



GUIDANCE ON ELIGIBLE PROJECT COSTS

Commonwealth of Puerto Rico
Water Pollution Control Revolving Fund

Government of Puerto Rico
Environmental Quality Board

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I. Introduction

This document establishes Puerto Rico Environmental Quality Board (PREQB) guidelines for determining the eligible project costs of projects financed through the State Revolving Fund (SRF) for Puerto Rico. This guidance is intended for use by all applicant for SRF funding and their consultants or contractors and by PREQB in reviewing loan applications.

This guidance summarizes how PREQB distinguishes eligible costs (those necessary for the completion of the pollution control project) from ineligible costs (those that are not necessary for the completion of the project). Although this guidance includes various examples, the applicants should contact PREQB for further guidance concerning any categories of costs not clearly appearing in this document. In general, eligible costs must be (a) necessary, (b) reasonable, (b) allocable to the project, (c) not a general expense of carrying out the overall responsibilities of the applicant, and (d) not funded under another state or federal financial assistance program. PREQB will determine the eligible costs of each project on a case-by-case basis after reviewing the applicant's loan application.

II. General Criteria

Eligible costs for disbursement under the SRF are those costs permitted by statute, program guidance or regulation. Allowable costs are eligible costs that meet the following general criteria in addition to any specific identification as an allowable cost within this guidance. Unallowable costs are those that do not meet the following general criteria:

- 1) Be necessary and reasonable for the proper and efficient administration of the loan project, be allocable to the project, and not be a general expense required to carry out the overall responsibilities of the applicant.
- 2) Be authorized or not prohibited under Federal or State law or regulations.
- 3) Be consistent with policies, regulations and procedures that apply to federal or state activities.
- 4) Be accorded consistent treatment through the application of generally accepted accounting principles appropriate to the circumstances.
- 5) Not be allocable to, or included as, a cost of any other federal or state financed program.

III. Administrative expenses

Administrative services associated with the construction of the project and administering the loan are eligible for SRF assistance, including the preparation of the loan application package and contract documents.

Costs for necessary travel directly related to accomplishment of project objectives, such as costs of loan recipient employees attending training workshops/seminars that are necessary to provide instruction in administrative, fiscal or contracting procedures required to complete the construction of the pollution control project are eligible. Costs of local travel and commuting expenses between living quarters and the construction site for persons employed by either the applicant or the contractor are not allowable. In addition, travel not directly related to a specific project, such as travel to professional meetings, symposia, technology transfer seminars, lectures, etc. are not eligible.

Ordinary operation expenses of the loan recipient including salaries and expenses of the loan recipient's employees and elected and appointed officials and preparation of routine financial reports and studies are not eligible for SRF reimbursement. In addition, administrative, engineering and legal activities associated with the establishment of departments, agencies, commissions, regions, districts or other units of government are not eligible.

IV. Preliminary expenses

Costs associated with project planning are eligible for SRF reimbursement. Examples of eligible planning costs include:

- 1) Archaeological surveys;
- 2) Environmental audits of project sites (Phase I);
- 3) Flow monitoring for planning purposes;
- 4) Geotechnical investigations for site-selection purposes;
- 5) Hydrogeological studies;
- 6) Infiltration/inflow analyses;
- 7) Project plan preparation;
- 8) Public hearing transcripts;
- 9) Public participation activities;
- 10) Sewer system evaluation surveys;
- 11) Vulnerability assessments, in conjunction with full project planning effort; and
- 12) The costs incurred in complying with the requirements of the National Environmental Policy Act (NEPA) and/or the Puerto Rico Environmental Public Policy Act.

The costs for preparation of construction drawings, specifications, pre-design reports, estimates, and construction contract documents related to the pollution control project are eligible costs. If planning/design services involve pilot studies to demonstrate the effectiveness of a technology, the SRF loan can cover these costs. However, this excludes

costs of any permanent construction that is part of the pilot study and will become a tangible asset of the system.

V. Land, Structures and Right-of-Way Acquisition

Federal regulations implementing the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 are applicable to the acquisition of land necessary for an SRF project. The costs of complying with these regulations are eligible for SRF reimbursement regardless of whether the actual land acquisition is eligible for SRF funding. For example, easements purchased to provide sewer rights-of-way are not eligible items but the costs associated with obtaining such easements are eligible for SRF reimbursement.

Costs of land acquisition (including associated legal, administrative and engineering costs) of sewer rights-of-way, waste treatment plant sites (including small system sites), sanitary landfill sites and sludge disposal areas are not allowable for SRF assistance. However, the cost of land that will be an integral part of the treatment process or pollution control project or that will be used for the ultimate disposal of residues resulting from such treatment or pollution control may be allowable.

The purchase cost of land can be eligible for SRF reimbursement if:

- 1) The parcel of land physically interacts with the wastewater or pollutants received from a treatment works and is an integral part of the treatment process (e.g., land application systems); or
- 2) The parcel of land is used for the storage of treated wastewater prior to land application (e.g., storage lagoons); or
- 3) The parcel of land is used for the ultimate disposal of residues from the wastewater treatment process (e.g., land application of sludge); and
- 4) The parcel of land was purchased after the loan recipient adopted the project plan that was the basis for the project that necessitated the purchase of the land.

