to the Locality Pay Program* (Washington, DC: Oct. 21, 2005), Attachment 2. U.S. President (Bush), "Adjustments of Certain Rates of Pay," Executive Order 13393, *Federal Register*, vol. 70, Dec. 27, 2005, pp. 76655-76664. MSA refers to a Metropolitan Statistical Area. CSA refers to a Combined Statistical Area. The component parts of each pay area are described in U.S. Office of Management and Budget, *Revised Definitions of Metropolitan Statistical Areas, New Definitions of Micropolitan Statistical Areas and Combined Statistical Areas, and Guidance on Uses of the Statistical Definitions of These Areas*, OMB Bulletin No. 03-04, June 6, 2003.

Notes: The actual pay rates are calculated by the following means. First, the basic General Schedule (GS) is increased by the annual adjustment percentage, resulting in a new GS schedule. These new basic GS rates are then increased by the locality payment. The resulting pay rates (annual + locality) are compared with the pay rates (annual + locality) for the previous year to derive the net increase in pay for the current year.

Table 3. January 2007 Recommended Locality Payments, Authorized Locality Payments, and Net Annual and Locality Pay Increase

Pay Areas	2007 Recommended Locality Payments	2007 Authorized Locality Payments	Net Increase, Annual and Locality Pay (weighted)
Atlanta-Sandy Springs-Gainesville, GA-AL CSA	25.13%	15.89%	2.40%
Boston-Worcester-Manchester, MA-NH CSA, plus the Providence-New Bedford-Fall River, RI-MA MSA, Barnstable County, MA, and Berwick, Eliot, Kittery, South Berwick, and York towns in York County, ME	32.44%	20.97%	2.53%
Buffalo-Niagara-Cattaraugus, NY CSA	21.59%	14.15%	2.26%
Chicago-Naperville-Michigan City, IL-IN-WI CSA	29.29%	21.79%	2.24%
Cincinnati-Middletown-Wilmington, OH-KY-IN CSA	20.85%	17.38%	1.96%
Cleveland-Akron-Elyria, OH CSA	22.42%	15.96%	2.18%
Columbus-Marion-Chillicothe, OH CSA	16.70%	15.00%	1.83%
Dallas-Fort Worth, TX CSA	28.45%	17.34%	2.53%
Dayton-Springfield-Greenville, OH CSA	19.41%	14.27%	2.09%
Denver-Aurora-Boulder, CO CSA, plus the Ft. Collins-Loveland, CO MSA and Weld County, CO	26.19%	20.02%	2.15%
Detroit-Warren-Flint, MI, CSA, plus Lenawee County, MI	27.71%	21.53%	2.15%
Hartford-West Hartford-Willimantic, CT CSA, plus the Springfield, MA MSA and New London County, CT	35.78%	22.44%	2.66%
Houston-Baytown-Huntsville, TX CSA	29.90%	26.65%	1.93%
Huntsville-Decatur, AL CSA	16.57%	13.60%	1.92%
Indianapolis-Anderson-Columbus, IN CSA, plus Grant County, IN	14.77%	13.00%	1.84%
Los Angeles-Long Beach-Riverside, CA CSA, plus the Santa Barbara-Santa Maria, CA MSA and all of Edwards Air Force Base, CA	34.03%	24.03%	2.40%
Miami-Fort Lauderdale-Miami Beach, FL MSA, plus Monroe County, FL	23.65%	18.30%	2.10%

Pay Areas	2007 Recommended Locality Payments	2007 Authorized Locality Payments	Net Increase, Annual and Locality Pay (weighted)
Milwaukee-Racine-Waukesha, WI CSA	24.95%	15.54%	2.41%
Minneapolis-St. Paul-St. Cloud, MN-WI CSA	28.29%	18.17%	2.45%
New York-Newark-Bridgeport, NY-NJ-CT-PA CSA, plus Monroe County, PA and Warren County, NJ	43.40%	24.57%	3.02%
Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA, plus Kent County, DE, Atlantic County, NJ, and Cape May County, NJ	28.40%	18.85%	2.40%
Phoenix-Mesa-Scottsdale, AZ MSA	19.94%	13.22%	2.21%
Pittsburgh-New Castle, PA CSA	18.30%	14.16%	2.01%
Portland-Vancouver-Beaverton, OR-WA MSA, plus Marion County, OR, and Polk County, OR	23.19%	17.63%	2.11%
Raleigh-Durham-Cary, NC CSA, plus the Fayetteville, NC MSA, the Goldsboro, NC MSA, and the Federal Correctional Complex, Butner, NC	23.34%	16.18%	2.24%
Richmond, VA MSA	17.51%	14.41%	1.93%
Sacramento — Arden-Arcade — Truckee, CA-NV CSA, plus Carson City, NV	31.65%	18.99%	2.63%
San Diego-Carlsbad-San Marcos, CA MSA	33.80%	20.34%	2.68%
San Jose-San Francisco-Oakland, CA CSA, plus the Salinas, CA MSA and San Joaquin County, CA	49.65%	30.33%	3.00%
Seattle-Tacoma-Olympia, WA CSA	26.21%	18.58%	2.26%
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA, plus the Hagerstown-Martinsburg, MD-WV MSA, the York-Hanover-Gettysburg, PA CSA, Culpeper County, VA, and King George County, VA	31.36%	18.59%	2.64%
Rest of the U.S. (RUS)	14.10%	12.64%	1.81%
Average	24.15%	16.80%	2.24%

Sources: Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 2007 and Other Matters Pertaining to the Locality Pay Program* (Washington, DC: Oct. 21, 2005), Attachment 1; *Report on Locality-Based Comparability Payments* *for the General Schedule, Annual Report of the President's Pay Agent* (Washington: Dec. 2005), p. 16; and U.S. President (Bush), "Adjustments of Certain Rates of Pay," Executive Order 13420, *Federal Register*, vol. 71, Dec. 26, 2006, pp. 77569-77580. MSA refers to a Metropolitan Statistical Area. CSA refers to a Combined Statistical Area. The component parts of each pay area are described in U.S. Office of Management and Budget, *Revised Definitions of Metropolitan Statistical Areas, New Definitions of Micropolitan Statistical Areas and Combined Statistical Areas, and Guidance on Uses of the Statistical Definitions of These Areas*, OMB Bulletin No. 03-04, June 6, 2003. The Kansas City-Overland Park-Kansas City, MO-KS CSA; Orlando-The Villages, FL CSA; and St. Louis-St. Charles-Farmington, MO-IL CSA become part of the Rest of the United States pay area in January 2006 and receive the same locality pay adjustment as RUS.

Notes: The actual pay rates are calculated by the following means. First, the basic General Schedule (GS) is increased by the annual adjustment percentage, resulting in a new GS schedule. These new basic GS rates are then increased by the locality payment. The resulting pay rates (annual + locality) are compared with the pay rates (annual + locality) for the previous year to derive the net increase in pay for the current year.