

July 28, 2008

LRB RESEARCH AND ANALYSIS SECTION MEMORANDUM

TO: Ald. Robert Bauman
FROM: James Carroll, Legislative Fiscal Analyst
RE: Present Value Calculation

This memorandum is in response to your request to calculate the present value of receiving \$200,000 plus a Consumer Price Index increase for 20 years and comparing that value to the value of a one-time payment of \$1.5 million. Assuming a 5% discount rate and an annual CPI increase of 2.5%., the table below shows the present value of receiving \$200,000 plus a 2.5% CPI adjustment has a greater present value (\$3,422,011) than a one-time payment of \$1,500,000.

Year	Annual \$200, 000 + CPI	One-Time Payment
1	\$200,000	\$1,500,000
2	\$205,000	-
3	210,125	-
4	215,378	-
5	220,763	-
6	226,282	-
7	231,939	-
8	237,737	-
9	243,681	-
10	249,773	-
11	256,017	-
12	262,417	-
13	268,978	-
14	275,702	-
15	282,595	-
16	289,660	-
17	296,901	-
18	304,324	-
19	311,932	-
20	319,730	-
Present Value	\$3,422,011	\$1,500,000

Cc: Marianne Walsh

Prepared by: James Carroll 286-8679
LRB – Research & Analysis
July 28, 2008

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