

UTILIZING CPI AS A REFERENDUM TRIGGER

There are a number of Consumer Price Indexes prepared by the US Dept of Labor.

Each month, as is found on the US Dept of Labor Bureau of Labor Statistics web site, thousands of detailed CPI numbers are released to the media.

For instance, CPI-W's population represents about 32 percent of the total U.S. population. It is a subset, or part, of the CPI-U population which includes 87 percent of the population.

- Social Security beneficiaries received a 2.3% COLA for 2008 based on CPI-W (average 3rd Quarter compared to average 3rd Quarter).
- the property tax increase of 6.57% recommended by the General Manager to support a 5% increase in expenditures for the 2008-2009 budget would represent a real hardship to those who received a 2.3% raise this year.
- 14.2% of Manchester's residents are aged 65+

I would certainly not advocate utilizing the "core inflation" CPI, but rather CPI-U including Food and Energy and not seasonally adjusted:

- CPI-U 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.
- CPI-U is the broadest, most comprehensive CPI.
- It represents about 87 percent of the total U.S. population.

Comparing December of 2007 to December of 2006, CPI-U increased by 4.1%.

- Comparing March of 2007 to March of 2008, CPI-U increased 4%.

Over the past ten years there has been little difference between CPI-W and CPI-U

- Comparing December to December, both increased an average of 2.7% per year.
- The largest variation was 0.3%.

We can, of course, argue that 4% COLA does not comport with our recent experience at the gas pump or the grocery store or when the oil delivery truck arrives.

No Index is perfect, and any measure of cost of living increases is subject to criticism. Yet, the CPI is used to determine income for literally millions of people:

- [See HANDOUT—last page]

CPI increases at 4% or so actually overstate most people's current ability to absorb increases in property taxes.

- The concern isn't limited to older folks on Social Security—whose highest raise in the last ten years was 4.1% [in 2006] and whose average raise was 2.58%.

Employment Cost Index data from the US Dept of Labor shows that:

- Compensation costs for civilian workers increased only 3.3% for the year ended December 2007, the same as for the year ended December 2006.
- The exception was state and local government workers, whose increase for the 12-month period ended December 2007 was 4.1%---equaling the CPI increase.
- Government workers are treated better on benefits too—private benefit costs increased 2.4%, while state and local government benefits costs were up 5.5% for the 12-month period ended December 2007.

With the CPI as such a widely utilized determinant of income and pensions, and with compensation increases lagging behind the CPI recently...

- While we can criticize any approach utilized to measure the cost of living and argue its imperfections...
- Accepting, as has been argued, that the CPI seriously understates actual cost-of-living increases, this means that the disparity between CPI increases and income increases is even greater!
- If the actual CPI is 7%---or 10%--then taxpayers are in an even bigger bind trying to get by with 2.3% Social Security raises and 3.3% raises for civilian workers.
- This makes an even more compelling argument for providing guidelines to the BOD and giving taxpayers more voice in their tax bills, requiring to BOD to make their case to the voters that increases above the CPI guideline are necessary.

Establishing the CPI as a benchmark for aggregate annual increases in the property taxes for Manchester taxpayers seems appropriate, especially when:

- most of the town budget goes to salary and benefits for town employees, i.e. 80% for the Board of Ed, which is 61% of the overall Town budget, and apparently 72% overall.

A CPI trigger for an automatic budget Referendum is certainly a reasonable middle ground between

- No Referendum at all, as at present...

OR

- A Referendum that puts voters through hoops (such as 7% of voters Petitioning in a very short time frame and minimum 15% turnout) only to say
 "Shall the Board of Directors adopt a new budget that is "less" or "greater" than the annual Town budget adopted by the Board?

Even if successful, this merely requires the BOD to “adopt a revised budget, which shall be less or greater”---so they can complain that “less” or “greater” does not tell them what the voters really want and/or they can merely make a token reduction or increase.

I would rather see no Referendum recommendation from this Commission than that which was approved at the last meeting.

Respectfully Submitted by:

John S. Backer

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