Designation: E 964 – 06

Standard Practice for
Measuring Benefit-to-Cost and Savings-to-Investment Ratios for Buildings and Building Systems[1]

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INTRODUCTION

This is one in a series of practices for applying economic evaluation methods to building-related decisions. Methods covered by this practice are benefit-to-cost ratio (BCR) and savings-to-investment ratio (SIR). These are members of a family of economic evaluation methods that can be used to measure the economic consequences of a decision over a specified period of time. The BCR is used when the focus is on benefits (that is, advantages measured in dollars) relative to project costs. The SIR, a variation of the BCR, is used when the focus is on project savings (that is, cost reductions) relative to project costs. The family of methods includes, in addition to BCR and SIR, net benefits, net savings, life-cycle cost, internal rate-of-return, adjusted internal rate-of-return, and payback (see Practices E 917, E 1057, E 1074, and E 1121). Guide E 1185 directs you to the appropriate method for a particular economic problem.

BCR and SIR are numerical ratios that indicate the economic performance of a project by the size of the ratio. A ratio less than 1.0 indicates a project that is uneconomic, a ratio of 1.0 indicates a project whose benefits or savings just equal its costs, and a ratio greater than 1.0 indicates a project that is economic. While it is straightforward to use ratios to determine whether a given project is economic or uneconomic, care must be taken to correctly interpret ratios when using them to choose among alternative designs and sizes of a project, or to assign priority to projects competing for limited funds.

1. Scope

1.1 This practice covers a procedure for calculating and interpreting benefit-to-cost ratios (BCR) and savings-to-investment ratios (SIR) as an aid for making building-related decisions.

1.2 A basic premise of the BCR and SIR methods is that future as well as present benefits and costs arising from a decision are important to that decision, and, if measurable in dollars, should be included in calculating the BCR and SIR.

1.3 Dollar amounts used to calculate BCR and SIR are all discounted, that is, expressed in time-equivalent dollars, either in present value or uniform annual value terms.

2. Referenced Documents

2.1 *ASTM Standards:* [2]

E 631 Terminology of Building Constructions

E 833 Terminology of Building Economics

E 917 Practice for Measuring Life-Cycle Costs of Buildings and Building Systems

E 1057 Practice for Measuring Internal Rate of Return and Adjusted Internal Rate of Return for Investments in Buildings and Building Systems

E 1074 Practice for Measuring Net Benefits and Net Savings for Investments in Buildings and Building Systems

E 1121 Practice for Measuring Payback for Investments in Buildings and Building Systems

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E 1185 Guide for Selecting Economic Methods for Evaluating Investments in Buildings and Building Systems

E 1369 Guide for Selecting Techniques for Treating Uncertainty and Risk in the Economic Evaluation of Buildings and Building Systems

E 1765 Practice for Applying Analytical Hierarchy Process (AHP) to Multiattribute Decision Analysis of Investments Related to Buildings and Building Systems

E 1946 Practice for Measuring Cost Risk of Buildings and Building Systems

E 2204 Guide for Summarizing the Economic Impacts of Building-Related Projects

2.2 *ASTM Adjuncts:*

Discount Factor Tables, Adjunct to Practices E 917, E 964, E 1057, E 1074, and E 1121[3]

3. Terminology

3.1 *Definitions*—For definitions of terms used in this practice, refer to Terminologies E 631 and E 833.

4. Summary of Practice

4.1 This practice identifies related ASTM standards and adjuncts. It outlines the recommended steps for carrying out an analysis using the BCR or SIR method, explains each step, and gives examples. This practice discusses the importance of specifying objectives, alternatives, and constraints at the outset of an evaluation. It identifies data and assumptions needed for calculating BCRs and SIRs, and shows how to calculate the ratios. This practice emphasizes the importance of correctly interpreting the meaning of the ratios in different applications, and of taking into account uncertainty, unquantified effects, and funding constraints. It identifies requirements for documentation and recommends appropriate contents for a BCR or SIR report. This practice also explains and illustrates the application of the BCR and SIR methods to decide whether to accept or reject a project, how much to invest in a project, and how to allocate limited investment funds among competing uses.

5. Significance and Use

5.1 The BCR and SIR provide measures of economic performance in a single number that indicates whether a proposed building or building system is preferred over a mutually exclusive alternative that serves as the base for computing the ratio. It may be contrasted with the life-cycle cost (LCC) method that requires two LCC measures to evaluate the economic performance of a building or building system—one for each alternative.

