

July 2002

Quick Guide to Using the Project Model

There are two main data entry screens that will require input. The first screen asks general information such as case name, Region, analyst (see Attachment A).

The following additional information is required as well:

Entity Type - Usually a C-Corporation (filing IRS Form 1120 or Form 1120 A) - PROJECT defaults to this, however could also be Not-for-Profit or For Profit Other Than C- Corporation. Not for profit entities would include governmental entities, universities, not for profit hospitals, etc. For Profit Other Than C-Corporation covers S-Corporations (filing IRS Form 1120-S), Partnerships (filing IRS Form 1065) and Individuals (filing IRS Forms 1040, 1040 A and 1040 EZ). This last category is for entities that pay taxes at individual rates. Even though they are businesses and their income is reported on their corporate/partnership return, their incomes are taxed at individual rates.)

State - this is the state in which the violating facility is located, not necessarily the state in which they are incorporated. Selecting the state will bring up the appropriate tax rates.

Taxes - PROJECT has state-specific tax rates built in. Select the appropriate state and the tax rates are filled in for you. If a SEP involves multiple states, you may select AVG in place of a specific state. AVG gives an average of all state tax rates

If you believe that you have information supporting the use of tax rates different from that supplied by PROJECT, please contact the enforcement economics toll free hotline for assistance - 888-326-6778.

Penalty Payment Date - This is the date when the violator actually hands over the check, not necessarily the date of the settlement.

After you have filled in the general information, you will need to create a New Run. A “run” is the analysis that PROJECT will do for you. Give your “run” a name and type it in the field titled “New Run.” Click on Add.

Highlight your run and click Enter/Edit. This will bring up the Run Input Screen. (See attachment B) You will be asked to input the following data:

Capital Investment - includes depreciable investments necessary to implement the SEP. This category includes items that wear out such as buildings, equipment, and other long-lived assets..

**Note: LAND IS NOT A DEPRECIABLE CAPITAL INVESTMENT.*

One time, Nondepreciable Expenditures - includes any one-time costs necessary to implement the SEP that do not involve capital expenditures. Such costs could be for materials or labor needed to start up the project, for **purchasing land**, or for engineering, financial or other services that are purchased as part of the project. Examples of one-time nondepreciable costs associated with SEP's include developing a training program, disposing of hazardous materials, dredging a stream, conducting a pollution prevention assessment and purchasing or restoring a wetland. If such expenditures must occur over time and regularly, rather than as a one-time instance, then input these costs instead as an annual recurring cost. (For example, if the project involves dredging a stream for four years at \$100,000 a year, your entry would be \$100,000 as an annual recurring cost.)

NOTE: IRS considers the labor and material costs associated with the construction or installation of a capital investment to be capital costs, not one time depreciable costs.

Tax Deductible - PROJECT assumes that the cost of the SEP will be deducted by the Respondent/Defendant. Unless the Respondent/Defendant is willing to certify that they will NOT deduct the SEP, this box should be checked.

** NOTE: Regarding land purchases - if the one time expense is for a land purchase, the tax deductible box should be unchecked. The reason for this is that the IRS does not allow any deductions for the cost of land.*

Annually Recurring Costs - includes costs associated with the on-going implementation of the SEP. This includes items such as labor, power, raw materials, supplies, waste disposal, lease payments, and property taxes. It DOES NOT include annualized capital recovery, interest payments, or depreciation.

**NOTE That Annual Cost may be a negative number to reflect net cost savings associated with the implementation of the project.*

Cost Estimate Dates - all costs require the entry of an estimate date. This is the **date on which the SEP estimate is based**. If you know the exact date (provided by the respondent/defendant in a memo or email, or in a phone call) you should enter that date. If you only know that the estimate was made in a particular month, use the first day of that month.

Inflation Rate - PROJECT will put this in for you. For a detailed discussion, see the PROJECT User's Manual. If you feel you want to use a rate different from the PROJECT default value, please contact the hotline at 888-326-6778.

Number of Credited Years - This should correspond to the number of years that the respondent/defendant is legally required to operate the project.

** NOTE THAT FOR PROJECTS WITH A NEGATIVE ANNUAL OPERATING EXPENSE FIGURE, A SLIGHTLY DIFFERENT PROCEDURE MAY APPLY IN THE FUTURE.*

Project Operation Date - This is the date on which the project will begin operation - generally when all capital investments and one-time expenses have been incurred. If the SEP involves only annual expenses (or the vast majority of the expenses are annual) then you should use the date the defendant begins incurring the annual expenses as the Project Operation Date.

Discount Rate - again, this is calculated by PROJECT. If you have questions or want to use a different rate, please contact the hotline at 888-326-6778.

Getting the Result: Once you have finished entering the data, click on OK. Highlight your run and click on Calculate. PROJECT will provide a summary sheet of the calculations and the final result. (see attachment C)

PROJECT RESULTS - The value that results from a PROJECT run is a reasonable estimate of the net present after-tax cost of the proposed SEP. It is this figure that should be used as the value of the proposed SEP, and it is from this figure that penalty mitigation consideration should be applied. A negative PROJECT result indicates that the proposed SEP will be profitable to the defendant. Should this result occur, please contact HQ for further guidance.

QUESTIONS: For questions about PROJECT, using PROJECT, or PROJECT results please use the help system in model by typing the F1 key or accessing the Help menu at the top of the screen. If that is insufficient, please contact the enforcement economics hotline at 888-326-6778, Jonathan Libber at 202-564-6102. Melissa Raack at 202-564-7039 or Beth Cavalier at 202-564-3271.