Land that is merely a site for the placement of buildings or equipment is not considered a part of the treatment process and the cost of its purchase is not eligible for SRF reimbursement. In addition, costs of land acquired for the mitigation of adverse environmental effects identified pursuant to an environmental review are not allowable.

The acquisition-related costs associated with property acquired through condemnation or the exercise of the power of eminent domain is eligible for SRF reimbursement. Common examples of acquisition-related costs that are eligible for SRF reimbursement include:

- 1) The cost of an appraisal of any property to be acquired for project construction, including any studies necessary to properly value improvements, minerals, timber, or other resources on the property.
- 2) The cost of surveys and legal boundary descriptions of any property to be acquired for project construction.
- 3) The costs associated with relocation and moving expenses for displaced persons, businesses, and farms, including the cost of a relocation specialist.
- 4) The cost of necessary services associated with the acquisition of property for project construction, including title searches, lease or easement agreement preparation, legal descriptions of the property, legal notices, and closing costs.

The amount approved for inclusion in the SRF loan may be less than the final purchase price because the SRF loan computation must be based on fair market value. Documentation of fair market value must be provided with the SRF application, including a copy of the appraisal(s) (or market study, if appropriate), the initial purchase offer, and the final purchase agreement. If an amount greater than the initial purchase offer is requested for SRF loan participation, the information which resulted in a revised appraisal and a reestablishment of the just compensation amount must also be provided. This information may include the results of a court award that resolves a dispute over the land value.

VI. Professional Services

The costs of engineering, legal and financial services related to SRF project planning, design or construction are eligible for SRF reimbursement. Costs that are normally included in the fringe benefits and indirect cost of the firm are eligible, except those costs specifically excluded in this guidance.

A. Engineering Services

Eligible engineering services include the preparation or revision of a facility's Operation and Maintenance Manual. In addition, include start-up services for onsite training of operating personnel in operation and control of specific treatment processes, laboratory procedures, and maintenance and records management. Engineering services or other services necessary to correct omissions in the facilities plan, design drawings and specifications or other documents are eligible to the extent that such costs would have been allowable for preparing omission free documents. Engineering services or other services necessary to correct defects in the facilities plan, design drawings and specifications, or other documents are not eligible. In addition, public liaison services, bad debt and entertainment costs are not eligible.

The cost of services, other than engineering services during construction, such as highway flagmen, or utility or highway inspectors, required during the construction of the project, are allowable provided that:

- 1) The entity responsible for the affected highway or utility requires such services for all parties conducting similar types of work, regardless of the source of construction funding for the project, or law requires the services.
- 2) The cost of such services has not been included in the construction contractor's bid price.

B. Legal Services and Litigation Costs

Standard legal services that are necessary to implement the SRF project are eligible for SRF assistance. Examples include services associated with the acquisition of property for project construction, the preparation and review of contracts related to SRF project implementation, the resolution of bid protests, the resolution of contract claims, and services associated with contract enforcement.

The costs of legal, engineering, and other services incurred by the loan recipient in deciding procurement protests or claim and defending their decisions in protest appeals are allowable regardless of the outcome of the protest, provided there was not an attempt by the loan recipient to violate or circumvent the law.

Amendments or change orders in construction, engineering, legal, etc., contracts because of settlements, arbitration awards or court judgments are allowable to the same extent that they would have been allowable if there not been a claim.

Costs associated with the litigation of project-related personal injury or property damage claims, whether defending against or bringing a suit, are not eligible for SRF reimbursement because such actions are not directly necessary to implement the project.

The following claims arising from work outside the scope of the loan, resulting from fraudulent or illegal activities, from mismanagement by the loan recipient or from the loan recipient's vicarious liability for the improper action(s) of others are not allowable for reimbursement. The costs of settlements, arbitration awards or court judgments over and beyond the allowable costs if there not been a claim are not allowable for SRF reimbursement.

VII. Project inspection fees

The costs of inspection engineering to be included in the loan will be established based upon the budget reflected within the engineering agreement. Applicants need to insure that an appropriate amount for on-site inspection has been included in the engineering agreement, as the amount bid for inspector days will not be included in the loan.

The inspection must be performed by an engineer as defined in the Board of Engineers, Architects and Land Surveyors Act, as amended.

VIII. Demolition and Removal

The demolition of existing structures on the project site is eligible for SRF assistance if the pollution control project cannot be undertaken without such demolition. For example, SRF funds can be used for the removal of an underground tank located within the area to be occupied by a new building.

