

**OFFICE OF PERSONNEL
MANAGEMENT**

Nonforeign Area Cost-of-Living Allowances; 2007 Interim Adjustments

AGENCY: Office of Personnel Management.

ACTION: Notice.

SUMMARY: This notice publishes the 2007 interim adjustments for the Alaska and Caribbean Nonforeign Cost-of-Living Allowance (COLA) areas. The Federal Government conducts COLA surveys in Alaska, Hawaii, Guam, Puerto Rico, and the U.S. Virgin Islands to set COLA rates. These surveys are conducted once every 3 years on a rotating basis. In between COLA surveys, the Government adjusts COLA rates for the areas not surveyed using the relative change in the Consumer Price Index (CPI) for the COLA areas compared with the Washington-Baltimore CPI. The Alaska and Caribbean COLA areas were not surveyed in 2007; therefore, OPM is calculating and publishing interim adjustments for these COLA areas.

DATES: We will consider comments received on or before October 24, 2008.

ADDRESSES: Send or deliver comments to Charles D. Grimes III, Deputy Associate Director for Performance and Pay Systems, Strategic Human Resources Policy Division, Office of Personnel Management, Room 7300B, 1900 E Street, NW., Washington, DC 20415-8200; fax: (202) 606-4264; or e-mail: COLA@opm.gov.

FOR FURTHER INFORMATION CONTACT: J. Stanley Austin, (202) 606-2838; fax: (202) 606-4264; or e-mail: COLA@opm.gov.

SUPPLEMENTARY INFORMATION: Section 5941 of title 5, United States Code, authorizes Federal agencies to pay cost-of-living allowances (COLAs) to white-collar Federal and U.S. Postal Service employees stationed in Alaska, Hawaii, Guam and the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands (USVI). Executive Order 10000, as amended, delegates to the Office of

Personnel Management (OPM) the authority to administer nonforeign area COLAs and prescribes certain operational features of the program. OPM conducts living-cost surveys in each allowance area and in the Washington, DC, area to determine whether, and to what degree, COLA area living costs are higher than those in the DC area.

As required by section 591.223 of title 5, Code of Federal Regulations, OPM conducts COLA surveys in the Alaska, Pacific, and Caribbean areas on a 3-year rotating basis, and in the Washington, DC, area on an annual basis. OPM sets the COLA rate for each area based on the results of these surveys. For areas not surveyed during a particular year, OPM computes interim adjustments to COLA rates based on the relative change in the Consumer Price Index (CPI) for the COLA area compared with the Washington, DC, area. (See 5 CFR 591.224-226.)

In 2007, we surveyed the Pacific COLA areas of Honolulu County, Hawaii County, Maui County, and Kauai County, Hawaii, and Guam. We did not survey the Alaska or Caribbean COLA areas. Therefore, we are adjusting the previous Alaska and Caribbean survey price indexes using the relative change in CPIs. As required by 5 CFR 591.225, we used the CPI, All Urban Consumers (CPI-U), as published by the Bureau of Labor Statistics (BLS) for Alaska and the Washington-Baltimore area and the Puerto Rico CPI as produced by the Puerto Rico Department of Work and Human Resources.

2006 Alaska Survey Results and Interim Adjustments

First, we computed the change in prices for the Anchorage area compared with the change in prices for the Washington-Baltimore area using the CPI-U's for each area. Table 1 shows this process.

TABLE 1—ANCHORAGE AND WASHINGTON-BALTIMORE CPI-U CHANGES 2004 TO 2006

Survey area	CPI-U
Anchorage 2006 CPI-U First Half	176.7
Anchorage 2007 CPI-U First Half	179.394
Anchorage change	1.5246%
DC-Baltimore 2006 CPI-U first half	127.7
DC-Baltimore 2007 CPI-U first half	132.0
DC-Baltimore change	3.3673%

Next, we multiplied the *price* indexes from the four 2006 Alaska surveys—Anchorage, Fairbanks, Juneau, and Rest of the State of Alaska (represented by Kodiak)—by the change in the Anchorage CPI-U and divided that by the change in the Washington-Baltimore CPI-U. We used the Alaska area price indexes from the 2006 Alaska survey report, published on January 3, 2008, at 73 FR 774. The price index is the COLA survey index before the addition of the adjustment factor specified in 5 CFR 591.227. The adjustment factor reflects differences in need, access to and availability of goods and services, and quality of life in the COLA area relative to the DC area and is a fixed amount. Therefore, it is not adjusted by the change in the CPI.

