

TO: BOARD OF DIRECTORS

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER



DATE: MAY 20, 2022

AGENDA ITEM

E-3

MAY 25, 2022

REVIEW AND ESTABLISH EMPLOYEE COST OF LIVING ADJUSTMENT (COLA) COMPUTATION MEASUREMENT PERIOD

ITEM

Review and establish employee Cost of Living Adjustment (COLA) computation measurement period. [RECOMMEND RECEIVE REPORT AND ADOPT RESOLUTION]

BACKGROUND

On March 15, 2022, the Finance and Audit Committee (F&A Com.) met and discussed, among other items, the annual employee COLA. The COLA is evaluated annually by the Committee and follows the direction provided by Nipomo Community Services District ("NCSD") Resolution 2017-1440 (COLA Resolution). Because the COLA Resolution guides staff in calculating the COLA, the F&A Committee's review of the matter is typically a ministerial act, primarily to provide Committee and Board Members with the reassurance that staff is following NCSD procedures.

At the F&A Comm. meeting, it was brought to light that while Resolution 2017-1440 establishes which Consumer Price Index (CPI) staff is to use in the computation, it does not specifically state which computation measurement period staff is to use. The F&A Com. reviewed and discussed the item but could not reach consensus on how to address and clarify the measurement period. The F&A Comm. concluded that the NCSD Board of Directors should consider the two methodologies used to calculate the COLA and provide direction to staff.

At the center of the discussion, is whether to use the Annual Average period or the End-of-Year comparative methodology. The End-of-Year methodology uses the current year December compared to December of the previous year to compute the COLA, which is a 7.03% increase. Using this methodology, the computed COLA represents the most current inflationary pressure. However, since the adoption of Resolution 2017-1440, staff utilized the Annual Average period of the current year compared to the Annual Average period of the previous year, which is a 4.72% increase. The net financial impact of using 7.03% results in approximately \$39,000 more to the 2022-23 budget than if the 4.72% COLA were used.

At the NCSD March 23rd Board Meeting, the Board directed staff to use the End-of-Year computation and to use December as the comparative month. December is the most consistently available month that staff can reliably count on as it prepares the annual budget. While it is recognized that the resulting CPI adjustment in the COLA using this methodology will still be six months behind inflation, because the COLA adjustment is applied to employee compensation in July, as stated above, December data is the month that is most reliably available at the time staff needs the data.

The F&A Comm. met on May 12, 2022, wherein the COLA item using December data in the computation, as directed by the Board, was presented. The F&A Comm. received the staff report, suggested edits, but did not provide any recommendations, other than to present the item to the entire Board at the May 27th Board Meeting.

It is anticipated that the cost pressures on consumers will not recede in the future, but continue to escalate or, at best, keep prices at their current level. Staff constructed a COLA that recognizes inflation using both methodologies for Board consideration: Annual Average and End-of-Year.

FISCAL IMPACT

The fiscal impact of changing the computation measurement period will vary from year to year depending on the economic conditions in California. For Fiscal Year 2022-23, the fiscal impact, using the Board directed methodology, results in a \$39,000 increase over the COLA calculation using the annual methodology. The proposed 2022-23 budget includes this amount and does not cause the budget to become unbalanced.

STRATEGIC PLAN

Goal 3. PERSONNEL AND ORGANIZATION. Maintain a qualified, long-term and productive workforce to assure an effective organization.

- B.1 Ensure the District is adequately staffed with high quality, long-term employees and supported by appropriate contractors and partnerships.

RECOMMENDATION

It is recommended that the Board review the computation measurement periods and, if appropriate, adopt resolution establishing a Methodology for Computing the Employee Cost of Living Adjustment (COLA), retaining the CPI previously used and adding the computation measurement period staff is to use when computing a COLA for Board consideration.

ATTACHMENTS

- A. Resolution 2022-XXXX, Establishing Methodology of Computing Employee Cost of Living Adjustment (COLA)
- B. Resolution 2017-1440, Establishing the Methodology for Computing Employee Cost of Living Adjustment (COLA)
- C. Computation of utilizing the Annual Average and the End of Year (December) measurement periods
- D. Frequently Asked questions (and answers) regarding the consumer price index (<https://www.dir.ca.gov/OPRL/CPI/faqs.htm>)

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ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2022-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE NIPOMO COMMUNITY SERVICES DISTRICT
ESTABLISHING METHODOLOGY OF COMPUTING EMPLOYEE
COST OF LIVING ADJUSTMENTS (COLA)**