When the demolition and/or decommissioning of existing operational or abandoned components of a sewer system are not necessary to accomplish project construction, the associated costs will be eligible for SRF assistance only when all of the following conditions are met:

- 1) The demolition/decommissioning are done in conjunction with new construction at the actual site of the system component to be demolished/decommissioned. The exception to this is where abandonment of currently operating facilities (i.e., lagoons, etc.) is occurring in conjunction with the construction of new facilities to replace the facilities being abandoned. In this case, the construction of the new facilities do not have to occur at the same site where the existing facilities to be abandoned are located.
- 2) The demolition/decommissioning is part of the cost-effective alternative in an approved SRF project plan.
- 3) The demolition/decommissioning is necessary as a direct result of the project proposed for SRF funding, even if actual demolition is not directly necessary to accomplish new project construction.

Demolition of existing structures on the project site when not required for constructing the project will be considered an allowable cost only if the existing structures constitute a real and present hazard to safety, public health or water quality which can best be abated by the removal of the existing structures.

IX. Construction

Construction and construction related costs that occur more than thirty (30) days after the current allowable completion date are not allowable unless the PREQB determines that the loan recipient is implementing all legal remedies provided in the contract documents for failure to complete construction when required. In addition, bonus payments for completion of construction before a contractual completion date, unless required by law, are not eligible for SRF assistance.

Costs of replacing, through reconstruction or substitution, a pollution control project or treatment facility that was assisted under the Clean Water Act and fails to meet its project performance standards are not eligible for SRF reimbursement. This provision applies to failures that occur either before or after the initiation of operation. This provision does not apply to an innovative and alternative pollution control project eligible for funding or a pollution control project or treatment facility that fails before its design life.

A. Buildings

Allowable costs for buildings include those portions of the buildings which are directly related to the project, including buildings housing equipment and unit processes; laboratories; employee locker rooms; workshop areas; storage facilities for operational supplies, spare parts and equipment; necessary lavatory facilities; operator office space; etc. Those portions of an administration building which are not necessary for the daily operation and maintenance of the project are unallowable costs, including portions of the building used for public works functions (other than wastewater treatment), general accounting functions, conference rooms with associated audio-visual equipment, or other general uses not necessary for the operation of the project. Where larger facilities include conference rooms to be used exclusively for training of employees, such space is allowable if reasonable and if approved by the PREQB as part of the loan award. Where unallowable building space is included in an otherwise allowable administration building, the allowable cost is determined by using the ratio of allowable floor space divided by the total floor space in the building.

B. Contract Awards

The applicant is not required to accept the lowest bid tendered, provided construction contract language and local ordinances do not prohibit awarding the contract to a bidder other than the lowest bidder. However, unless the applicant can demonstrate that the low bidder is either nonresponsive or no responsible, the SRF loan computation will be limited to the amount of the low bid.

The term "nonresponsive" means the bidder has not complied with the requirements set forth in the bidding documents (e.g., the bidder did not provide a bid bond in the proper amount; the bidder did not include required documentation in its bid; and so on). The term "no responsible" means the bidder has not proven it has the capability to fulfill the terms of the contract (e.g., the contract requires experience that the bidder does not have).

If the applicant can demonstrate that the low bidder is nonresponsive or no responsible, the contract can be awarded to the next lowest bidder who has been deemed both responsive and responsible and the SRF loan computation will include that bidder's amount.

C. Site Restoration

Restoration of work sites disrupted by project construction is eligible for SRF assistance, provided the restoration is limited to those areas directly affected by construction and is necessary to restore the disrupted areas to pre-construction conditions. Driveways, roadways, sidewalks, landscaping, and utilities disrupted by project construction may be restored with SRF assistance to a quality equal to, but not exceeding, original condition. For example, replacing a gravel road with a gravel road is eligible for SRF assistance but upgrading to a paved road will only receive partially reimbursement. The intent is to preclude the use of SRF funds for the general upgrade of roads or other infrastructure components.

Full bituminous overlays that are proposed because of sewer installation in streets are eligible, if maintains structural integrity and protects the pavement surface from premature deterioration that can result from partial width replacements over the trench/lateral cuts where joints between the old and new pavement can be a source for water to enter. These overlays are eligible only when the pre-existing road is in good condition based on supporting documentation from knowledgeable local public works/road commissions that provides information such as road age, thickness, design life, and other indexes of road quality. Overlays will not be eligible where the existing roads are not in good condition, and the full width overlay would constitute an improvement.

D. Security Measures

Security measures are eligible for SRF assistance; provided the need for each specific measure was established by the time draft plans and specifications are submitted for PREQB review. Eligible security measures include facility lighting, perimeter fencing, security cameras and motion detectors or secured storage for chemicals or fuel. Including other measures that the need for which is demonstrated to the PREQB's satisfaction. The hiring of security personnel is not eligible for SRF assistance.

