

# INFLATIONARY COST DRIVERS FOR FY 2023

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# **Inflationary Cost Drivers for VDOT**

- **The agency has continued to review the on-going impact of commodity pricing, fuel price adjustments and related inflationary costs to our activities and contracts.**
- **Increased costs are above the planned CPI growth in the Maintenance Program Areas**
- **Most immediate impact is related to the cost of fuel**
  - **Reviewed current contractual commitments compared to the base contract assumptions for the remainder of the calendar year (Capturing the paving season)**
  - **Fuel usage and per gallon price for agency operations**
- **Paving plan for this season supports the agency's commitment to performance targets**

# **Approach and Methodology**

**Reviewed historical pricing and usage of fuel for agency operations to determine potential impact**

**Calculated Fuel Price Adjustments and Asphalt Price Adjustments of current contracts based on a range of potential sustained prices**

# **Additional Cost Drivers Anticipated**

**Monitoring developments in the coming months in other areas**

- **Hauling costs for material delivery**
- **Snow removal contracts**
- **Equipment – Price and Supply impacts on current orders**
- **Steel and other commodities**

# Adjustments for Final SYFP and Budgets

- **Establishment of Program Reserves for VDOT Maintenance and Operations Program and Financial Assistance for Localities (Cities and Counties that perform maintenance)**
- **Evaluate price adjustments through paving season to determine impact**
- **Reserve recommended for release in programs after impact of paving season and experience during fiscal year is known**
- **If not needed, recommended for availability in FY 2024 for distribution.**

# Inflationary Cost Drivers anticipated

	Cost Driver	FY 2023 Estimate	
<b>Reserves</b>	VDOT Maintenance Program - Fuel for Operations	\$24.0 million	Recommended reserve in VDOT Maintenance and Financial Assistance to Localities, release determination in early calendar year 2023
	VDOT Maintenance Program - Fuel and asphalt adjustments for Maintenance Paving Contracts (Estimated costs with Diesel Fuel maintaining at \$5.00/gallon)	81.0 million	
	Financial Assistance to Localities – Proportional share of VDOT recommendation (23.1% of maintenance funding provided)	24.3 million	
	<b>TOTAL</b>	<b>\$129.3 million</b>	

# **Actions to be Taken**

## **Establish Reserves**

- **Allocate reserves in VDOT Maintenance Program and City/County Street Payments.**
- **Reserves held and evaluated for release for both VDOT Maintenance and Localities in early 2023. This allows for paving season conclusion and 5/6 months of VDOT activity to determine impact of fuel pricing.**
- **Action reduces funding available for Construction Distribution in the SYIP**

**Establishing reserves is considered short-term as more becomes known about the longevity of current conditions and trajectory of commodity pricing, fuel prices and inflation.**

**Anticipate workshop briefing in July on commodities**