

(c) *Step 3.* OPM selects the central income groups in the nationwide CES tabulation.

(d) *Step 4.* OPM calculates the expenditure shares (*i.e.*, percentages) for each central income group by dividing each of its DEC expenditures by total expenditures for the income group. OPM also calculates expenditure shares for total nationwide expenditures by dividing each nationwide DEC expenditure by total nationwide expenditures.

(e) *Step 5.* OPM computes a democratic distribution of expenditure shares by averaging the central income groups' shares at each DEC and higher level of aggregation.

(f) *Step 6.* OPM computes a set of ratios by dividing each expenditure share of the nationwide democratic distribution by the corresponding expenditure share of the total national distribution.

(g) *Step 7.* OPM computes estimated expenditures for Washington DC for each DC DEC and higher level of aggregation that BLS reported by multiplying the reported expenditure by the corresponding ratio derived in Step 6.

(h) *Step 8.* For each DC DEC and higher level of aggregation that BLS did not report, OPM computes expenditures for DC by distributing the DC expenditure calculated in step 7 using the distribution of expenditure shares derived in step 5.

(i) *Step 9.* As described in § 591.211(c), OPM classifies each DEC and aggregate into PEGs.

(j) *Step 10.* OPM computes expenditure weights by dividing each DEC or aggregate by the total expenditure derived from the DC expenditure computed in step 8. Therefore, the sum of the MEGs, PEGs, and DECs, will separately total 100, *i.e.*, so that all consumer expenditures in the original tabulation are accounted for.

§ 591.222 How does OPM use the expenditure weights to combine price indexes?

OPM uses a three-step process to combine price indexes.

(a) *Step 1.* For each DEC represented by one or more items for which OPM could make valid price comparisons (*e.g.*, OPM was able to collect representative prices in both the COLA

and DC areas), OPM computes the unweighted geometric average (the *n*th root of the product of *n* numbers) of the price index(es) of all item(s) representing the DEC.

(b) *Step 2.* OPM multiplies the price index for each DEC by its expenditure weight, sums the cross products, and divides by the sum of the weights used in the calculation. This produces a price index for the level of aggregation (*e.g.*, PEG or sub-PEG) in which the DEC is categorized.

(c) *Step 3.* OPM repeats the process described in Step 2 at each level of aggregation within the PEG to produce a price index for the PEG, at the PEG level to produce an index for the MEG, and at the MEG level to produce the overall price index for the COLA area.

[67 FR 22340, May 3, 2002, as amended at 69 FR 59763, Oct. 6, 2004]

§ 591.223 When does OPM conduct COLA surveys?

(a) OPM conducts a survey in each COLA area once every 3 years on a rotational basis and surveys the Washington, DC, area concurrently with each COLA area survey. The order of the COLA area surveys is as follows:

(1) *Year 1.* All COLA areas in the Commonwealth of Puerto Rico and the U.S. Virgin Islands.

(2) *Year 2.* All COLA areas in the State of Alaska, except as provided in paragraph (b)(2) of this section.

(3) *Year 3.* All COLA areas in the State of Hawaii and the Territory of Guam and CNMI.

(b) *Exceptions:*

(1) Nothing in this subpart precludes OPM from conducting interim surveys or implementing some other change in response to conditions caused by a natural disaster or similar emergency, provided OPM publishes a notice or rule in the FEDERAL REGISTER explaining the change and the reason(s) for it.

(2) As provided in § 591.215(c), OPM does not conduct surveys in the Rest of the State of Alaska COLA area unless COLA rate reductions appear warranted.

§ 591.224 How does OPM adjust price indexes between surveys?

(a) OPM adjusts price indexes between the triennial surveys in each

§ 591.225

COLA area that is not surveyed in that year. To do this, OPM uses the annual or biennial change in the Consumer Price Index (CPI) for the COLA area relative to the annual or biennial change in the CPI for the Washington, DC, area. OPM uses the annual change for those areas surveyed the preceding year. OPM uses the biennial change for those areas surveyed 2 years before.

(b) Paragraph (a) of this section applies beginning with the effective date of the results of the 2005 survey conducted in Puerto Rico and the U.S. Virgin Islands.

(c) Based on additional housing data that may be collected before the 2005 survey conducted in Puerto Rico and the U.S. Virgin Islands, OPM will adjust as warranted the price indexes and COLA rates for Puerto Rico, the U.S. Virgin Islands, and the COLA areas in the State of Alaska. OPM will implement any such adjustments on a one-time basis on the effective date of the results of the 2004 surveys conducted in Hawaii and Guam/CNMI, and subject to § 591.228. OPM will publish such adjustments as provided in § 591.229.

[67 FR 22340, May 3, 2002, as amended at 69 FR 59763, Oct. 6, 2004]

§ 591.225 Which CPIs does OPM use?

OPM uses the following CPIs:

(a) For the Washington, DC, area—the BLS Consumer Price Index, All Urban Consumers (CPI-U);

(b) For all COLA areas in the State of Alaska—the BLS CPI-U for Anchorage, AK;

(c) For all COLA areas in the State of Hawaii and for Guam and the CNMI—the BLS CPI-U for Honolulu, HI; and

(d) For Puerto Rico and the U.S. Virgin Islands—the Puerto Rico CPI as produced by the Puerto Rico Department of Work and Human Resources.

§ 591.226 How does OPM apply the CPIs?

(a) OPM uses a three-step process to adjust price indexes by relative annual or biennial changes in the CPIs. For steps 1 and 2, OPM computes the annual change by dividing the CPI from 1 year after the survey by the CPI from the time of the survey. OPM computes the biennial change by dividing the CPI

from 2 years after the survey by the CPI from the time of the survey.

(1) *Step 1.* OPM computes the annual or biennial CPI change for the COLA area.

(2) *Step 2.* OPM computes the annual or biennial CPI change for the DC area.

(3) *Step 3.* OPM multiplies the COLA area price index from the last survey by the COLA area CPI change computed in step 1 divided by the DC area CPI change computed in step 2. The adjusted price index is rounded to the second decimal place.

(b) *Example:*

	2008	2009
COLA Area CPI	172.2	174.7
DC Area CPI	159.7	161.9
COLA Area Survey Index	117.33	(¹)
COLA Area CPI Adjusted Index	(²)	117.42

¹ No survey.
² N/A

Computation:
 $117.33 \times (174.7/172.2)/(161.9/159.7) = 117.4159$,
 which would round to 117.42.

§ 591.227 What adjustment factors does OPM add to the price indexes?

OPM adds to the price index an adjustment factor that 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. The following table shows the adjustment factor for each area:

COLA area	Amount
Anchorage, AK	7.0
Fairbanks, AK	9.0
Juneau, AK	9.0
Rest of the State of Alaska	9.0
City and County of Honolulu, HI	5.0
Hawaii County, HI	7.0
Kauai County, HI	7.0
Maui County, HI	7.0
Guam and CNMI	9.0
Commonwealth of Puerto Rico	7.0
U.S. Virgin Islands	9.0

¹ Amount added to the price index.

§ 591.228 How does OPM convert the price index plus adjustment factor to a COLA rate?

(a) OPM converts the price index plus the adjustment factor to a COLA rate as shown in the following table:

Price index plus adjustment factor	COLA rate subject to paragraph (b) of this section
Equal to or greater than 124.50.	25 percent.