5.2 The ratio indicates discounted dollar benefits (or savings) per dollar of discounted costs.

5.3 The BCR or SIR can be used to determine if a given building or building system is economic relative to the alternative of not having it.

5.4 The BCR or SIR computed on increments of benefits (or savings) and costs can be used to determine if one design or size of a building or system is more economic than another.

5.5 The BCR or SIR can be used as an aid to select the economically efficient set of projects among many competing for limited funding. The efficient set of projects will maximize aggregate net benefits or net savings obtainable for the budget.

6. Procedure

6.1 The recommended steps for carrying out an economic evaluation using the BCR or SIR method are summarized as follows:

6.1.1 Identify objectives, constraints, and alternatives (see Section 7),

6.1.2 Compile data and establish assumptions for the evaluation (see Section 8),

6.1.3 Compute BCR or SIR (see Section 9),

6.1.4 Analyze the BCR or SIR results and make a decision, taking into account uncertainty, unquantified effects, and funding or cash-flow constraints (see Section 10), and

6.1.5 Document the evaluation and prepare a report if needed (see Section 11).

7. Objectives, Constraints, and Alternatives

7.1 First, the decisionmaker's objectives should be clearly specified. This is crucial to defining the problem and determining the suitability of the BCR or SIR method. Second, constraints that limit potential alternatives for accomplishing the objectives should be identified. Third, alternatives that are technically and otherwise feasible in light of the constraints should be identified.

7.2 The example in this section illustrates the objective, constraints, and alternatives for a building investment that could be evaluated using the BCR method. The decisionmaker's objective is to maximize net benefits (profits) from investment in new stores in a national chain. The problem is to choose locations for the stores. There are two constraints: (*1*) the chain already has a sufficient number of stores in the northeast, and (*2*) there is only enough investment capital to open five stores. Twelve alternative locations (excluding locations in the northeast) are identified as potentially profitable. The BCR can help the decisionmaker identify which five of the twelve potential locations will maximize aggregate net benefits (profits) from the available budget. The approach is to compute a BCR for each location and rank the locations in descending order of their BCRs. If the budget cannot be fully allocated by selecting locations in descending order of their BCRs, the computation of aggregate net benefits is recommended to confirm that aggregate net benefits are maximized by the selected locations.

7.3 The example in this section describes the objective, constraints, and alternatives for a building investment that could be evaluated using the SIR method. The building is a jail. The objective is to reduce the cost of maintaining a target level of security (as might be measured by number of escapees per year). Constraints are that techniques to increase security must be unobtrusive to the surrounding neighborhood and must have low maintenance. The superintendent of prisons is evaluating with the SIR method a new perimeter detection device that costs 1 million dollars to install, and reduces labor costs for guards by 30 %. If the SIR is greater than 1.0, the device is deemed cost effective.

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[3] Available from ASTM International Headquarters. Order Adjunct No. ADJE091703.

8. Data and Assumptions

8.1 Guidelines for compiling data and making assumptions are treated in detail in Practice E 917, and therefore they are discussed only briefly here.

8.2 To calculate BCR or SIR, estimates typically are needed for revenue or other benefits; acquisition costs, including costs of planning, design, engineering, construction, purchase, installation, land, and site preparation; utility costs, including costs of energy, water, and sewage; nonenergy operating and maintenance costs; repair and replacement costs; resale or retention values; disposal costs; insurance costs; and, if applicable, functional use costs.

8.3 Information is also needed regarding the study period, discount rate, tax rates and applicable tax rules, and, if an integral part of the investment package, the terms of financing. (These topics are treated in Section 8 of Practice E 917.)

8.4 The outcome of an analysis will vary, depending on the data estimates and assumptions. Thus, it is important to select carefully the assumed values for critical parameters to arrive at a realistic solution.

8.5 If the outcome appears particularly sensitive to the value assigned to a given parameter, and the estimate is of poor or unknown quality, the analyst may wish to improve the quality of the data. (Sensitivity analysis, a useful technique for identifying critical parameters, is treated in Section 10.3 of Practice E 917.)

