

**U.S. Environmental Protection Agency
Clean Water State Revolving Fund Program
Regional Role in Integrated Planning & Priority Setting System
Development**



Introduction to Integrated Planning and Priority Setting Systems

The Clean Water State Revolving Fund (CWSRF) Funding Framework established national guidance on the process that state clean water revolving fund programs would need to use to set funding priorities if they desired to finance “nontraditional” water quality projects with loans from their clean water revolving funds. That guidance specifies that if a state is going to finance nontraditional water quality projects with funds from its Clean Water State Revolving Fund, then the state must have an “integrated planning and priority setting system.” Regardless of whether or not a state chooses to offer financial assistance from its CWSRF to nontraditional water quality projects, the Environmental Protection Agency (EPA) is encouraging states to develop and use integrated water quality planning and priority setting systems (IPPS) in the administration of their CWSRFs. The EPA views the development and use of such integrated water quality planning and priority setting systems as a very effective way to maximize the water quality benefits of the Clean Water State Revolving Fund program and expedite the watershed restoration called for by the Clean Water Action Plan.

The Funding Framework provides two illustrations of somewhat different methods that a state might use to arrive at an acceptable integrated planning and priority setting system. In one of those methods, called “Alternative One,” a state may develop and use an Integrated State Priority System (ISPS) in the creation of the state’s annual Intended Use Plans. The other method is called the “Goals Approach” and describes a system in which the state articulates either statewide or watershed based water quality goals as the basis for the system it uses to rank projects that are candidates for funding. Given that most states to date are pursuing an ISPS approach to developing an IPPS, this document is structured around that alternative. However, the questions posed later in this document are equally applicable to the development and evaluation of a “Goals Approach” based integrated water quality planning and priority setting system.

Under the Clean Water Act and the Clean Water State Revolving Fund program regulations, the EPA does not have authority to approve the priority systems that states use to establish CWSRF project funding priorities. Title II of The Act authorizes EPA to approve priority lists for ranking §212 projects and to remove projects for funding which do not have clear water quality purposes. The Act and the regulations require that each CWSRF prepare an Intended Use Plan (IUP) each year which identifies uses of all available funds. There should also be a linkage between the projects listed on the priority list, the projects being funded on the IUP, and the short and long term goals. As

part of the grant award process, EPA will review the IUP submitted by each state, as long as federal capitalization of the CWSRFs continues.

Within this context, the Funding Framework guidance does not explicitly specify what the EPA considers to be the essential elements or performance characteristics of an integrated planning and priority setting system. It does not specify how these systems are to work or how they are to be applied in practice. This document is designed to articulate a set of questions that an EPA reviewer might ask and answer in evaluating a state's proposed IPPS. It is aimed at assisting the EPA regions in implementing their oversight responsibilities. Additionally, a state that chooses to develop an IPPS can, based on this document and appropriate discussions with the EPA regional office, gain a relatively good understanding of what EPA is looking for in an integrated water quality planning and priority setting system. Our assumption is that, if the EPA reviewer is satisfied with the answers to these suggested questions and the state has complied with the state's public participation procedures during the development of its IPPS proposal, it would be appropriate for the CWSRF Grants Project Officer to advise the state to proceed with developing its IUPs using the new planning and priority setting system.

Contents of an IPPS Package

A complete Integrated Planning and Priority Setting System proposal should include several components:

- A narrative summary of the state's water quality problem assessment that abstracts from the types of data sources and existing water quality assessments mentioned in the Funding Framework.
- A brief narrative description of the state's resulting water quality priorities.¹
- If the state intends to score projects numerically, a description of that scoring system; that is, a discussion of the factors that the system evaluates and the potential "points" assigned or earned by each factor.
- A brief narrative that explains how the state derived its proposed point system (scoring and ranking system) from its articulated water quality priorities. The point of this narrative is to demonstrate that there are fact and judgment-based connections between the relative and absolute points assigned to each ranking factor and the state's assessment of the relative importance of the different water quality problems that it faces.²

¹ One good source for both of these first two items would be the state's Unified Watershed Assessment (UWA) developed pursuant to the Clean Water Action Plan. Assuming that the UWA has a well written narrative summary it can meet this need for the planning and priority setting system.

² The point of the narrative is to demonstrate that the project ranking system would, in scoring potential projects for funding, direct the available funds to projects that address causes of the priority water quality problems and needs in the state's
(continued ...)

- An illustrative copy of the application form(s) that a project sponsor would submit to get its project(s) ranked and on the state's project priority list.³
- A copy of the instructions that would be given to applicants (the instructions would explain the application process, the priority system and how it works and provide guidance to project sponsors on how to complete the application).

This list of components represents our best estimate of the documentation that would be most useful in describing a state's planning and priority setting system in a clear and readily understandable way. In cases in which the EPA region has been deeply involved in the development of the state's planning and priority setting system, the EPA may be able to verify the adequacy of the state's proposal based on a package that includes less documentation. We expect that each state and EPA regional office will discuss and agree on the content and format of the package that the state would submit to the EPA.

