

# Everything that Glitters is Not Gold: Defining CPI-WST

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Many agencies use the consumer price index (CPI) published by the U.S. Department of Labor, Bureau of Labor Statistics (BLS) for annual service rate adjustments to offset the increased cost of providing services.

The broadest and most comprehensive CPI index is called the All Items CPI for All Urban Consumers (CPI-U), U.S. City Average, which is often referred to as “Headline CPI.”

This Headline CPI is comprised of more than 200 categories such as food, energy, housing, clothing, transportation, medical care, recreation, education and others. The change in relative price of these items is reflected in the change in the CPI index.

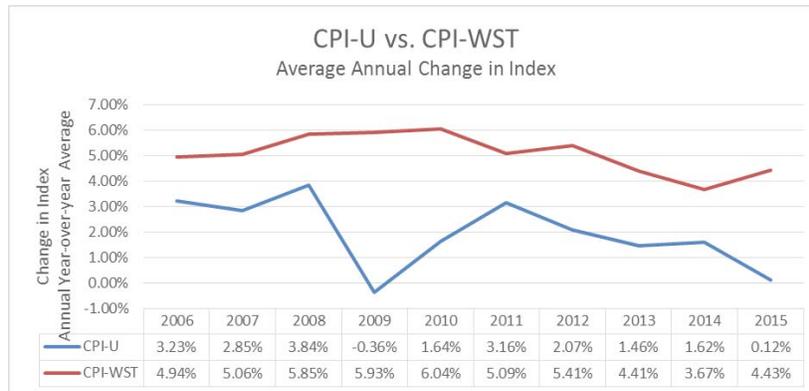
Over the past couple years, service providers have been requesting more often for the CPI for Water and Sewer and Trash Collections Services (CPI-WST) in rate adjustments. One of the arguments is that “the majority of inputs in CPI-U are unrelated to the cost of delivering waste services.” But what is CPI-WST? And how does it relate to the CPI-U?

## CPI-WST and CPI-U

CPI-WST consists of two items (residential water/sewer and trash collection services) that make up a very small portion (1.228 percent<sup>1</sup>) of the basket of goods used to calculate CPI-U. CPI-WST tracks the price for those services billed to residential customers. Economic assistants from the BLS contact the agency that bills consumers in a specific locality and, depending on the agency, the price may include taxes. Trash collection prices are based on consumption amounts, so if a Pay-As-You-Throw program is in place, the price for the same level of service will be collected.

However, major changes to collection services that can greatly affect customer rates are not identified. For example, if a local government that has held residential rates flat for the past several years makes a significant increase in order to “catch up” with the escalated rates paid out

required to cut costs to stay profitable. However, a fair and equitable service rate adjustment is in the best interest of both parties so that no one side is unnecessarily burdened and the quality of service is not compromised with cost-cutting measures.



The following chart presents a comparison of the average annual year-over-year change in CPI-U and CPI-WST. The consistency of the CPI-WST line reflects a consistent annual increase in rates with a 10-year average of 5.08 percent. The variable CPI-U line reflects movement in prices, including recessionary periods,

with a 10-year average of 1.96 percent.

to its service provider, a much larger increase in the cost to the customer would be reflected than the actual cost to provide the services. Other changes that could have a significant effect on customer rates include a change in service providers, privatization, the enhancement or introduction of new solid waste or recycling programs, as well as capital investments in infrastructure expansion or new infrastructure.

## Service Rate Adjustment

The purpose for a service rate adjustment is to provide appropriate escalation to contract rates to offset the increased cost of providing services over the term of a contract. It is

understandable that the contract parties may have opposing interests. If prices escalate too quickly, the burden is placed on the jurisdiction, which most likely will push it down to its residents. If rates do not cover the increased cost of providing services, the service provider may be

Be aware that just because the CPI-WST index has “Trash Collections Services” in its name does not necessarily make it the best choice for escalating service contracts.

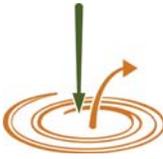
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## Note

1. Based on the August 2015 CPI-U U.S. City Average by detailed expenditure category.

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