8.6 According to personal preference or organizational policy, the analyst normally adopts a simplified model of cash-flow timing to describe the occurrence of costs and benefits within each year; elects whether to express discounted amounts in present-value dollars or in annual-value dollars; and decides whether to work in constant dollars using a real discount rate or in current dollars using a nominal discount rate. (These topics are treated in Section 8 of Practice E 917.)

8.7 The level of effort that goes into the evaluation may range from an inexpensive, back-of-the-envelope calculation intended to provide a ball-park estimate, to an expensive, detailed, thoroughly documented analysis intended to withstand scrutiny and to provide as much accuracy as possible. Different levels of effort are appropriate for different circumstances. (Factors influencing the level of effort are discussed in the paragraph on comprehensiveness in Section 8 of Practice E 917.)

9. Calculation of BCR and SIR[4]

9.1 In concept, the BCR and SIR are simple: benefits (or savings) divided by costs, where all dollar amounts are discounted to present or annual values.

9.2 In practice, it is important to formulate the ratio so as to satisfy the investor's objective. This requires attention to the placement of costs in the numerator and denominator. To maximize net benefits from a designated expenditure, it is necessary to place in the denominator only that portion of costs

on which the investor wishes to maximize returns. For example, to maximize the return on investor equity, place only that part of the investment budget representing investor's equity funds in the denominator of the ratio; deduct other costs from benefits or savings in the numerator. On the other hand, to maximize the return on the total of equity *and* borrowed investment funds, place their sum in the denominator of the ratio.

9.3 Formulation is important because changing the placement of cost and benefit items can induce changes in the ratio. Changing the placement of a cost item from the denominator (where it increases costs) to the numerator (where it decreases benefits or savings) will *not* cause a project that appears economic by one formulation of the ratio to appear uneconomic by a different formulation. But changes in the numerical value of the ratio can affect relative rankings of competing, independent projects, and thereby influence investment decisions.

9.4 Biasing effects, detrimental to economic efficiency, can result from certain formulations of the BCR and SIR ratios. For example, when allocating an investment budget among competing projects that differ significantly in their maintenance costs, placing maintenance costs in the denominator with investment costs tends to bias selection away from projects with relatively high maintenance costs, even when they offer higher net benefits (profits) than competing projects. Similar biasing effects can occur in the placement of other noninvestment costs such as energy or labor costs. This outcome reflects the fact that adding a given amount to the denominator of a ratio reduces the quotient more than does subtracting an identical amount from the numerator. Placing all noninvestment costs in the numerator will eliminate this bias when the objective is to maximize the return on the investment budget.

9.5 Eq 1 and 2 provide formulations of the BCR and SIR that avoid biasing effects, and allow the analyst flexibility in choosing the part of the investment budget on which to maximize the return. Eq 1 is used when benefits predominate, and Eq 2 when a project's primary advantage is lower costs.

$$BCR = \frac{\sum_{t=0}^{N} (B_t - \overline{C}_t)/(1 + i)^t}{\sum_{t=0}^{N} \overline{I}_t/(1 + i)^t} \qquad (1)$$

where:
BCR = benefit-to-cost ratio,
B_t = benefits in period t; that is, advantages in revenue or performance, measured in dollars, of the building or system as compared with a mutually exclusive alternative (See Note 1),
$\overline{C}_t$ = costs in period t, excluding investment costs that are to be placed in the denominator for the building or system, less counterpart costs in period t for a mutually exclusive alternative,
$\overline{I}_t$ = those investment costs in period t on which the investor wishes to maximize the return, less similar investment costs in period t for a mutually exclusive alternative, and
i = the discount rate.

NOTE 1—Mutually exclusive alternatives are those for which accepting one automatically means not accepting the others. For a given project one mutually exclusive alternative may be not to undertake the project. If so, it is against this alternative that a potential investment must be compared to determine its cost-effectiveness. Alternative designs and sizes of a project for a given application are also mutually exclusive.

$$SIR = \frac{\sum_{t=0}^{N} S_t/(1+i)^t}{\sum_{t=0}^{N} \bar{I}_t/(1+i)^t} \qquad (2)$$

where:
SIR = savings-to-investment ratio, and
S_t = cost savings in period t, adjusted to include any benefits in period t, for the building or building system to be evaluated as compared with a mtually exclusive alternate.

