UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF WATER

APR 17 2015

MEMORANDUM

SUBJECT: Supplemental Information for Implementing Section 602(b)(13)

FROM: Andrew D. Sawyers, Ph.D., Director
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TO: Water Management Division Directors
Regions I-X

The purpose of this memorandum is to follow up on the interpretive guidance issued on January 6, 2015 with supplemental information for implementing section 602(b)(13). Please distribute to your respective States as soon as possible.

We continue to look for additional ideas and examples of best practices for implementing this provision. Please send any suggestions or questions that you may have to either Kelly Tucker (202/564-0608) or Emily Nicasio (202/564-9920).

I would like to express my appreciation to the Regions and States for your helpful comments in preparing this appendix.

Attachment

APPENDIX IV

Supplemental Information for Implementing Section 602(b)(13)

Under Section 602(b)(13) of the Federal Water Pollution Control Act, as amended, any municipality or intermunicipal, interstate, or State agency that is a recipient of Clean Water State Revolving Fund (CWSRF) assistance must certify that it has studied and evaluated the cost and effectiveness of the proposed project or activity and that it has selected, to the maximum extent practicable, a project or activity that maximizes the potential for water and energy conservation, as appropriate. As stated in *Interpretive Guidance for Certain Amendments in the Water Resources Reform and Development Act to Title VI of the Federal Water Pollution Control Act*, each CWSRF must ensure that applicants complete a cost and effectiveness analysis that meets the minimum statutory requirements. It is further recommended that each CWSRF program develop specific criteria and/or guidance for an analysis that meets these minimum requirements. This appendix contains examples, resources, and background information on some possible approaches to this type of analysis.[14]

Introduction

Analyzing the cost and effectiveness of a proposed project or activity will usually involve comparing a set of alternatives[15] that achieve a given water quality objective or address a given need based on a common set of monetary and nonmonetary factors. Monetary factors are often evaluated using a present worth analysis. Nonmonetary factors are influenced by National, Regional, State, and/or local considerations and priorities and may include climate-related considerations, stormwater management priorities, specific contaminants of concern, socioeconomic factors, and others.

Monetary Analysis

Present worth analysis offers a standard method for calculating and comparing the costs over time of alternative approaches, including capital, operations and maintenance (O&M) costs, and the salvage value of the system/asset at the end of the projected useful life. Other costs may also be relevant, such as mitigation costs and cost savings associated with energy and water efficiency.

One State that has already established guidance for this type of analysis is Oregon. Oregon's guidelines for facilities planning[16] provide a list of the elements found in a comprehensive life cycle cost present worth analysis (adapted):

1. The analysis converts all costs to present day dollars;

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[14] None of the examples, resources, or background information should be interpreted as endorsing or requiring a particular approach.

[15] Generally, at least three mutually exclusive alternatives, including a "do nothing" alternative, are considered. Mutually exclusive alternatives are independent alternatives to a proposed project.

[16] http://www.deq.state.or.us/wq/loans/docs/FacilitiesPlansGuidelines.pdf

2. The planning period is normally 20 years, but may be any period determined reasonable by the engineer and concurred on by the State or federal agency, particularly if the useful life of the project or the loan terms vary;
3. The discount rate is from an accepted authority;
4. The total capital cost includes both construction plus non-construction costs;
5. Annual O&M costs are converted to present day dollars using a uniform series present worth (USPW) calculation;
6. The salvage value of the constructed project is estimated using the anticipated life expectancy of the constructed items using straight line depreciation calculated at the end of the planning period and converted to present day dollars;
7. The present worth of the salvage value is subtracted from the present worth costs;
8. The net present value (NPV) is calculated for each technically feasible alternative as the sum of the capital cost (C) plus the present worth of the uniform series of annual O&M (USPW (O&M)) costs minus the single payment present worth of the salvage value (SPPW(S)):

$$NPV = C + USPW\ (O\&M) - SPPW\ (S)$$

9. A table of the capital cost, annual O&M cost, salvage value, present worth of each of these values, and the NPV is developed for each alternative;
10. Short lived asset costs should also be included in the life cycle cost analysis if determined appropriate by the consulting engineer or State. Life cycles of short-lived assets can be tailored to the facilities being constructed and be based on generally accepted design life. Different features in the system may have different life cycles.

Pennsylvania's *Handbook for PENNVEST Wastewater Projects*[17] contains example present worth analyses for wastewater treatment plant, decentralized system, and land application projects.

Nonmonetary Factors

Nonmonetary factors are used to analyze each alternative's maximization of positive and/or minimization of negative technical, environmental, and socioeconomic outcomes. Such an analysis can also incorporate National, Regional, State, and local objectives. Examples of some nonmonetary factors are listed below.[18] Not all of these will apply to every State, project type, or community; this list is intended to provide ideas only.

National, Regional, State, or Local Priorities

- Current National priorities defined by the U.S. EPA, such as sustainability and climate resilience
- Region-specific considerations, including water quality objectives/initiatives
- Other State-specific or local priorities
    - Consolidation/regionalization
    - Contaminants of concern

[17] http://www.elibrary.dep.state.pa.us/dsweb/Get/Document-47480/381-5511-113.pdf

[18] Some nonmonetary factors, such as energy savings through conservation, also have a monetary component.

Technical Factors

- Project location and physical aspects
- Project reliability
- Project feasibility and operability
    - Presence of qualified personnel to operate and maintain infrastructure
    - Flexibility and adaptability to future conditions and demographics
    - Project's compatibility with current infrastructure

Environmental Factors

- Opportunities for water conservation, reuse, and/or recapture
- Opportunities for energy conservation, including alternative energy sources
- Opportunities to recover and recycle other resources (e.g., nutrients)
- Use of green infrastructure
- Other environmental impacts, including:
    - Land use impacts
    - Impacts to wildlife and/or habitat
    - Impacts to wetlands or other critical water bodies
    - Impacts on air/water quality

Socioeconomic Factors

- Specific industries using or served by the infrastructure or project type
- Local trends and/or demographics affecting need or demand
- Environmental justice considerations
- Project acceptability/affordability

Other Factors

- Other factors considered relevant by the State

Integrating Cost and Effectiveness

There is no requirement that communities select the least-cost alternative. In developing specific criteria and/or guidance for evaluating cost and effectiveness, CWSRF programs should identify how much emphasis is placed on monetary versus nonmonetary factors. Given the water and energy conservation provision in section 602(b)(13)(B), these specific considerations should be emphasized in the cost and effectiveness analysis (*see Appendix I for energy and water conservation resources*).

Integrating cost and effectiveness can be approached qualitatively or quantitatively, or through a combination of both. Some ideas for each approach are provided below.

Qualitative Assessment

While an analysis of monetary factors will always be quantitative, it will not always be possible or desirable to quantify nonmonetary factors. Therefore, an integrative analysis of monetary and nonmonetary factors is necessary. A qualitative assessment might involve a cost summary of the

alternatives plus a description of the nonmonetary factors. including significance and impact on project selection.

Quantitative Assessment

Nonmonetary factors can be evaluated using a numerical scoring system that assigns a maximum point value to each nonmonetary factor and then scoring each alternative accordingly. Cost could be evaluated within the same scoring system or separately. An overall score could be calculated for each alternative and compared to the other alternatives.