

Date: April 18, 2018  
To: Board of Retirement  
From: James Wilbanks, Ph.D., Retirement Administrator  
Subject: Cost of Living Adjustment Region Re-Evaluation

During discussion regarding potential 2019 Legislation at the March 2018 Board meeting, the idea was discussed that staff could revisit the question of the appropriate region for determining the annual Cost of Living Adjustment (COLA) for MCERA retirees and beneficiaries. In the memo regarding the 2019 Legislation, I had recommended the Board delay this re-evaluation until 2023 so that five years of data on the newly available Consumer Price Index for all Urban Consumers (CPI-U) would be available.

During discussion of that memo, a Board member suggested that rather than wait until 2023 to re-evaluate the appropriate COLA region, such review could be conducted now since the analysis is based on housing rents data rather than the CPI-U data. During the March Board meeting, I then recommended that staff review the suggestion and return to the Board with a recommendation and discussion of the proposal in the context of the 2018 Board Work Plan.

After cogitating upon the suggestion, I agree that a re-evaluation of the appropriate COLA Region is feasible at this time. I believe the analysis using the Zillow Home Value Index is unnecessary as the Fair Market Rents (FMR) data from the U.S. Department of Housing and Urban Development (HUD) better represents the pertinent issue. I have already gathered the necessary Fair Market Rents and population data to re-evaluate the geography question.

The American Community Survey (ACS) data from the U.S. Census Bureau mentioned during previous Board meetings is not appropriate for consideration for two reasons. First, the ACS data on median rents is available by county for the period 2005-2016, however this measure is a median across all sizes of housing units. Since this data does not control for the size of the median housing unit across time, it is strictly dominated by the HUD FMR data, where we use the data for a 2 bedroom rental unit in all time periods. The ACS does have data for median rent by size of housing unit, but that data is only available for 2015-2016. This is clearly an insufficient history for proper analysis so we cannot use the ACS data in this analysis.

There is one issue that prevents the analysis from proceeding at this time: we do not know what changes will be implemented in the California CPI-U (CCPI) as a result of the BLS geography changes. Until we know how the CCPI will be constructed and which Counties it will include going forward, I am unable to analyze the CCPI as a potential fit for Mendocino County. I expect more information about the CCPI to be released in the coming months, after which the analysis can proceed.

I recommend the Board direct Staff to add the COLA Region Re-Evaluation to the Board Work Plan with a deadline in the third quarter of 2018.