Key Questions

The Funding Framework's illustration of the process that a state would use to develop and implement an integrated water quality planning and priority setting system includes several steps. This section outlines a suggested set of questions that an EPA reviewer could ask and discuss with the state as it (the state) is developing its IPPS and as the EPA is reviewing the submitted IPPS package. We stress that we view the development of an integrated water quality planning and priority setting system as an evolutionary process. We expect that each state that pursues this path will develop a system, use it and then refine it based on its experiences and the feedback that the state's CWSRF receives from its customers. Additionally, a state's priority system may change when a state's water quality priorities change.

1. Step one in the IPPS example in the Funding Framework suggests that the state review existing water quality data and water quality related plans to identify where efforts to protect and improve the state's water resources are needed. How does the IPPS documentation address this assessment and its results?
2. Is the assessment consistent with EPA's understanding of the state's water quality problems and needs as documented in the most recent Unified Watershed Assessment for the state?⁴

²(...continued)

high priority Category I watersheds (assuming that the UWA is the document that is being used to identify the state's water quality priorities).

³ The application form and instructions would show the EPA the types of information the state is soliciting from project sponsors. This would give the EPA a better picture of how the state will actually arrive at project scores and rankings.

⁴ We focus on the UWA because it is supposed to integrate all of the data sources (continued...)

3. The second major step is the state's identification of priorities. The Framework mentions three possible ways of defining priorities and acknowledges that others may exist as well:
- Identify priority waters according to the needs within these waters.
 - Identify priority problems or needs at the state level.
 - Use priorities generated by a state's watershed management program, if available.

Consequently, we would ask:

- a. How has the state defined its priorities (priority waters, priority problems, priority watersheds, source water assessments, other)?
 - b. How do those priorities relate to the state's water quality assessment and do those priorities appear to be logically consistent with the state's water quality assessment?
 - c. What role has the state's water quality program played in establishing these priorities, particularly in situations in which the CWSRF is managed in an organization that does not report to the state water quality program manager?
4. The next step in the process, is to derive a system for evaluating, scoring and ranking projects. Here too, the key question is "will the project ranking system direct the available funds to the watersheds and water quality needs that are highlighted as priorities in the State's water quality assessment?" The reviewer might also ask:
- ▶ Do the scoring criteria make sense?
 - ▶ Are the relative weights assigned to each ranking factor reasonable?
 - ▶ Are data available to make objective evaluations?
 - ▶ To what extent do the ranking factors call for subjective determinations which might not be reproducible or defensible if relative rankings are challenged?
 - ▶ Is the overall organization of the evaluation and scoring system logical and understandable?
 - ▶ On what basis will points be "awarded" when the system allows for a range of points for a particular evaluation factor or criterion?
 - ▶ To what extent does the ranking system accommodate or favor specific types of projects?⁵

⁴(...continued)

mentioned in the Funding Framework.

⁵ In an evaluation system that is truly water quality results driven, the type of project should not affect the rank of the project except when the type of project directly affects the project's cost-effectiveness; that is, the ranking system might want to account for circumstances in which one type of project produces significantly more water quality benefit than another for a given dollar investment.

5. Step four in the process would be the construction of the actual Intended Use Plan. We think of this as a multistage process, in fact:
 - A. First, the state solicits and receives applications from project sponsors.
 - B. Second, it reviews, scores and ranks the applications based on the project evaluation criteria that reflect its water quality priorities.
 - C. The scoring and ranking result in the project priority list, which is an essential component of the complete Intended Use Plan that must be developed each year.
 - D. The state then reviews the projects on the priority list in light of a suite of fund management factors such as the applicant's ability to pay, the size of the proposed loan, the availability of other sources of financing for particular projects or types of projects, how well developed the project is, any reserves that the program holds for specific needs such as nonpoint source reserves, and what we have traditionally called "readiness-to-proceed." Based on this review, the state selects a subset of the projects on the priority list to be in the "fundable range" for the IUP. This list of projects in the fundable range (along with the anticipated dollar amount of the loan and the anticipated binding commitment date) should be presented as a separate exhibit in the IUP.
 - E. The state develops a schedule of binding commitments that "covers," at least, all of the projects in the fundable range and includes this schedule in the IUP.

Conclusions

The key question here, when the IPPS is being reviewed, is does the application of the project scoring and ranking system seem to be designed so that it will produce results that are consistent with the state's water quality priorities. This can best be demonstrated by a "test run" of the system. The EPA might request the state to take a representative sample of projects from an existing Intended Use Plan and score them with the new system. In the event that the state does do a "test run," the resulting project priority list should be able to demonstrate that, other things being equal, projects with greater water quality benefits or that address more important water quality needs tend to rank higher than projects with lesser water quality benefits or that address less significant water quality needs. Expecting this result is consistent with the requirement at §216 of the Clean Water Act that "It is the policy of Congress that projects for wastewater treatment and management undertaken with Federal financial assistance under this chapter by any State, municipality, or intermunicipal or interstate agency shall be projects which, in the estimation of the State, are designed to achieve optimum water quality management, consistent with the public health and water quality goals and requirements of this chapter."