E. Mitigation of Adverse Impacts

Costs necessary to mitigate only direct, adverse, physical impacts resulting from construction of the project are allowable. Costs associated with short-term mitigative measures, such as siltation barriers and dust control, are eligible for SRF reimbursement. Costs associated with the long-term mitigation of adverse environmental impacts due to project construction may be approved for SRF reimbursement only when all of the following conditions are met:

- 1) The specific mitigation measures to be utilized have been described in the project plan and included in the costs listed for the selected alternative.
- 2) The specific mitigation measures to be utilized have been demonstrated to be the cost-effective means of mitigation.
- 3) The specific mitigation measures to be utilized are not otherwise ineligible for the receipt of SRF assistance. For example, to mitigate a loss of wetlands, the loan recipient may be required to purchase a suitable land parcel (an ineligible item) and modify the project site to enhance wetland value by excavating pothole ponds or building a dike (an eligible item).

The costs of groundwater monitoring facilities necessary to determine the possibility of groundwater deterioration, depletion or modification resulting from construction of the project are eligible for SRF assistance.

The costs of solutions to aesthetic problems, including design details which require expensive construction techniques and architectural features and hardware, that are unreasonable or substantially higher in cost than approvable alternatives and that enhance neither the function or appearance of the pollution control project are not allowable for SRF assistance.

F. Major Rehabilitation of Sewers

A project involving a major rehabilitation of sewers is eligible for SRF assistance. The term "major rehabilitation of sewers" means (a) work that is necessary because the current condition of a sewer has been demonstrated to result in a direct discharge of sanitary sewage or (b) work that is necessary to restore and maintain the structural integrity of a collection sewer, trunk sewer, or interceptor sewer. Documentation of the existence of significant longitudinal cracking, shear cracking, broken and missing pipe, major deflection, sagging and pipe misalignment, as well as severely deteriorated manholes, joints or other conditions that would place the pipe in imminent danger of failure will be considered in evaluating eligibility. The rehabilitation of manholes will not be eligible for SRF assistance unless those manholes are located within eligible segments of sewer rehabilitation.

Work designed to address roots or deposits is considered to be routine maintenance work which is not eligible for SRF assistance. In general, repair of light to medium joint cracking would be considered eligible only if shown necessary for cost effective I/I removal. Surface damage involving roughness, surface spalling, or visible aggregate do not meet the severe structural criteria for funding.

G. Collector Sewers

The cleaning of collector sewers is not eligible for SRF assistance unless that cleaning is an essential component of the eligible SRF project construction. For example, cleaning necessary to identify cross-connections prior to disconnection during a sewer separation project or cleaning preparatory to sewer rehabilitation is eligible for SRF reimbursement.

H. Service Connection

Service connections are small diameter pipes that connect individual residences or commercial buildings to a collector sewer (see Appendix 1 and Appendix 2). Work on service connections that connect to a conventional gravity collector sewer is not eligible for SRF assistance except for work which lies within the public right-of-way (i.e., beyond the homeowner's property line). For example, in the case of a connection between a house and the sanitary sewer running beneath a street, work on the house lead from its connection with the collector sewer to the edge of the right-of-way will be eligible for SRF reimbursement. In the case of a grinder pump or STEP system, all components within the easement secured for maintenance access will be eligible items; typically, only the pipe leading from the house to the grinder pump or septic tank will be ineligible.

I. Grinder Pumps/STEP Systems

Individual grinder pump units and the on-site components of a septic tank effluent pumping (STEP) system (i.e., septic tank, sewage pump, and associated service piping) are not eligible for SRF assistance. Grinder pumps and STEP system components are not eligible for SRF assistance unless the collection system is a small-diameter system (pressure, vacuum, or gravity) and the on-site units are publicly owned. The purchase of spare grinder pumps is eligible for SRF assistance, provided the number of spare pumps is not more than 5 percent of the total number to be installed.

J. Non-point source programs

Implementation of a nonpoint source management program established under Section 319 of the CWA and development and implementation of an estuary conservation and management plan under Section 320 of the CWA are eligible for SRF funding.

X. Equipment

A. Computer Hardware and Software

Computer hardware and software are not eligible for SRF assistance unless needed and used as a direct interface, process control component of the treatment works, such as a computer which automatically monitors and controls process operating cycles, chemical feed rates, or the start-up and shut-down of pumps and motors. Given the increased power of desktop computing during recent years, it is possible that personal computers can be used not only to control processes in a treatment works but also for other ancillary uses, such as on-line maintenance logging or payroll processing. Such indirect uses do not negate the eligibility of computers for SRF reimbursement; however, computer hardware or software to be used solely for administrative tasks such as billing, timekeeping, or general office work are not eligible for SRF assistance.

B. Furnishings

The cost of furnishings, office equipment and maintenance equipment dedicated solely to the pollution control project are eligible for SRF assistance. Necessary and reasonable office furnishings and office equipment include desks, tables, chairs, telephones, office supplies, storage cabinets, calculators, copiers, book cases, shelves, lamps, refrigerators, microwaves, coffee tables, stoves, floor treatments (e.g., carpets, epoxy coatings), window treatments (e.g., curtains, venetian blinds), and other furnishings. The furnishings are eligible provided they are necessary to furnish new construction or areas where remodeling or expansion of existing facilities has occurred. In all other cases, the purchase of new desks, appliances, window treatments, or other furnishings are considered routine replacement costs, which are not eligible for SRF assistance. Radios, televisions, VCRs, camcorders, and other items of a similar nature are not eligible.

