



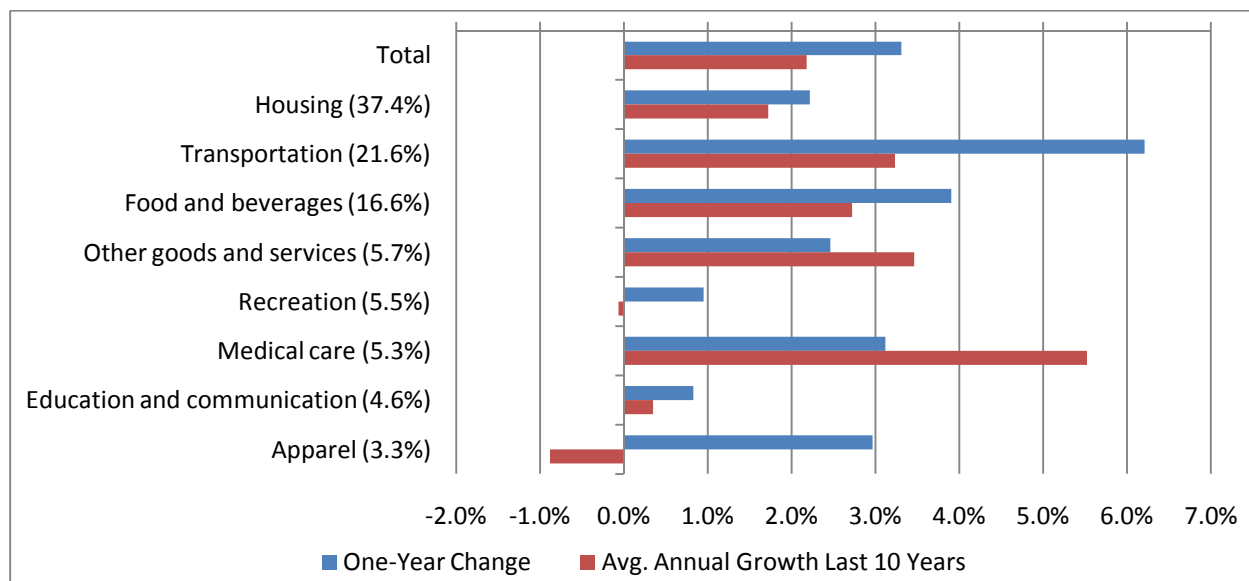
**City of Portland Issue Brief:
City Cost of Living Adjustments**
February 2012
Office of Management and Finance

ISSUE: HISTORICALLY, THE CITY HAS INCREASED MOST EMPLOYEE WAGES AND SALARIES ON AN ANNUAL BASIS TO ADJUST FOR INFLATION. THE MEASURE USED TO CALCULATE THIS ADJUSTMENT IS THE CHANGE IN THE CONSUMER PRICE INDEX FOR URBAN WAGE EARNERS AND CLERICAL WORKERS (CPI-W) FOR THE PORTLAND-SALEM OR-WA AREA PUBLISHED BY THE BUREAU OF LABOR STATISTICS (BLS). THIS DOCUMENT DESCRIBES WHAT THE INDEX IS MEASURING, HOW IT IS CALCULATED, HOW IT IS USED IN THE BUDGET PROCESS, AND THE IMPACT OF THE MOST RECENTLY PUBLISHED FIGURES ON THE FY 2012-13 BUDGET.

Background: The broad-based consumer price indices published by the BLS measure the average prices for a fixed group of goods and services. Though the most commonly cited inflation measure is the Consumer Price Index for All Urban Consumers (CPI-U), city labor contracts reference the more narrow CPI-W, as it more specifically measures costs for workers. The BLS estimates that CPI-W covers 32% of the population, while CPI-U captures 87% by including groups such as professional, managerial, and technical workers, as well as the unemployed and retirees.

The goods and services that are included in the “market basket” of goods fall into a variety of categories. The major categories are summarized in Figure 1 along with one-year and ten-year average growth rates. The weights (shown in the parentheses in the graph) applied to each category attempt to replicate the percentage of one’s spending on goods and services in each category.

Figure 1. One- and Ten-Year Growth for Selected Categories for Portland-Salem, OR-WA CPI-W for 2011 (BLS)



As shown in the figure, the largest driver of this year’s increase in prices was transportation costs, while over the last ten years medical costs have been the largest contributor to price increases. Over the last

ten years, the change in the CPI-W for Portland-Salem OR-WA has ranged from 0.4% in 2002 to 3.8% in 2007.¹ For the first time since 2004, none of the major categories saw prices drop in 2011. The most volatile category over the past 10 years has been apparel, which experienced a drop of 7.4% in 2002 and an increase of 8.0% in 2006. Meanwhile, medical care costs rose by nearly 66% over the last ten years, far and away greater than any other category. Both recreation and apparel have actually seen prices fall over the last decade.

Nationally and for some cities, CPIs are released either every month or every two months. For Portland-Salem OR-WA, they are released semi-annually. Each index has a base year that equals 100 – typically these years are 1982 to 1984. Commonly cited inflation figures measure the change in these indices.

How COLAs are accounted for in the Budget Process: Coinciding with the beginning of the budget process, OMF provides a list of inflation factors to bureaus for budget development. Among these is a forecasted COLA increase. At that point in the year only inflation for the first half of the year has been published. The official index is published by the Bureau of Labor Statistics in mid-February. For bureaus or funds not receiving ongoing discretionary General Funds, this is then “built-in” to their requested budgets, typically as a set-aside to be accessed if needed. Similarly, for General Fund bureaus, the amount associated with a COLA is separated from bureau budgets, along with health benefit cost increases, as a compensation set-aside. Bureaus are allowed to request these funds during the Spring Budget Monitoring Process should a bureau not have other personnel savings over the course of the year to cover these increases internally.

The COLA for FY 2012-13 and how much it costs the City: For budget development the city was using 3.8% as the forecast for CPI-W. The actual rate (released February 17th) came in at 3.3%, which translates into approximately \$1 million less in discretionary General Fund obligations than was included in the December 2011 Five-Year Financial Forecast for FY 2012-13. With respect to personnel spending (i.e., wages and wage-driven costs, such as social PERS and payroll taxes), each percentage point increase in COLA increases citywide personnel costs by \$5.2 million, with \$2.1 million of that going for discretionary General Fund ongoing spending. Therefore, the FY 2012-13 COLA, should it be passed by City Council to all City employees, will cost approximately \$19.8 million citywide in FY 2012-13, with \$6.9 million being discretionary General Fund ongoing.

Additional Resources:

U.S. Bureau of Labor Statistics: <http://www.bls.gov/cpi/>

CPI FAQ: <http://www.bls.gov/cpi/cpifaq.htm>

BLS – Methodological Information: <http://www.bls.gov/ro9/9255.pdf>

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¹ Please note that all figures presented correspond to annual changes from the 2nd half of one year to the 2nd half of the next year, as it is this measure on which the City's COLA is based.