



Idaho State Senate

State Capitol

P.O. Box 83720

March 13, 2019

To: Joint Legislative Oversight Committee

Re: Chained Consumer Price Index

Known to most as inflation, the Consumer Price Index (CPI-U) statistically measures consumer prices for goods and services and records their change over time. Numerous, independent indexes record these changes and are maintained by the U.S. Bureau of Labor Statistics: urban consumers, wage earners and clerical workers, and average price data are a few examples.

The state of Idaho currently uses different consumer price indexes to measure inflation for food, medical services, leases, retirement benefits, fuel, taxes, contracts, and more. In fact, different consumer price indexes are referenced in at least nine titles of Idaho Code.

The purpose of this study request is to evaluate replacing the CPI-U with the Chained Consumer Price Index (C-CPI-U). The C-CPI-U is designed to be a closer approximation to a cost-of-living index than other CPI measures. Most recently, the C-CPI-U was used in the Federal Tax Cuts and Jobs Act of 2017.

This study may benefit the state of Idaho. For example, the Idaho Department of Correction uses CPI-U for medical services, PERSI uses CPI-U for retirement benefits, the Idaho State Liquor Division uses CPI-U for leases, Higher Education uses CPI-U for services, and others. Some state department contracts assume a fixed rate of inflation. Those departments could benefit from this study because fixed rates are occasionally higher than actual inflation. Contract inflation from previous years may be used to analyze potential savings in future contracts.

We believe the office of Performance Evaluations is best qualified to complete this study request and to issue an objective, comprehensive report on the benefits and costs of replacing CPI-U with C-CPI-U in state contracts and statutory funding decisions.

Thank you for your review and consideration.

A handwritten signature in blue ink, appearing to read "Jeff Agenbroad", written over a horizontal line.

Senator Jeff Agenbroad

A handwritten signature in blue ink, appearing to read "Dan Johnson", written over a horizontal line.

Senator Dan Johnson