

**2018-2023 SBP Update
Reduction Option Template**

Cost Reduction: Solid Waste Contracts Inflation #7	Owner: Cameron Findlay
Focus Area: N/A	Sponsor: Sherri Crawford
Risk Level: HIGH	Rate Path Option: 5.3

1. Short summary of the cost reduction (suitable for using with Customer Review Panel and other members of the public, plus additional specifics required for clarity of action).

This reduction option would save \$300K in the first year and approximately \$180K a year thereafter by reducing the solid waste collection, processing and disposal contracts inflation assumption from 2.75% to 2.5%.

2. What are the impacts or risks of this cost reduction? How will you mitigate these risks?

This solid waste contract inflation is only a planning assumption, but SPU must pay based on the actual inflation of four indices. The indices include Consumer Price Index (CPI), two wage indices, and fuel depending on the contract. These inflation assumptions apply to roughly \$100 million annual spending which is 60% of the overall Solid Waste Fund annual operations and maintenance (O&M) spending. Since the current collections contracts started in 2009, inflation has ranged from -0.5% to 4.5%.

This reduction is high risk for two reasons. First, fuel prices are volatile, and with year-on-year changes in the index exceeding 10% in five out of eight of the past years, fuel is the primary contributor of uncertainty to inflation. Second, the timing of inflation can magnify the costs of getting inflation wrong. Because annual inflation compounds upon prior years' inflation, getting inflation wrong earlier in the SBP period can create a snowballing problem into the future.

The two options for mitigating higher than planned inflation are either a permanent reduction to O&M or an increase in rates.

3. Implementation plan and timeline.

If this option is implemented, the dollars would be reduced out of the rate path to lower the rate path.

4. Budget and FTE changes

Changes (relative to baseline)

	2018	2019	2020	2021	2022	2023
O&M (Non- Labor) Budget Change	(300,535)	(482,782)	(674,097)	(874,701)	(1,085,094)	(1,305,803)
CIP Budget Change						
FTE Change						

5. Identify possible race and social justice implications for this reduction. How will it impact service equity and how will you resolve this impact?

None anticipated at this time.

6. Describe your plan for evaluating the impacts of this reduction. Include any metrics you have.

SPU will monitor the actual versus planned inflation rates for the Solid Waste contracts to determine if SPU will need to scale back or defer work to manage through any unexpected higher costs.