Table 2 shows the interim adjustment process. For example, the 2006 Fairbanks COLA survey adjusted index, as published in the **Federal Register**, is 118.90. The Fairbanks adjustment factor is 9 points. Therefore, subtracting the adjustment factor shows 109.90 as the *price* index from the 2006 survey. We increased this price index by 1.5246 percent (*i.e.*, multiplied by 1.015246), the change in the Anchorage CPI-U, and reduced it by 3.3673 percent (*i.e.*, divided by 1.033673), the change in the Washington-Baltimore CPI-U, to give a new price index of 107.94. We then added the 9 point adjustment factor to the new price index, which yields a 2007 Fairbanks Interim Adjustment COLA rate of 116.94.

TABLE 2—ALASKA COLA AREA CPI-U PRICE INDEX ADJUSTMENTS

	Anchorage	Fairbanks	Juneau	Kodiak
2006 COLA Survey Indexes	109.81	118.90	120.08	132.82
Adjustment Factors	7	9	9	9
2006 COLA Survey Price Indexes	102.81	109.90	111.08	123.82
2007 CPI Adjusted Price Indexes	100.98	107.94	109.10	121.61
2007 COLA Indexes with Adj. Factors	107.98	116.94	118.10	130.61

2005 Caribbean Survey Results and Interim Adjustments

The process we used to compute the interim adjustments for the Caribbean areas (*i.e.*, Puerto Rico and USVI) is identical to the one for the Alaska areas except that we used the Puerto Rico CPI as produced by the Puerto Rico Department of Work and Human Resources, as specified in 5 CFR 591.225. The Puerto Rico Department of Labor and Human Resources implemented a revised methodology for producing its CPI calculations effective December 2006. As shown in table 3, the changed methodology had a substantial effect on the measured inflation rate, demonstrating a significant overstatement of the inflation rate under the old methodology.

TABLE 3—PUERTO RICO CPI MEASUREMENTS 2006 TO 2007

Period	Old methodology	New methodology
December 2006 CPI	334.8	100.00
June 2007 CPI ..	373.5	103.06
Percent increase from January 2006 to June 2007	11.5591%	3.0600%

The Puerto Rican Department of Labor and Human Resources estimated the inflation rate for the year beginning June 2006 and ending June 2007 to be in the range of 5 to 6 percent under the new methodology. To provide more precision, we applied the 3.06 percent inflation rate for the last 6 months of the year to the first half of the year. This resulted in an annual inflation rate of

6.2136 percent (1.0306 x 1.0306), exceeding the estimate by the Puerto Rico Department of Labor and Human Resources. Using this value for the annual inflation rate, we multiplied 106.2136 by 312.2 (the June 2006 CPI) to arrive at a CPI of 331.60 for June 2007. Table 4 shows the relative change in the Puerto Rico CPI from June 2005 to June 2007 compared with the Washington-Baltimore CPI-U.

TABLE 4—PUERTO RICO AND WASHINGTON-BALTIMORE CPI-U CHANGES 2005 TO 2006

Survey area	CPI-U
Puerto Rico 2005 CPI first half	277.2
Puerto Rico 2007 CPI first half	331.6
Puerto Rico change	19.625%
DC-Baltimore 2005 CPI-U first half	122.8
DC-Baltimore 2007 CPI-U first half	132.0
DC-Baltimore change	7.4919%

We multiplied the Puerto Rico and USVI price indexes by the change in the Puerto Rico CPI and divided that by the change in the Washington-Baltimore CPI-U. We used price indexes for Puerto Rico and USVI from the 2005 Caribbean survey report published at 71 FR 63179. As noted in section 4.2.3 of the report, we calculated the Puerto Rico survey index (103.32) after we priced water utilities based on a post-survey increase in water utility rates. The CPI for Puerto Rico already reflects this increase; therefore, we reverted to the pre-increase index level (103.06) to avoid duplication in the interim adjustment calculation. Table 5 shows the 2005 indexes, the interim

adjustment process, and the final results.

TABLE 5—CARIBBEAN COLA AREA CPI-U PRICE INDEX ADJUSTMENTS

	Puerto Rico	USVI
2005 COLA Survey Indexes	103.06	128.21
Adjustment Factors	7	9
2005 COLA Survey Price Indexes	96.06	119.21
2007 CPI Adjusted Price Indexes	106.90	132.67
2007 COLA Indexes with Adj. Factors	113.90	141.67

Interim Adjustments Summarized

In a proposed rule published with this notice, we propose to adjust COLA rates based on the interim CPI adjustments. In Alaska, the results indicate that COLA rates in Anchorage, Fairbanks, and Juneau should continue to be reduced by an additional 1 percentage point in each area. (COLA rates may be reduced by no more than 1 percentage point in a 12-month period as provided under 5 CFR 591.228(c).) In the Caribbean, the results indicate that the COLA rate for the U.S. Virgin Islands is currently set at the appropriate level and the rate for Puerto Rico should be increased to 14 percent.

Office of Personnel Management.

Michael W. Hager,

Acting Director.

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