Ordinary site and building maintenance equipment such as lawnmowers, rakes, shovels, brooms, picks, hedge trimmers, and other such equipment are eligible. In addition, hand tools such as screwdrivers, pliers, socket wrenches, electric drills or saws, etc are eligible.

C. Supplies

The costs of a reasonable inventory of laboratory chemicals and supplies necessary to initiate plant operations and laboratory items necessary to conduct tests required for plant operation are eligible for SRF assistance. The costs for purchase and/or transportation of biological seeding materials required for expeditiously initiating the treatment process operation are allowable.

Costs associated with expendable supplies, such as chemicals or parts for replacement in excess of supplies needed to facilitate system startup are not eligible for SRF reimbursement because these costs are considered routine operational and maintenance costs. For example, if the need for a sewer cleaning (vactor) truck for the cost-effective operation and maintenance of the wastewater treatment works was established during the project planning process, SRF assistance may be provided for its purchase. However, SRF assistance cannot be provided to finance the ongoing operation and maintenance of the vactor truck. Therefore, stores of fuel to operate the truck and a replacement stock of oil, spark plugs, filters, and other expendable items necessary for maintenance of the truck are ineligible items. As another example, a ferric chloride tank is eligible for SRF assistance but the ferric chloride itself is ineligible if it is for ongoing operation.

D. Vehicles

Special-purpose vehicles designed specifically for the operation and maintenance of the pollution control project, such as vactor trucks and liquid sludge spreaders, are eligible for SRF assistance, provided the need for such vehicles was established during the project planning process. Furthermore, the applicant must demonstrate that the purchase of the vehicle is more cost-effective than leasing, particularly in instances of short-term or intermittent use. Cars, trucks, or other vehicles that are used for pollution control project's operation and maintenance activities are not eligible for SRF assistance. The cost of vehicles for the transportation of the loan recipient's employees, including buses, trucks, cars, motorcycles, golf carts, bicycles, etc. are not eligible.

The costs of mobile equipment necessary for the operation of the overall wastewater treatment facility, transmission of wastewater or sludge, or for the maintenance of equipment are allowed. For example:

- 1) Portable stand-by generators.
- 2) Large portable emergency pumps to provide "pump-around" capability in the event of pump station failure or pipeline breaks.
- 3) Sludge or septage tankers, trailers, and other vehicles having as their sole purpose the transportation of liquid or dewatered wastes from the collector point (including individual or onsite systems) to the treatment facility or disposal site.
- 4) Tillage, planting, landspreading and harvesting equipment that is documented as necessary and reasonable for land treatment process and other vehicles demonstrated necessary to the facility and approved in advance by the PREQB.

The costs of necessary and reasonable safety equipment provided the equipment meet applicable federal, state, local or industry safety requirements are eligible.

Replacement parts identified and approved in advance by the PREQB as necessary to assure uninterrupted operation of the facility are eligible, provided they are critical parts or major systems components. These are: (i) not immediately available and/or whose procurement involves an extended “lead-time,” or (ii) identified as critical by the equipment supplier(s), or (iii) critical but not included in the inventory provided by the equipment supplier(s).

XI. Force Account

Force account administration consists of accounting, bookkeeping, and legal project work performed by municipal employees where such work is not otherwise required in the normal conduct of their jobs. Force account technical work consists of engineering services in connection with planning, design, inspection, and construction.

Eligibility of force account services is governed by limitations which are intended to insure that the applicant consider the impacts of borrowing funds to subsidize salaries that may already be included under existing municipal budgets and will have to be paid back concurrent with funding future salaries. Eligible activities include SRF project implementation tasks that are typically contracted out but can be more economically performed by qualified municipal staff. Eligible force account costs are reserved for staffs that actually perform tangible, hands-on services that have substantial and specific linkage to implementation of the project. The documentation must show that the costs are justified and appropriate based on the number of staff hours required relative to the construction implementation schedule and the complexity of the project. Additionally, the documentation must demonstrate that there is no overlap with work proposed to be contracted to other parties.

The use of municipal employees to construct an SRF project may be approved for SRF assistance only when all of the following conditions are met:

- 1) Permanent staff on the current payroll of the applicant, or the municipality or municipalities for which the SRF project is being constructed can effectively perform the construction work.
- 2) The total labor cost (salaries, fringe benefits, travel expenses) and associated equipment/materials purchase costs are less than \$50,000.
- 3) The employees involved in SRF project construction will perform the construction work concurrent with their regular duties, without the hiring of any additional staff.
- 4) The applicant can demonstrate that force account labor will be cost-effective when compared with contracted labor.

