

**GUEST**

Dear Governor, as you know, we're currently facing a controversy around the funding for cleanup of a highly polluted Superfund site. Before delving into some details, I wanted to divide my talk into three parts.

**SPEAKER:**

First, I'll walk you through why this has become a controversial topic today. Secondly, I'll walk you through how you can apply cost-benefit analysis in this particular case. And finally, I'll close with some observations around possible gaps and recommendations on how to move forward.

So first some background. A decade ago some abandoned underground storage tanks from a former foundry leaked into neighboring wetlands. Given that the company had gone out of business, it was impossible to hold them to account for the cost of the cleanup. As a result, we put in \$3 million to cap the site and sequester the polluted water and soil.

Today this issues resurfaced because the city wants to build a new mall on the site and has requested that the state government fund the construction of a road that would link this area near an interstate. This sparked debate around who should fund the cleanup, which is estimated to cost \$35 million. The local government argues that the economic benefits of the mall on this site will be widespread so the state should cover these costs.

However, the transportation agency believes that the developers should cover these costs given that they will gain much of the economic benefits. To develop a position, you asked me to work on a cost benefit analysis, and I'll walk you through the process of this analysis.

As you know the purpose of a cost benefit analysis is to determine whether the social benefits exceed the social costs. The benefits are an increase in the human environmental well-being, while the costs are the reductions in this well-being.

To sum the benefits, we would calculate the willingness to pay for benefits or accept compensation for any losses that might occur. We also determine the standing, in other words, the stakeholders whose costs and benefits are to be considered, and the time over which these costs and benefits are to be counted and discounted over time.

Finally, to compare the costs and benefits, we use that present value. In other words, the discount of these values over time. And then that present value is important because it helps us rank our options. And we should only consider implementing those that have a positive net present value.

For this particular case here are some of the most important direct and indirect costs and benefits that we could focus on. Some of the potential costs of development of this mall would be the actual cleanup of the site and the ongoing monitoring of any lingering contamination, certifying compliance and authorizing sites for redevelopment, building, maintaining a road or necessary structures such as bridges or parking lots, loss of revenue of existing local and state businesses, increased traffic, as well as air and noise pollution in the area and any resulting shifts in demographics of these areas.

Some potential benefits could be economic activity and generation of business revenues, employments, wages, and benefits that can affect household income, which in turn can propel the economy, and state and local taxes can increase revenue for the government. It's important to note that many of these issues can be seen as either cost or benefits depending on different stakeholders point of view.

For example, a large new mall could increase the property value in some surrounding areas and decrease it in others. As far as time frame, it would be important to capture each phase involved from the cleanup of the development construction to its functioning in the long-term, so we can project the potential long-term costs and benefits. Ideally, a lot of psychoanalysis that captures the impacts of the mall from construction to deconstruction would be carried out.

Regarding the geographic scope, it's key to include in the study the actual site plus a certain radius of surrounding areas and neighboring towns to ensure that cost benefit analysis gains the full picture of the impacts of the project. Each cost benefit would require a different scope depending on the impact and how far it would reach the surrounding areas. Consultation with local stakeholders can be helpful in determining the scope.

Finally, regarding the question of inevitable distribution of costs and benefits. We may give higher weight of cost benefit for particular stakeholders who may experience the impacts at different rates due to particular situations or locations such as indigenous peoples with cultural and physical survival may be at stake. Those who are negatively affected by it would carry higher costs, and therefore that should be factored in.

To wrap up, I just wanted to offer some recommendations and closing thoughts. One, issues that we're discussing, two, scenarios keeping the site as is or conducting cleanup for a new development such as a mall. To make an informed decision and given that environmental groups claim that there have been long-term health effects experienced by water users in the area, it would be key to carry out environmental health risk analysis of the current site, so we know what we're comparing the action of redevelopment to.

In this case, non-monetary costs and benefits should be given a score so that the two options of action and non-action can be compared. Moreover, I would also encourage us to consider other options aside from the construction of a mall as a form of redevelopment. It would be important to consider other alternatives that might generate higher benefit at a lower cost.

Taking these steps and conducting a cost benefit analysis will give us a more comprehensive picture of the situation and fill in some important gaps of information that we currently face to make an informed decision. A well done cost benefit analysis will help us determine which course of action, as well as how much each party should contribute to make this plan actually happen. Thank you.