



**August 9, 2017**

**Memo to:** City Council  
**From:** Brian Carlson, Finance Director  
**Re:** 2018 Budget Topic: Personnel COLA

**SUMMARY:**

Not later than the October work sessions, Council will decide whether and to what extent a COLA is to be included in the 2018 Budget. This report provides data about how a COLA impacts overall payroll costs, as well as some ideas about whether/how to formalize a COLA policy, and to best integrate it with other employee incentives.

**BACKGROUND:**

- A COLA is typically meant to negate inflationary pressures.
- The closest regional Consumer Price Index (CPI) is Anchorage, which shows 0.7% inflation for twelve months ending June 30, 2017. CPI figures can be positive or negative.
- AK Dept of Labor publishes various cost-of-living data in their monthly *Alaska Economic Trends* magazine. The attached July edition is devoted to this topic.  
Website: <http://labor.alaska.gov/trends/>
- A COLA typically is implemented as a percentage-based increase to the entire *pay-scale*.
- The 2017 COLA was administered as an equal cash payment, with no impact to the pay-scale. This method is more difficult to administer, and is confusing to employees.

**ANALYSIS:**

- A pay-scale COLA increases both salary/wages, and benefits costs, as the increase is subject to employer payroll taxes and retirement benefits. A one-time cash payment triggers fewer employer payroll costs.
- A pay-scale COLA re-sets the pay-scale, thereby impacting future budgets.
- A percentage-based COLA is regressive, i.e. it provides a larger benefit to higher earners.
- A 1% COLA results in \$120K in additional payroll costs.
- The pay-scale has been used as a schedule of automatic pay-raises, rather than being merit-driven. Each increase results in a 3.25% pay raise.

- Approximately 80% of staff will receive a step-increase each year, which causes a 2.6% increase in salary/wage expense. Additional payroll expenses (taxes and benefits) increase this figure to a 3.5% cost increase.
- As scheduled pay raises **and** COLAs are subject to taxes and benefits, **a 2% COLA, plus the automatic/scheduled pay raises, plus tax/benefit payroll expenses, results in a 6.2% increase to total costs (\$558K).**

### **CONCLUSION / RECOMMENDATIONS:**

This analysis is meant to inform Council of the total cost of a COLA, and to increase their understanding of the “automatic” increases embedded in the pay-scale system, so as to enable Council to decide on a COLA amount and method for 2018.

While Council can implement any amount and/or method of COLAs, Finance Staff feels that a more detailed treatment of the topic would benefit organization. This would necessitate a review of all components, and a strategy to integrate them for maximum benefit to the organization. A comprehensive approach would include:

- formula-driven inflationary adjustments
- longevity incentives
- merit raises, tied to explicit performance goals, and implemented via regular evaluations

Developing a comprehensive solution is likely not something we could achieve for the 2018 budget, but could be a council priority for 2019 and beyond. Finance staff has additional data and ideas for discussion, but has this on the “back burner” for the moment, pending Council direction and interest.

### **ATTACHMENTS:**

*Alaska Economic Trends, July, 2017*