WHEREAS, the Nipomo Community Services District (herein "District") Board of Directors (herein "Board") is a local government agency formed and authorized to provide services within its jurisdiction, pursuant to Section 61000 et seq. of the California Government Code; and

WHEREAS, the Board annually reviews the employee Cost of Living Adjustment (COLA) based on the policy and procedures adopted in Resolution 2017-1437 which approved the use of the California Consumer Price Index all Items for Urban Wage Earners and Clerical Workers; and

WHEREAS, the Board wishes to clarify and establish the month of December as the month for comparison in the computation when calculating the COLA, measuring the change in the most recent December CPI against the previous December CPI; and

WHEREAS, the Board believes using a December to December comparison is more reflective of the COLA calculation period, includes the most current monthly CPI data that is consistently available, and therefore provides the most current information when calculating the COLA; and

WHEREAS, the Board wishes to continue using the Consumer Price Index for the California Consumer Price Index - All Items for Urban Wage Earners and Clerical Workers when evaluating the employee COLA computation, and

WHEREAS, the Board believes the California Consumer Price Index - All Items for Urban Wage Earners and Clerical Workers is more reflective of the economy of the Central Coast.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Nipomo Community Services District:

Section 1. The above recitals are true and correct.

Section 2. Resolution 2017-1437 Amending Methodology of Computing Employee Cost of Living Adjustment (COLA) is hereby repealed.

Section 3. The California Consumer Price Index - All Items for Urban Wage Earners and Clerical Workers is the index to be used when evaluating the employee COLA computation.

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2022-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE NIPOMO COMMUNITY SERVICES DISTRICT
ESTABLISHING METHODOLOGY OF COMPUTING EMPLOYEE
COST OF LIVING ADJUSTMENTS (COLA)**

Section 4. A December to December comparison shall be the method used to calculate the annual change in the CPI.

Section 5. This resolution shall take effect immediately.

Upon a motion by Director _____, seconded by Director _____, on the following roll call vote, to wit:

**AYES:
NOES:
ABSTAIN:
ABSENT:**

the foregoing resolution is hereby passed and adopted on this _____ day of _____, 2022.

Ed Eby
President of the Board

ATTEST:

APPROVED AS TO FORM AND
LEGAL EFFECT:

MARIO IGLESIAS
General Manager and Secretary to the Board

Craig A. Steele
District Legal Counsel

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ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2017-1440**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO
COMMUNITY SERVICES DISTRICT ESTABLISHING THE
METHODOLOGY FOR COMPUTING EMPLOYEE COST OF LIVING
ADJUSTMENTS (COLA)**

WHEREAS, the Nipomo Community Services District (herein "District") Board of Directors (herein "Board") is a local government agency formed and authorized to provide services within its jurisdiction, pursuant to Section 61000 et seq. of the California Government Code; and

WHEREAS, the Board annually reviews the employee Cost of Living Adjustment (COLA) based on the policy and procedures adopted in Resolution 2006-1000 and amended by Resolution 2017-1437, which repealed Section 3 of Resolution 2006-1000 that had approved the use of the Consumer Price Index-Urban Wage Earners and Clerical Workers using the average of annual increases for the Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose; and

WHEREAS, the Board believes the California Consumer Price Index is more reflective of the economy of the Central Coast; and

WHEREAS, the Board wishes to establish that the employee COLA computation shall use the Consumer Price Index for the California Consumer Price Index All Items for Urban Wage Earners and Clerical Workers, and

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Nipomo Community Services District:

Section 1. The above recitals are true and correct.

Section 2. All future Cost of Living Adjustments shall use the Consumer Price Index for the California Consumer Price Index All Items for Urban Wage Earners and Clerical Workers.

Section 3. This resolution shall take effect immediately.

Upon a motion by Director Armstrong, seconded by Director Eby, on the following roll call vote, to wit:

AYES: Directors Armstrong, Eby, Blair, Woodson, and Gaddis
NOES: None
ABSTAIN: None
ABSENT: None

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2017-1440**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY
SERVICES DISTRICT ESTABLISHING THE METHODOLOGY OF COMPUTING
EMPLOYEE COST OF LIVING ADJUSTMENTS (COLA)**

the foregoing resolution is hereby passed and adopted on this 12th day of April, 2017.



