San Gorgonio Pass Water Agency

DATE: December 4, 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, retroactive to July 1, 2023.

PREVIOUS CONSIDERATION

- The Board considers a COLA every year as part of the budget cycle.
- Board Meeting – May 22, 2023: the Board authorized a 2.3% COLA for Staff effective July1, 2023, and agreed to consider an additional 2.3% at year end.

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.

A COLA is necessarily a 'make-up' provision. It is awarded after inflation has occurred, because the data needed to determine the adjustment is only available after the fact. So, while an adjustment helps to redress the loss of earning power, inflation (usually) continues the erosion process, even as the loss is mitigated. In essence, each adjustment is playing catch-up, even as inflation (usually) continues to widen the gap.

ANALYSIS

Determination of a COLA percentage is a data-driven process. The Bureau of Labor Statistics (BLS) 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 only 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.

As previously mentioned, 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.

For the years between 2022 and 2023, the index for the Riverside-San Bernardino-Ontario area, March to March, 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, 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. The formula looks like this:

$$\frac{\text{current year value minus previous year's value}}{\text{previous year's value}}$$

This is the calculation for the current fiscal year: 127.707 (value March 2023) minus 122.127 (value March 2022) = 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 recommended a 4.6% COLA, and the Board chose to enact it in two phases, 2.3% effective July 1, 2023, and consideration of an additional 2.3% in January 2024.

One of the major factors considered by the Board in May was the volatility of the economy, as experienced in inflation, unemployment, job openings, and interest rate increases. A major concern was the potential for a significant shift in any of these factors that would reduce or even reverse inflation. The possibility of a negative correction in the economy was very real.

However, the fears expressed by many economic forecasters have not happened. Inflation has moderated a little in the last few months; it was 3.8% for September 2023. Unemployment has declined, and Gross Domestic Product (GDP) has remained surprisingly robust, according to the investment report the Board received in November. The specter of a downturn in the economy does not seem to have materialized.

Taking these factors into consideration, Staff recommend enacting the additional 2.3% COLA retroactively to July 1, 2023.

As always, the Board makes the final determination if a COLA is warranted, and how much of an adjustment to make.

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 an increase of 4.6% is as follows:

- General Fund Staff: up to $21.000
- Debt Service Staff: up to $14,000

This represents less than 0.1% of the overall budget for FY 2023-24.

ACTION

The Board authorize a 2.3% cost-of-living adjustment for Staff, retroactive to July 1, 2023.

ATTACHMENTS

Consumer Price index tables and calculators for March 2023

Databases, Tables & Calculators by Subject

Change Output Options: From: 2013 To: 2023 GO

☐ include graphs ☐ include annual averages   More Formatting Options

Data extracted on: May 11, 2023 (12:50:33 PM)

CPI for All Urban Consumers (CPI-U)

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Series Title: All items in U.S. city average, all urban consumers, not seasonally adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100

Download: xlsx

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
2013	230.280	232.166	232.773	232.531	232.945	233.504	233.596	233.877	234.149	233.546	233.069	233.049	232.366	233.548
2014	233.916	234.781	236.293	237.072	237.900	238.343	238.250	237.852	238.031	237.433	236.151	234.812	236.384	237.088
2015	233.707	234.722	236.119	236.599	237.805	238.638	238.654	238.316	237.945	237.838	237.336	236.525	236.265	237.769
2016	236.916	237.111	238.132	239.261	240.229	241.018	240.628	240.849	241.428	241.729	241.353	241.432	238.778	241.237
2017	242.839	243.603	243.801	244.524	244.733	244.955	244.786	245.519	246.819	246.663	246.669	246.524	244.076	246.163
2018	247.867	248.991	249.554	250.546	251.588	251.989	252.006	252.146	252.439	252.885	252.038	251.233	250.089	252.125
2019	251.712	252.776	254.202	255.548	256.092	256.143	256.571	256.558	256.759	257.346	257.208	256.974	254.412	256.903
2020	257.971	258.678	258.115	256.389	256.394	257.797	259.101	259.918	260.280	260.388	260.229	260.474	257.557	260.065
2021	261.582	263.014	264.877	267.054	269.195	271.696	273.003	273.567	274.310	276.589	277.948	278.802	266.236	275.703
2022	281.148	283.716	287.504	289.109	292.296	296.311	296.276	296.171	296.808	298.012	297.711	296.797	288.347	296.963
2023	299.170	300.840	301.836	303.363										

Databases, Tables & Calculators by Subject

Change Output Options: From: 2017 To: 2023 GO

include graphs include annual averages

More Formatting Options

Data extracted on: May 11, 2023 (12:48:26 PM)

CPI for All Urban Consumers (CPI-U)

Series Id: CUURS49CSA0
Not Seasonally Adjusted
Series Title: All items in Riverside-San Bernardino-Ontario, CA, all urban consumers, not seasonally adjusted
Area: Riverside-San Bernardino-Ontario, CA
Item: All items
Base Period: DECEMBER 2017=100

Download: xlsx

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
2017												100.000			
2018	100.916		101.897		102.929		103.139		103.241		103.616		102.732	102.023	103.441
2019	103.991		104.749		105.959		105.816		106.412		106.573		105.697	104.998	106.397
2020	107.143		107.162		106.899		107.640		108.201		108.626		107.672	107.068	108.275
2021	109.550		110.981		113.222		114.682		115.557		117.206		113.875	111.588	116.162
2022	118.963		122.127		123.893		125.262		125.272		125.983		123.784	122.018	125.551
2023	127.683		127.707												