



**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503**

THE DIRECTOR

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MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Joshua B. Bolten 
Director

SUBJECT: Update of Annual Federal Pay Raise Assumptions, Certain Inflation Factors, and Costing Software Used in OMB Circular A-76, Performance of Commercial Activities

This memorandum updates the annual federal pay raise assumptions and inflation cost factors used for computing the government's personnel and non-pay costs in public-private competitions conducted pursuant to Office of Management and Budget (OMB) Circular A-76. These annual pay raise assumptions and inflation factors are based on the President's Budget for Fiscal Year 2006. The memorandum also provides notice of an update to "COMPARE." COMPARE is the software agencies use to calculate costs and document performance decisions in public-private competitions.

1. Federal pay raise assumptions. The following Federal pay raise assumptions (including geographic pay differentials) that are in effect for 2005 shall be used for the development of government personnel costs. The pay raise factors provided for 2006 and beyond shall be applied to all government personnel with no assumption being made as to how they will be distributed between possible locality and base pay increases.

Federal Pay Raise Assumptions*

Effective date	Civilian (percent)	Military (percent)
January 2005.....	3.5	3.5
January 2006.....	2.3	3.1

* Federal pay raise assumptions have not been established for pay raises subsequent to January 2006. For January 2007 and beyond, the projected percentage change in the Employment Cost Index (ECI), 4.2 percent should be used to estimate government personnel costs for public-private competitions. In future updates to cost factors in the Circular, as pay policy for years subsequent to 2006 is established, these pay raise assumptions will be revised.

2. Inflation factors. The following non-pay inflation cost factors are provided for purposes of public-private competitions conducted pursuant to Circular A-76 only. They reflect the generic non-pay inflation assumptions used to develop the fiscal year 2006 budget baseline estimates required by law. The law requires that a specific inflation factor (GDP FY/FY chained price index) be used for this purpose. These inflation factors should not be viewed as estimates of expected inflation rates for major long-term procurement items or as an estimate of inflation for any particular agency's non-pay purchases mix.

Non-Pay Categories (Supplies, equipment, etc.)	
	(percent)
FY 2005.....	2.0
FY 2006.....	2.0
FY 2007.....	2.1
FY 2008.....	2.1
FY 2008.....	2.1
FY 2010.....	*2.1

* Any subsequent years included in the period of performance shall continue to use the 2.1% figure, until otherwise revised by OMB.

3. COMPARE Update. Revisions to Circular A-76, issued by OMB in May 2003, require agencies to use "COMPARE" when calculating costs in public-private competitions. This software incorporates the costing procedures of the revised Circular to ensure all agencies calculate and document the costs of public and private sector performance in a standardized manner when conducting public-private competitions under the Circular. The Department of Defense (DOD) maintains COMPARE on OMB's behalf. DOD has completed a version update to COMPARE. COMPARE Version 2.1: (1) improves the functionality of the software, (2) applies updated tax rate information (i.e., from the updated tax rate table) to establish the adjusted cost of private sector performance, (3) fully automates the calculation of contract administration costs to ensure consistent agency application of this factor in competitions, and (4) updates terminology to reflect changes made when the Circular was revised in May 2003. The software also provides an optional baseline costing capability that may be used at an agency's discretion or as otherwise prescribed in agency guidance (e.g., for determining preliminary planning baseline costs and evaluating savings from completed competitions). COMPARE Version 2.1 replaces Version 2.0 and interim instructions issued when OMB revised the Circular. Agencies shall use COMPARE Version 2.1 to calculate costs for all public-private competitions performed pursuant to the revised Circular A-76 where a performance decision has not been certified by the government by the effective date identified in the *Federal Register* notice accompanying the publication of this memorandum. As explained above, however, the baseline costing feature is currently optional and may be used at the agency's discretion or as otherwise prescribed in agency guidance. COMPARE Version 2.1. and updated tables are located at <http://www.compareA76.com>.