



# United States Department of the Interior

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Memorandum

To: Bureau Chief Financial Officers  
Bureau Environmental Contacts

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

Douglas A. Glenn   
Deputy Chief Financial Officer and Director, Office of Financial Management

Subject: Annual Inflation Factor 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 1<sup>st</sup> quarter of the fiscal year, if no material changes have occurred. Using inflation factors published on March 31<sup>st</sup> by the State of Arkansas Department of Environmental Quality (ADEQ) at: <https://www.adeq.state.ar.us/sw/permits/financial.aspx>, the Department has calculated the inflation factor to be used for Fiscal Year (FY) 2016, by averaging the actual past five year inflation factors. 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 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 have 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 figure to be used in FY 2016 is shown below. For reference, included in the table this year are the 5-year averages the Department first started using in FY 2011. Any questions or concerns regarding this memo should be directed to Dr. Bill Kirby at (202) 208-5303 or Sherry Lee at (202) 219-4096.

Attachment

## Attachment

Date of Last Cost Estimate Update	Fiscal Year of Last Cost Estimate Update	Actual Inflation Factor	Inflation Factor Provided by DOI (Average of Previous 5 Years)	Years to Calculate DOI Inflation Factor	Multiplication Factor
10/1/2015-9/30/2016	2016		1.65%	2011-2015	1.01650
10/1/2014-9/30/2015	2015	1.460%	1.46%	2010-2014	1.01460
10/1/2013-9/30/2014	2014	1.020%	1.69%	2009-2013	1.01690
10/1/2012 - 9/30/2013	2013	1.770%	2.12%	2008-2012	1.02120
10/1/2011 - 9/30/2012	2012	2.630%	2.19%	2007-2011	1.02190
10/1/2010 - 9/30/2011	2011	1.350%	2.52%	2006-2010	1.02520
10/1/2009 - 09/30/2010	2010	0.510%			1.00510
10/1/2008 - 09/30/2009	2009	2.180%			1.02180
10/01/2007 - 9/30/2008	2008	3.946%			1.03946
10/01/2006 - 9/30/2007	2007	2.935%			1.02935
10/01/2005 - 9/30/2006	2006	3.030%			1.03030
10/01/2004 - 9/30/2005	2005	2.367%			1.02367
10/01/2003 - 9/30/2004	2004	1.673%			1.01673
10/01/2002 - 9/30/2003	2003	1.300%			1.01300
10/01/2001 - 9/30/2002	2002	2.170%			1.02170
10/01/2000- 9/30/2001	2001	2.060%			1.02060
10/01/1999 - 9/30/2000	2000	1.530%			1.01530
10/01/1998 - 9/30/1999	1999	1.240%			1.01240
10/01/1997 - 9/30/1998	1998	1.930%			1.01930