DAN A. GADDIS
President of the Board

ATTEST:

APPROVED AS TO FORM AND
LEGAL EFFECT:



MARIO IGLESIAS
General Manager and Secretary to the Board



WHITNEY G. McDONALD
District Legal Counsel

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ATTACHMENT C

CALIFORNIA CONSUMER PRICE INDEX (1955-2021)

ALL ITEMS (1982 - 1984 = 100)

Year	Month	All Urban Consumers	Urban Wage Earners and Clerical Workers
2021	Annual	297.371	288.595
2021	December	306.109	297.426
2021	October	302.793	294.211
2021	August	299.815	291.317
2021	June	297.447	288.784
2021	April	294.274	285.139
2021	February	289.632	280.644
2020	Annual	285.315	275.568
2020	December	287.367	277.885
2020	October	286.843	277.443
2020	August	286.388	276.751
2020	June	284.835	274.921
2020	April	283.006	273.050
2020	February	284.886	274.917
2019	Annual	280.638	270.813

	<u>DECEMBER</u>		<u>ANNUAL AVERAGE</u>	
2021	297.426	2021	288.595	(1)
2020	(277.885)	2020	(275.568)	
	19.541		13.027	
	÷		÷	
	<u>277.885</u>		<u>275.568</u>	
	0.070320456		0.047273268	
	X		X	
	100		100	
	<u>7.03204563</u>		<u>4.72732683</u>	

	<u>ANNUAL AVERAGE</u>
February 2021	280.644
April 2021	285.139
June 2021	288.784
August 2021	291.317
October 2021	294.211
December 2021	297.426
	<u>1737.521</u>
	÷
	6
	<u>289.595</u>
	(1)

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ATTACHMENT D



Frequently asked questions (and answers) regarding the consumer price index

Note: Questions and corresponding answer for each, were reproduced from "Understanding the Consumer Price Index: Answers to Some Questions" - a publication of the U.S. Department of Labor, Bureau of Labor Statistics. November 1997 (Revised).

Please select from the questions listed below:

Q1. What is the CPI?

Q2. How is the CPI used?

Q3. Is the CPI a cost-of-living index?

Q4. Whose buying habits does the CPI reflect?

Q5. How is the CPI market basket determined?

Q6. What goods and services does the CPI cover?

Q7. How are CPI prices calculated and reviewed?

Q8. How is the CPI calculated?

Q9. How do I read or interpret an index?

Q10. How can I get CPI information?

Q1. What is the CPI?

A1. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a fixed market basket of goods and services. The CPI provides a way to compare what this market basket of goods and services costs this month with what the same market basket cost, say, a month or year ago.

Q2. How is the CPI used?

A2. The Consumer Price Index affects nearly all Americans, because of the many ways it is used. Three major uses are:

As an economic indicator. The CPI is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the Nation's economy to government, business, labor, and other private citizens, and is used by them as a guide to making economic decisions. In addition, the President, Congress, and the Federal Reserve Board use trends in the CPI to aid in formulating fiscal and monetary policies.

As a deflator of other economic series. The CPI and its components are used to adjust other economic series for price changes and to translate these series into inflation-free dollars. Examples of series adjusted by the CPI include retail sales, hourly and weekly earnings, and components of the national income and product accounts. An interesting example is to use the CPI as a deflator of the value of the consumer's dollar to find its purchasing power. The purchasing power of the consumer's dollar measures the change in the quantity of goods and services a dollar will buy at different dates. In other words, as prices increase, the purchasing power of the consumer's dollar declines.

As a means of adjusting dollar values. As inflation erodes consumer's purchasing power, the CPI is often used to adjust consumers' income payments, for example, Social Security; to adjust income eligibility levels for government assistance; and to automatically provide cost-of-living wage adjustments to millions of American workers. The CPI affects the income of almost 80 million persons, as a result of statutory action: 47.8 million Social Security beneficiaries, about 22.4 million food stamp recipients, and about 4.1 million military and Federal Civil Service retirees and survivors. Changes in the CPI also affect the cost of lunches for 26.7 million children who eat lunch at school, while collective bargaining agreements that tie wages to the CPI cover another 2 million workers.

Another example of how dollar values may be adjusted is the use of the CPI to adjust the Federal income tax structure. These adjustments prevent inflation-induced increases in tax rates, an effect called "bracket creep."

Q3. Is the CPI a cost-of-living index?

A3. No, although it frequently (and mistakenly) is called a cost-of-living index. The Bureau of Labor Statistics (BLS or the Bureau) has for some time used a cost-of-living framework in making practical decisions about questions that arise in constructing the CPI. A cost-of-living index is a conceptual measurement goal, however, not a straightforward alternative to the CPI. A cost-of-living index would measure changes over time in the amount that consumers need to spend to reach a certain "utility level" or "standard of living." Both the CPI and a cost-of-living index would reflect changes in the prices of goods and services, such as food and clothing, that are directly purchased in the marketplace; but a complete cost-of-living index would go beyond this to also take into account changes in other governmental or environmental factors that affect consumers' well-being. It is very difficult to determine the proper treatment of public goods, such as safety and education, and other broad concerns, such as health, water quality, and crime that would comprise a complete cost-of-living framework.

