

Public Employees' Paychecks: How the Economy Affects Your Bottom Line

As a public sector employee, the budget of your employer, and ultimately your salary, is directly linked to the performance of the larger economy.

Moreover, because governments are funded largely from taxes collected from private sector transactions, the same economic indicators that gauge the private sector can be predictive of public finances.

Government agencies are often not as vulnerable to large budget changes as private companies, but the financial state of the public sector is still far from stable. While predicting through indicators is almost impossible, understanding a few concepts can give you a better idea of what may affect your paycheck in the future.

Consumer Price Index:

The Consumer Price Index (CPI) is an indicator often discussed during wage negotiations. A reference to it may appear in your contract. This index, assembled by the Federal Bureau of Labor Statistics, is compiled both nationally and regionally as a way to gauge the increase in prices of consumer goods and services on either a monthly or bimonthly basis. Expenses measured include food, rent, transportation (including fuel costs), education, medical costs, and clothing, as well many smaller common expenses. While there are several measures used by economists to judge inflation, the CPI represents the effect of inflation felt by average consumers.

The CPI is often used in contracts as a way to determine cost-of-living adjustments (COLAs). Common language will designate a percent of the year-over-year CPI increase to be given to employees on the first of each year. Because this year-over-year point is often set in the late summer or fall, the annual increase can often be



predicted several months ahead of a January implementation. Note that it is common for a “floor” and “ceiling” to be established above and below which the annual cost-of-living adjustment cannot reach, regardless of the CPI data for the period.

Revenue Sources

Government agencies are primarily funded by local taxes. However, different municipalities revenue sources differ as to which taxes give them the bulk of their funds. As such, the amount of money available to them may fluctuate as specific sectors of the economy accelerate and slow.

For example, sales and use taxes make up the largest section of the State’s budget, accounting for almost one-third of its revenue (the largest revenue source for the State is the Federal government, which contributes about 35 percent to the state’s funds). Counties in Washington, on the other hand, depend more on property taxes to provide services. Thus, one may expect that consumer spending, which fuels retail tax revenues, would have a greater effect on the State’s budget than it would on County and City allocations. However, it should be noted that counties are indirectly linked to the State, in that State distributions make up a small, but significant portion of their budgets.

It quickly becomes clear the degree to which the finances of government entities and the economy are linked. While a company must remain primarily focused on forecasting the market for its products, governments are affected by forces that transcend individual financial areas.

Keeping a watchful eye on local, as well as national economic trends, can provide at least some foresight of what the future might bring for public budgets, and though this won’t change the future, it can at least help in planning for it. — *By Elliot Levin, Local 17 Research Director*