Force account costs (direct labor costs, indirect costs and other project allocable expenses, such as travel, printing or postage) incurred by an applicant for administration and technical services are eligible for reimbursement if such costs are adequately documented. In addition to specific hours worked, this documentation would include the specific staff titles/classifications, and their specific roles with respect to the proposed project. A summary of estimated hours will not be accepted for those tasks that have been completed or partially completed. Actual hours must be accounted for by providing a ledger of dates, hours worked, employee names, rates (including indirect costs) where the source of information is time sheets, daily logs, or other records to document costs incurred by each municipal employee for which funding is being sought. The following is a breakdown of eligible/ineligible tasks associated with force account administration and technical:

- 1) Administration (Eligible)
 - a) Preparation of loan application materials
 - b) Preparation of disbursement requests
 - c) Project cost accounting (up to 2-hours/week)
 - d) Preparation of project closeout documentation
 - e) Easement/land acquisition services (appraisals, agreement preparation, relocation assistance)
 - f) Legal services associated with preparation and review of contracts related to project implementation, the resolution of bid protests, the resolution of contract claims, and services associated with contract enforcement
 - g) Financial/legal services associated with preparation of a revenue system
- 2) Administration (Ineligible)
 - a) Services provided by clerical support staff such as typing and filing
 - b) Services provided by elected officials
 - c) Employee supervision
 - d) Wastewater program administration that is not sufficiently linked to a specific SRF project
- 3) Technical (Eligible)
 - a) Procurement of engineering services required to implement the project
 - b) Planning, design, inspection, and construction engineering where there are no consulting engineers providing these services for project contract(s)
 - c) Management (limited to two positions) of technical/construction contracts which may include duties/activities in the following areas:
 - d) Bidding process, including addendum preparation/approval, and contract award
 - e) Review/approval of engineering invoices and amendments
 - f) Review/approval of construction contractor pay estimates and change orders
 - g) Attendance at progress meetings

- h) Review/approval of design documents, shop drawings, as-built drawings
- 4) Technical (Ineligible)
 - a) Services that are a duplication of services provided by the project consulting engineer, any other service provider or other force account staff.
 - b) Costs incurred by operational staff of the wastewater collection/treatment system
- 5) Other
 - a) Force account costs incurred by staff of a “conduit borrower” (for example where a county applies for and receives a loan on behalf of a smaller unit of government) are eligible provided a contractual basis exists for incurring/billing those expenses based on hours/tasks.
 - b) Costs associated with a single-purpose millage election held to increase local property taxes in order to service the SRF debt, or a referendum on the SRF bond issue, where necessary, are eligible for reimbursement.

XII. Miscellaneous cost

A. Bonding Costs

Costs directly associated with obtaining an SRF loan are eligible for SRF reimbursement. For example, the expenses incurred in hiring a bond counsel to issue a qualified opinion or a financial advisor to assist the applicant in preparing a system of user charges may be included in the SRF loan computation.

An applicant seeking an SRF loan may be unable to obtain an investment grade rating for its bonds. In such cases, the purchase of bond insurance by the applicant to guarantee its debt service payments will be eligible for SRF assistance, as will the similar administrative charges for conduit financing from an umbrella unit of government.

It should be noted that any applicant that opts to use a debt service reserve to satisfy the requirement for an investment grade rating cannot include the money deposited in the reserve as an “expense” for SRF reimbursement. Since such deposits will be returned in time, they are not true expenses eligible for SRF assistance.

B. Operation, Maintenance, and Replacement Costs

Goods or services that can be classified as routine operation and maintenance or replacement items are not eligible for SRF assistance. This also includes expenses for deferred maintenance that may accrue to a larger amount if annual operation and maintenance activities not performed consistently over multiple years.

The purpose of an SRF loan is to assist the applicant with capital construction, not to fund current operation and maintenance costs. Maintenance contracts, service contracts, and extended warranties beyond the scope of standard one-year product warranties are classified as operation and maintenance services that are not eligible for SRF assistance.

The replacement of equipment will not be eligible for SRF assistance unless the component being replaced is past or near the end of its useful life and the need for its replacement was established in the project plan.

Basic maintenance equipment such as lawn mowers and more specialized items such as sewage bypass pumps and standby generators are eligible for SRF assistance, provided the need for such items was established during the project planning process.

The removal of sludge from a lagoon is not eligible for SRF assistance unless the project plan specified that the lagoon is to be expanded or relined.

C. Contamination Discovered at the Project Site

Typically, three types of contamination can be encountered during project construction: soils contaminated by petroleum or other chemicals, discarded materials such as chemical drums, and groundwater or surface waters contaminated by chemical leachate or runoff. All cleanup activities (i.e., excavation, testing, removal, handling, transportation, and disposal of contaminated materials) may be eligible for SRF assistance, provided the cleanup is limited to those areas directly affected by SRF project construction. For example, if contamination exists on ten acres of a project site but project construction directly affects only three acres, only those costs associated with the cleanup of the affected three acres are eligible for SRF reimbursement. In a project undertaken to install collector sewers, only those costs associated with the handling and disposal of contaminated materials encountered in the trench would be eligible for SRF reimbursement.