Another difference between the CPI and a cost-of-living index is that the CPI does not reflect the changes in buying or consumption patterns that consumers would probably make to adjust to relative price changes. For example, if the price of pork increases compared to those of other meats, shoppers might shift their purchases away from pork to beef, poultry, or fish. The ability to substitute means that the increase in the cost to consumers of maintaining their level of well-being tends to be somewhat less than the increase in the cost of the mix of goods and services they previously purchased. The current CPI does not reflect this substitution among items as a cost-of-living index would. Rather, the current CPI measures the cost of items, in the same fixed proportions (or weights) month after month.

Experimental projects that may move the CPI closer to a cost-of-living measure are underway. Nevertheless, the difficult problems of defining living standards and measuring changes in the cost of their attainment over time make it improbable that a true cost-of-living measure can be produced in the foreseeable future.

Q4. Whose buying habits does the CPI reflect?

A4. The CPI reflects spending patterns for each of two population groups: All Urban Consumers (CPI-U) and Urban Wage Earners and Clerical Workers (CPI-W). The CPI-U represents about 87 percent of the U.S. population. It is based on the expenditures of almost all residents of urban or metropolitan areas, including professionals, the self-employed, the poor, the unemployed, and retired persons, as well as urban wage earners and clerical workers.

Not included in the CPI are spending patterns of persons living in rural non-metropolitan areas, farm families, persons in the Armed Forces, and those in institutions, such as prisons and mental hospitals. The CPI-W is based on the expenditures of households that are included in the CPI-U definition that also meet two requirements: more than one-half of the household's income must come from clerical or wage occupations, and at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months. The CPI-W's population represents about 32 percent of the total U.S. population and is a subset, or part, of the CPI-U's population.

Q5. How is the CPI market basket determined?

A5. The CPI market basket is developed from detailed expenditure information provided by families and individuals on what they actually bought. For the current CPI, this information was collected from the Consumer Expenditure Survey over the three years 1993, 1994, and 1995. In each of these three years, about 7,000 families from around the country provided information on their spending habits in a series of quarterly interviews. To collect information on frequently purchased items, such as food and personal care products, another 5,000 families in each of the three years kept diaries listing everything they bought during a 2-week period.

Altogether, about 36,000 individuals and families provided expenditure information for use in determining the importance, or weight, of the over 200 item categories in the CPI index structure.

Q6. What goods and services does the CPI cover?

A6. The CPI represents all goods and services purchased for consumption by the reference population (CPI-U or CPI-W). BLS has classified all expenditure items into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are as follows:

FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full-service meals, and snacks);

HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture);

APPAREL (men's shirts and sweaters, women's dresses, jewelry);

TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance);

MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services);

RECREATION (televisions, cable television, pets and pet products, sports equipment, admissions);

EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);

OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

Also included within these major groups are various government-charged user fees, such as water and sewage charges, auto registration fees, and vehicle tolls. The CPI also includes taxes (such as sales and excise taxes) that are directly associated with the prices of specific goods and services. However, the CPI excludes taxes (such as income and Social Security taxes) not directly associated with the purchase of consumer goods and services.

The CPI does not include investment items, such as stocks, bonds, real estate, and life insurance. (These items relate to savings and not to day-to-day consumption expenses.)

For each of the more than 200 item categories, BLS has chosen samples of several hundred specific items within selected business establishments, using scientific statistical procedures, to represent the thousands of varieties available in the marketplace. For example, in a given supermarket, the Bureau may choose a plastic bag of golden-delicious apples, U.S. extra fancy grade, weighing 4.4 pounds to represent the "Apples" category.

Q7. How are CPI prices collected and reviewed?

A7. Each month, BLS data collectors called economic assistants (formerly known as field representatives) visit or call thousands of retail stores, service establishments, rental units, and doctors' offices, all over the United States, to obtain price information on the thousands of items used to track and measure price change in the CPI. These economic assistants record the prices of about 80,000 items each month. These 80,000 prices represent a scientifically selected sample of the prices paid by consumers for the goods and services purchased.

