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Fiscal Sustainability Plans for Clean Water State Revolving Funds

Summary

With new changes to the Federal Water Pollution Control Act (FWPCA), Clean Water State Revolving Fund (CWSRF) loans for treatment works projects require loan recipients to have a **Fiscal Sustainability Plan (FSP)**. A Fiscal Sustainability Plan describes how a waste water treatment works owner will fund the procurement, operation, maintenance, rehabilitation, and replacement of assets for the least overall cost from startup, operation, and end of life. In addition, a Fiscal Sustainability Plan requires an asset management plan, performance measures that will be used to manage operations, and plans to improve energy and water efficiency.

Introduction to Fiscal Sustainability Plans

President Obama signed amendments on June 10, 2014, to the Federal Water Pollution Control Act (FWPCA).

The FWPCA now includes section 603(d)(1)(E) taking effect October 1, 2014 which requires a Fiscal Sustainability Plan for treatment works projects that contains, at minimum:

- (I) an inventory of critical assets that are part of the treatment works;
- (II) an evaluation of the condition and performance of inventoried assets or asset groupings;
- (III) a certification that the assistance recipient has evaluated and will be implementing water and energy conservation efforts as part of the plan; and
- (IV) a plan for maintaining, repairing, and, as necessary, replacing the treatment works and a plan for funding such activities.

Only the CWSRF funded project and closely related assets must be covered by a Fiscal Sustainability Plan; however, the intent of the requirement is to create a scalable plan for later expansion to the entire treatment works. Moreover, Fiscal Sustainability Plans are intended to be incorporated into an owner's ongoing business processes. Development of a Fiscal Sustainability Plan is an eligible cost for assistance from a CWSRF loan.

Three Exclusions for the Fiscal Sustainability Plan Requirement

Exclusion 1 - New treatment works do not have to complete a Fiscal Sustainability Plan unless they are physically replacing (demolition and replacement at the same or a different location) or adding to the capacity of an existing system.

Exclusion 2 - Upgrades that do not involve repair, replacement or expansion (such as adding advanced treatment).

Exclusion 3 – Drinking Water State Revolving Fund (DWSRF) loans do not require a Fiscal Sustainability Plan.

Cost and Effectiveness Analysis

Also new to the FWPCA is section 602(b)(13), applying to all CWSRF loan applications signed on or after October 1st, 2015. This requirement consists of preparing an engineering document evaluating the cost and effectiveness of the processes, materials, techniques, and technologies for carrying out the proposed project or activity, and selecting, to the maximum extent practicable, a project or activity that maximizes the potential for efficient water use, reuse, recapture, and conservation, and energy conservation, taking into account the full lifecycle costs of the entire project, minimum performance requirements, constraints, goals, preferences, values, and other factors or considerations that impact effectiveness or add value.

A Cost and Effectiveness Analysis is an eligible cost for CWSRF assistance and it must be completed as a preliminary step before developing the final design for construction.

Fiscal Sustainability Plans – Specific Requirements

Each Fiscal Sustainability Plan must have the following minimum requirements and a certification as given below:

(I) An Inventory of Critical Assets

- a. An inventory of critical assets installed with CWSRF loan funds and closely related already existing supporting assets. The inventory must include the installation date and the expected useful life of the asset.

Asset - An asset is a unit of equipment or a unit of infrastructure. Furthermore, an entire process composed of subsystems with each subsystem comprising of units of equipment, and fixtures may also be considered an asset. Similarly, components or subcomponents of a unit may be considered an asset. An asset at its least divisible level may have work activities or a replacement schedule assigned to it to sustain the operation of the unit, the process subsystem the unit supports, and the overall process. Examples of assets include a segment of sewer main, a manhole, an entire collection system, a lagoon, an aeration blower, an activated sludge process, a SCADA module processor, a generator, a valve, etc.

Critical Asset - An asset is critical if its risk of failure poses an unacceptable risk to maintaining the desired level of service. The level of service is established by the owner.

(II) Condition Assessment and Performance Evaluations

- a. Critical assets and expensive assets must be assessed for condition. Condition assessment is used to estimate remaining useful life of an asset in order to schedule and plan for replacement. Moreover, condition assessment aids in reducing risk by triggering corrective maintenance to restore asset effectiveness before replacement is necessary. Condition assessment is an ongoing reoccurring maintenance activity.
- b. Assets or asset groupings must be evaluated for performance. Performance measures monitor asset operation, process operation, or program of activities towards meeting level of service goals. Examples

of performance measures include monitoring operations and maintenance costs, productivity, quality of work, energy efficiency, customer service goals, regulatory compliance, etc.

(III) Energy Efficiency and Water Conservation

- a. Evaluate and implement energy conservation features, measures, or activities on an ongoing basis.
- b. Evaluate and implement water conservation and water quality protection features, measures, or activities on an ongoing basis.

(IV) Preventative Maintenance and a Fiscal Plan Schedule

- a. Fiscal sustainability plans must include a plan of activities to sustained the performance of assets, retain intrinsic value of assets, and reduce the risk of critical asset failure. The preventative maintenance plan must list the maintenance tasks and state the conditions for initiating the execution of each task.
- b. Assistance recipients must create a schedule of large expenses and the year they are anticipated to be incurred. A large expense is the amount the owner establishes that may cause a shortfall in a budget if the expense were to be incurred unexpectedly. Large expenses include asset replacement costs, infrequent reoccurring operation and maintenance and other reoccurring activity costs, and capital improvement costs. Each large expense must call out the planned funding mechanism such as utility revenues, general or dedicated reserves, external financing such as loans, bonds, grants, etc. The schedule of expenses must have a minimum planning period of five years and may be up to 20 years or more. In addition to the Fiscal Sustainability Plan requirements, each assistance recipient's budget must follow sound and legally required accounting practices.

Certification

- a. The assistance recipient's authorized representative must certify that the CWSRF project meets the minimum Fiscal Sustainability Plan requirements as described in this document.
- b. The certification must identify where the Fiscal Sustainability Plan document(s) will be stored. If portions of the plan are stored in different locations or different document sets, then itemize each portion of the plan and describe where each portion may be found.

Existing Fiscal Sustainability Plans - If an assistance recipient already has a complete and comprehensive Fiscal Sustainability Plan before they seek out a CWSRF loan, then the certification must be signed and submitted to NDEQ before loan closing.

Developing a Fiscal Sustainability Plan - If a recipient does not have a plan at loan closing, they must certify they have one with all the requirements before disbursements exceed 95% of the Project Costs or before final disbursement, whichever comes first.