The cleanup of contamination at an SRF project site must be factored into the assessment of project alternatives, especially in regard to cost-effectiveness. This requirement applies not only to sites of known contamination but also in cases where the contamination is discovered only after SRF-funded project construction has begun. If analysis reveals significant new financial or environmental impacts, it may be necessary to reevaluate part or the entire selected alternative in favor of a more cost-effective or environmentally-acceptable alternative.

Activities related to the identification or investigation of contamination at an SRF project site, such as an environmental audit, a preliminary geotechnical investigation, or the installation of monitoring wells to document groundwater conditions, are planning activities that are eligible for SRF assistance.

For cleanup activities to be eligible for SRF assistance after an Order of Approval has been issued, the loan recipient must provide written confirmation and immediately notify to the PREQB that the contamination was encountered during project construction. The loan recipient must then provide the PREQB project manager with a description of the contamination problem, the proposed cleanup activities, and the analysis of the discovery's impact on the selected alternative in terms of its cost-effectiveness.

D. Storm Water Collection or Conveyance

While SRF assistance may be provided for the correction of combined sewer overflows, SRF funds cannot be used to pay for storm water collection or conveyance. Thus, the construction of new storm sewers to accomplish the separation of combined sewers will only be partially eligible for SRF assistance if the new storm sewers are sized to alleviate basement and street flooding that would otherwise be addressed independent from the elimination of the combined sewer overflow. The construction of or improvements to a pumping station that handles combined sewage flows may be eligible for SRF assistance as long as that construction/improvement will not provide additional storm water conveyance capacity beyond what currently exists in the collection system.

On such projects that are also designed to provide for drainage, flood control, or any purposes other than control of pollutants or estuary conservation, only the portion of the project needed for control of pollutants or estuary conservation shall be allowable.