During each call or visit, the economic assistant collects price data on a specified good or service that was precisely defined during an earlier visit. If the selected item is available, the economic assistant records its price. If the selected item is no longer available, or if there has been changes in the quality or quantity (for example, eggs sold in packages of 8, when previously they had been sold by the dozen) of the good or service since the last time prices were collected, the economic assistant selects a new item or records the quality change in the current item. The recorded information is sent to the national office of the BLS where commodity specialists, who have detailed knowledge about the particular goods or services priced, review the data. These specialists check the data for accuracy and consistency and make any necessary corrections or adjustments. These can range from an adjustment for a change in the size or quantity of a packaged item to more complex adjustments based upon statistical analysis of the value of an item's features or quality. Thus, the commodity specialists strive to prevent changes in the quality of items from affecting the CPI's measurement of price change.

Q8. How is the CPI calculated?

A8. The CPI is a product of a series of interrelated sample. First, using data from the 1990 Census of Population, BLS selects the urban areas from which prices are to be collected and chooses the housing units within each area that are eligible for use in the shelter component of the CPI. The Census of Population also provides data on the number of consumers represented by each area selected as a CPI price collection area. Next, another sample (of about 16,000 families each year) serves as the basis for a Point-of-Purchase Survey that identifies the places where households purchase various types of goods and services.

Data from the Consumer Expenditures Survey conducted from 1993 through 1995, involving a national sample of almost 36,000 families, provided detailed information on their spending habits. This enabled BLS to construct the CPI market basket of goods and services and to assign each item in the basket a weight, or importance, based on total family expenditures. The final stage in the sampling process is the selection of the specific detailed item to be priced in each outlet. This is done in the field, using a method called "disaggregation." For example, BLS economic assistants may be directed to price "fresh whole milk." Through the disaggregation process, the economic assistant selects the specific kind of fresh whole milk that will be priced in the outlet over time. By this process, each kind of whole milk is assigned a probability of selection, or weight, based on the quantity the store sells. If, for example, vitamin D, homogenized milk in half-gallon containers makes up 70 percent of the sales of whole milk; and the same milk in quart containers accounts for 10 percent of all whole milk sales, then the half-gallon container would be seven times as likely to be chosen as the quart container. After probabilities are assigned, one type, brand, and size container of milk is chosen by an objective selection process based on the theory of random sampling. The particular kind of milk that is selected by disaggregation will continue to be priced each month in that outlet. In summary, the price movement measurement is weighted by the importance of the item in the spending patterns of the appropriate population group. The combination of all these factors gives a weighted measurement of price change for all items in all outlets, in all areas priced for the CPI.

Q9. How do I read or interpret an index?

A9. An index is a tool that simplifies the measurement of movements in a numerical series. Most of the specific CPI indexes have a 1982-84 reference base. That is, BLS sets the average index level (representing the average price level) - for the 36 month period covering the years 1982, 1983, and 1984 - equal to 100. The Bureau measures changes in relation to that figure. An index of 110, for example, means there has been a 10-percent increase in price since the reference period; similarly an index of 90 means a 10-percent decrease. Movements of the index from one date to another can be expressed as changes in index points (simply, the difference between index levels), but is more useful to express the movements as percent changes. This is because index points are affected by the level of the index in relation to its reference period, while percent changes are not.

In the following table, Item A increased by half as many index points as Item B between Year I and Year II. Yet, because of the different starting figures, both items had the same percent change; that is, prices advanced at the same rate. On the other hand, Items B and C show the same change in index points, but the percent change is greater for Item C because of its lower starting value.

	Item A	Item B	Item C
Year I	112.5	225.0	110.0
Year II	121.5	243.0	128.0
Change in index points	9.0	18.0	18.0
Percent change	8.0%	8.0%	16.4%

BLS usually updates reference periods every 10 years or so, to make it easier for people to relate changes in the CPI to other economic and cultural changes.

Q10. How can I get CPI information?

A10. BLS on the Internet. Through the Internet, BLS provides free, easy, and continuous access to almost all published CPI data and press releases. The most recent month's CPI is made available immediately at the time of release.

Additionally, a database called LABSTAT, containing current and historical data for the CPI is accessible. Data and press releases from other BLS surveys are also available. This material is accessible via the World Wide Web (WWW), Gopher, and File Transfer Protocol (FTP), as described below. For help in using any of these systems, send e-mail to labstat.helpdesk@bls.gov

World Wide Web. BLS maintains a Web site at <http://stats.bls.gov> The BLS home page provides easy access to LABSTAT, as well as links to program specific home pages. In addition to data, the CPI home page, <http://www.bls.gov/cpi/> provides other CPI information.

FTP and Gopher. These tools provide access to CPI LABSTAT data, as well as documentation and press release files organized in hierarchical directories. Connect to stats.bls.gov using FTP or Gopher, log on as ANONYMOUS and use your complete Internet e-mail address and password.