

# ***San Geronio Pass Water Agency***

**DATE:** May 22, 2023  
**TO:** Board of Directors  
**FROM:** Lance Eckhart, General Manager  
**BY:** Tom Todd, Jr., Chief Financial Officer  
**SUBJECT: COST-OF-LIVING ADJUSTMENT (COLA) FOR FY 2023-24**

## **RECOMMENDATION**

The Board authorize a 2.3% cost-of-living adjustment for Staff, effective July 1, 2023, and consider an additional 2.3% cost-of-living adjustment for Staff effective January 1, 2024.

## **PREVIOUS CONSIDERATION**

- The Board considers a COLA every year as part of the budget cycle

## **BACKGROUND**

A cost-of-living adjustment helps counteract the increases of inflation that employees experience, and helps them maintain the buying power of their salary. Because General Manager compensation is determined and formalized by separate Board action, this action is for Staff.

By providing COLAs, the Agency accomplishes two objectives: 1) encourages employees to remain with the Agency, and 2) maintains competitive salary levels to attract new employees.

## **ANALYSIS**

Determination of a COLA percentage is a data-driven process. The Bureau of Labor Statistics keeps records of consumer prices for the United States, subdivided into multiple categories and regional areas. The Agency uses this data to determine if a COLA is warranted.

COLA is determined by comparing the consumer price index at a specific point in the year to the same point in the previous year. The Agency has consistently made the calculation in April, using the data from March. By using the same month each year, there is no possibility of under- or over-counting the change in the index.

The Agency also uses the same demographic each year. The index used is the 'All Urban Consumers' and 'All Items.' Until 2017, the Los Angeles area was the geographic identifier. In 2017, the BLS sub-divided the Los Angeles area, and the Agency currently uses the Riverside-San Bernardino-Ontario statistical area.

In the past, the Board has approved COLAs if they are warranted. In recent history, from 2007-2010 (recession years), the Board did not approve an adjustment because the increase was minimal, or there was a decrease. The Board also did not grant a COLA in 2015 because it was minimal.

There may be more factors to consider for the coming fiscal year. COVID-19 has had a profound effect on the economy, as seen by the unusually high inflation experienced last fiscal year. Inflation has moderated in the last few months. Bank failures have added a degree of uncertainty to any prediction about economic stability. There continues to be considerable concern about the potential of a recession later this year.

Adjustments are historical by definition; COLAs are not forward-looking. The index changes on the basis of historical data collected. So, granting a COLA tries to restore buying power after the negative effects of inflation have already been experienced. The effects of a recession in the future do not change the effects of inflation that have already been experienced in the previous 12 months. Even so, moderating or smoothing any potential COLA adjustments may be a prudent path to consider at this time as inflation volatility appears to moderate and stabilize.

For the years between 2022 and 2023, the index for the Riverside-San Bernardino-Ontario area, March to March, has changed from 122.127 to 127.707. This represents a 4.6% increase in 12 months. By comparison, the U.S. City Average, March to March, has changed from 287.504 to 301.863, which represents a 5.0% increase.

The formula for determining the percentage change compared to the previous year is the difference between the years compared to the previous year and looks like this: current year value minus previous year value (difference between the years) divided by previous year value.

This is the calculation for the current year: 127.707 (current year value) minus 122.127 (previous year value) = 5.58 (difference between the years); 5.58 divided by 122.127 = 4.6%.

Historically, COLA takes effect for Staff on July 1, concurrent with the beginning of the new fiscal year. However, COLA can be considered and authorized at any time. For FY 2023-24, Staff recommends a 4.6% COLA in two phases, 2.3% effective July 1, 2023 and consideration of an additional 2.3% effective January 1, 2024.

## **FISCAL IMPACT**

The COLA amount the Board authorizes will affect the budget for Staff salaries in the General Fund and in the Debt Service Fund. The amount the Board authorizes may affect Board compensation, depending on a future Board decision. Based on projected budget amounts for these categories, an estimate of the increases due to COLA for the entire fiscal year, based on a phased increase of 4.6% is as follows:

- General Fund Staff: up to \$19,000
- Debt Service Staff: up to \$13,000

This represents 0.1% of the overall proposed General Fund Budget for FY 2023-24.

## **ACTION**

The Board authorize a 2.3% cost-of-living adjustment for Staff, effective July 1, 2023, and consider an additional 2.3% cost-of-living adjustment for Staff effective January 1, 2024.

## **ATTACHMENTS**

Excerpts from Press Release by Bureau of Labor Statistics: Consumer Price Index, Riverside Area – March 2023