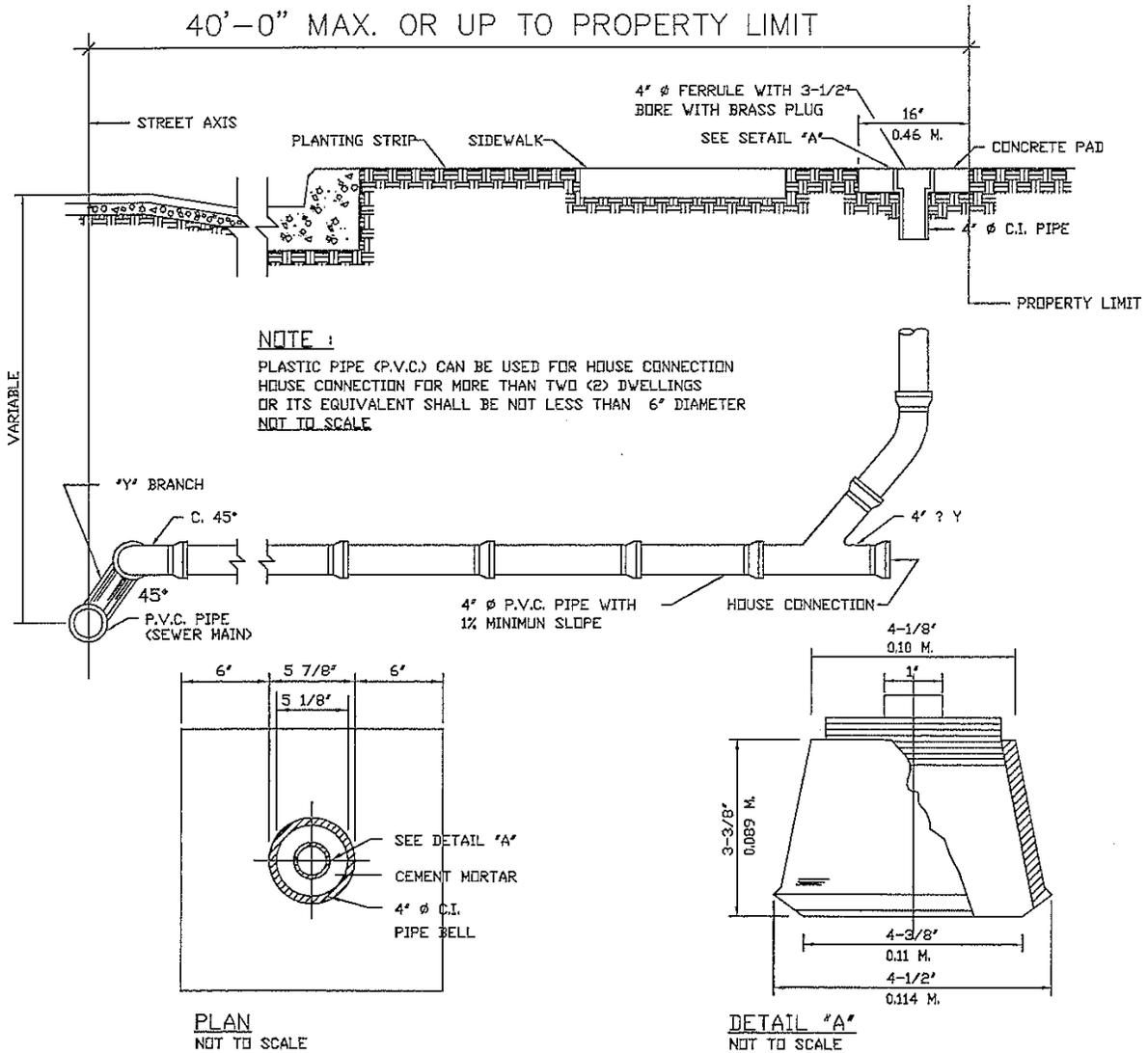
E. Miscellaneous

Ordinary operation expenses of the loan recipient including salaries and expenses of the loan recipient's employees and elected and appointed officials and preparation of routine financial reports and studies are not eligible for SRF reimbursement. In addition, administrative, engineering and legal activities associated with the establishment of departments, agencies, commissions, regions, districts or other units of government are not eligible.

Personal injury compensation or damages arising out of the project and fines and penalties due to violations of, or failure to comply with, federal, state or local laws, regulations or procedures, and related legal expenses are not eligible for assistance. The following are not allowable for SRF reimbursement:

- 1) Costs outside the scope or budget period of the approved project.
- 2) Costs for which payment has been or will be received from another state or federal source.
- 3) Operation and maintenance costs of the pollution control project.
- 4) Lease payments.
- 5) Periodic payment of royalties for the right to operate under a patent is considered an operational cost and is unallowable for loan participation.
- 6) Items of routine "programmed" maintenance such as ordinary piping, air filters, couplings, hose, bolts, to major system components.
- 7) Additional costs (e.g., building, engineering, legal, or administrative) incurred because of a contractor's lack of timely performance.
- 8) Costs of preparing a corrective action report for a project that does not meet the project performance standards.

Appendix 1: Gravity Service Connection

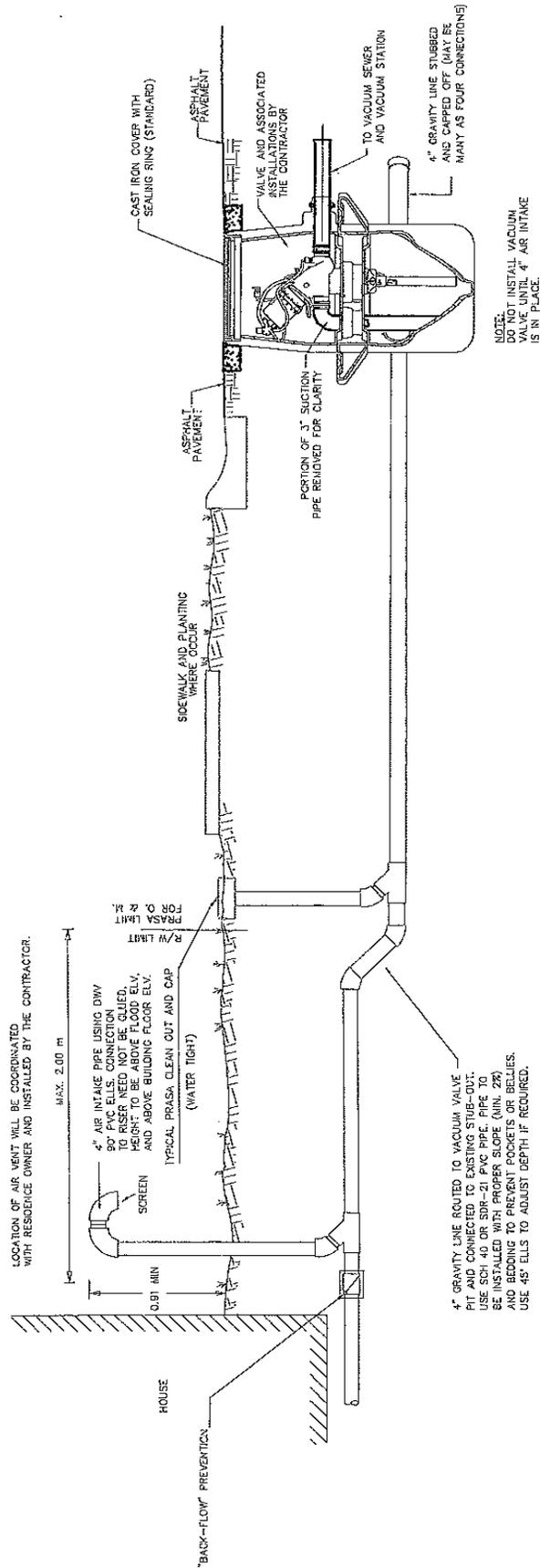


SANITARY CONNECTION DETAIL

NOT TO SCALE

NOTE RELATED TO SANITARY CONNECTION

Appendix 2: Vacuum Service Connection



VALVE PIT AFTER HOME HOOK-UP
NTS.