



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240



APR 14 2010

Memorandum

To: Bureau Chief Financial Officers
Bureau Environmental Contacts

From: Willie R. Taylor *Willie R. Taylor*
Director, Office of Environmental Policy and Compliance

Don Geiger *Don Geiger*
Acting Director, Office of Financial Management

Subject: Change in Inflation Adjustment for Environmental and Disposal Liabilities

The Statement of Federal Financial Accounting Standard (SFFAS) 6: Accounting for Property, Plant, and Equipment requires that 1) For fair presentation of financial statements, “cleanup costs shall be estimated when the associated Property, Plant, and Equipment is placed in service” and that 2) “Estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing.”

Current Department guidance requires bureaus to apply an inflation factor to their Environmental and Disposal Liabilities (EDL) cost estimates during the last quarter of the fiscal year, if no material changes have occurred, using inflation factors published on March 31st by the State of Arkansas Department of Environmental Quality (ADEQ) at:
http://www.adeq.state.ar.us/hazwaste/branch_programs/rcra_financial_assurance.htm

This approach results in the EDL liabilities reported on the bureau and departmental financial statements being understated, and if inflation is applied too late in the year, users may have already deducted costs. To address these issues, the Office of Financial Management and the Office of Environmental Policy and Compliance are recommending the following changes to the way inflation is applied to EDL cost estimates.

- 1) EDL cost estimates need to be inflated to reflect the current price level at the beginning of the fiscal year and before quarterly financial statements or reports are prepared.
- 2) Since the inflation factor for the current year is not published by the ADEQ until March 31, an average of the actual past five year inflation factors will be used for the current year inflation factor determination. Historical experience should be the basis for expectations about future trends, and the use of an average inflation factor has the advantage of less volatility in inflation

rate from year to year. The Federal Accounting Standard Advisory Board (FASAB) recognizes this in the Statement of Federal Financial Accounting Standards (SFFAS) 33 and requires Federal agencies to select discount rates that are the average of a minimum of five year historical rates.

The inflation factor will be programmed into the Environmental and Disposal Liability module within the Environmental Management Information System, and the inflation factor will be applied to the sites' latest cost estimates. Bureaus will be given the option to have inflation applied to their sites automatically or manually. It is recommended that bureaus utilize the automatic option to avoid omissions. For sites where an inflation and adjustment would not be appropriate (e.g., a contract is in place for cleanup and the contract price is fixed) the reasons should be documented in the EDL database. For bureaus that choose to have their sites inflated automatically, their EDL cost estimates will be inflated on October 1. Bureaus that choose to apply the inflation rate manually will need to do so no later than December 31.

For reporting purposes, bureaus should use the inflated current value of the EDL cost estimates, subtract any costs incurred during the period, and report the balances as their EDL liabilities, unless new cost estimates are developed due to material changes. If material changes have occurred, site managers are required to update the cost estimates and document the changes.

The provisions in this memo will be effective beginning fiscal year 2011. For fiscal year 2010, bureaus should follow existing guidance on inflating their EDL cost estimates using the inflation factor published by the ADEQ, before current costs incurred are deducted. The figures to be used in FY 2010 and 2011 are included in the Attachment.

Any questions or concerns regarding this memo should be directed to Emily Joseph at (202) 208-5303 or Sherry Lee at (202) 219-4096.

Attachment

Attachment

IMPLICIT PRICE DEFLATOR BASED ON U.S. GROSS NATIONAL PRODUCT (Updated March 31 of each year)			
Year	Implicit Price Deflators (This Year/Last Year)		Inflation Factor
1998	1997 IPD = 101.93	1996 IPD = 100.00	1.93%
1999	1998 IPD = 103.19	1997 IPD = 101.93	1.24%
2000	1999 IPD = 104.77	1998 IPD = 103.19	1.53%
2001	2000 IPD = 106.89	1999 IPD = 104.77	2.06%
2002	2001 IPD = 109.21	2000 IPD = 106.89	2.17%
2003	2002 IPD = 110.63	2001 IPD = 109.21	1.30%
2004	2003 IPD = 105.671	2002 IPD = 103.932	1.67%
2005	2004 IPD = 109.099	2003 IPD = 106.516	2.37%
2006	2005 IPD = 112.726	2004 IPD = 109.416	3.03%
2007	2006 IPD = 116.034	2005 IPD = 112.726	2.94%
2008	2007 IPD = 120.613	2006 IPD = 116.034	3.95%
2009	2008 IPD = 123.244	2007 IPD = 120.613	2.18%
2010	2009 IPD = 134.305	2008 IPD = 133.627	0.51%
Table found in http://www.adeq.state.ar.us/hazwaste/branch_programs/rcra_financial_assurance.htm			

Year	Years used to calculate inflation	Inflation Factor
2011	2006-2010	2.52%