That is:

$$S_t = B_t - \bar{C}_t \ for \ t = 0, ...N$$

where:

$$\left| \sum_{t=0}^{N} \bar{C}_t \right| >> \sum_{t=0}^{N} B_t \ and \ \sum_{t=0}^{N} \bar{C}_t < 0).$$

NOTE 2—The BCR is normally used instead of the SIR unless cost reductions are *much* greater than revenue and performance advantages; hence the use of the symbol >> in the definition of S_t.

9.6 When financing is included in the analysis, I is typically set equal to investment costs paid up-front by the investor, that is, the downpayment paid out of equity funds. When financing is not included in the analysis, I is typically set equal to the total of investment costs.

9.7 Equation 3 is an alternative formulation of the BCR that gives the same mathematical results as Eq 1:

$$BCR = \frac{NB + \left(\sum_{t=0}^{N} \bar{I}_t/(1+i)^t \right)}{\sum_{t=0}^{N} \bar{I}_t/(1+i)^t} \qquad (3)$$

where:
NB = net benefits, and

$$NB = \sum_{t=0}^{N} (B_t - \bar{C}_t - \bar{I}_t)/(1+i)^t.$$

NOTE 3—Investors may prefer in some cases a formulation of the ratio that has a bias, as the term is used here, because they may wish to maximize the return on a particular type of fund. For example, current account expenditures might be the constraining resource, and they might wish to maximize the return on current account expenditures.

9.8 For ease of computation, instead of discounting the amount in each year and summing, as called for in Eq 1-3, the cash flows can be grouped into categories with the same pattern of occurrence and discounted using discount factors. (How to discount different patterns of cash flows is explained in the Section 9 of Practice E 917.)

9.9 If income tax effects are a significant factor, they should be included in the analysis. (Income tax adjustments are treated in Section 9 of Practice E 917 and are illustrated in Appendix X1 of this practice.)

10. Analysis of BCR or SIR Results and the Decision

10.1 Take care to interpret correctly the results of the BCR or SIR.

10.1.1 When a given, discretionary investment is compared against the alternative of doing nothing, a ratio greater than 1.0 indicates that the investment's benefits or savings exceed its costs. This supports accepting the investment on economic grounds, as opposed to doing nothing. For example, an SIR greater than 1.0 on an investment in a central vacuuming system for an office building indicates that the system is estimated to be cost effective. The higher the ratio, the more economically attractive the investment. (Accepting or rejecting individual investments is treated further in 12.2.)

10.1.2 When comparing alternative designs or sizes of a given building or building system, the alternative with the highest BCR or SIR is usually *not* the most economic choice. For design and sizing decisions it is important to compute incremental BCRs and SIRs by dividing the additional benefits or savings gained from an expansion in investment by the additional investment cost. It pays to expand an investment as long as incremental benefits or savings from the expansion exceed incremental costs. Net benefits (or net savings) reach their maximum when the incremental BCR or SIR equals 1.0. For example, if increasing the level of thermal insulation in a house from R-11 (resistance level = 11) to R-19 gives an incremental SIR of 5.0, the increment is cost effective. If further increasing the level of insulation from R-19 to R-30 gives an incremental SIR of 3.0, that increment is also cost effective. And, if increasing the insulation from R-30 to R-38 gives an incremental SIR greater than 1.0, it pays to expand the level to R-38. (Project design and sizing is treated further in 12.4.)

10.1.3 Using BCRs or SIRs to assign priority among independent, competing projects *suggests* the optimum selection, but is not always a reliable approach. If project costs are "lumpy" such that the budget cannot be used up exactly by adhering strictly to the BCR or SIR ranking, the optimum selection may differ from that indicated by the ratios. (Allocating a budget is treated further in 12.3.)

10.2 In the final investment decision, take into account not only the numerical values of the BCRs or SIRs, but also uncertainty of investment alternatives relative to the risk attitudes of the investor, the availability of funding and other cash-flow constraints, any unquantified effects attributable to the alternatives, and the possibility of noneconomic objectives. (These topics are discussed in Section 10 of Practice E 917.)

10.2.1 Decision makers typically experience uncertainty about the correct values to use in establishing basic assumptions and in estimating future costs. Guide E 1369 recommends techniques for treating uncertainty in parameter values in an economic evaluation. It also recommends techniques for evaluating the risk that a project will have a less favorable economic outcome than what is desired or expected. Practice E 1946 establishes a procedure for measuring cost risk for buildings and building systems, using the Monte Carlo simulation technique as described in Guide E 1369. Practice E 917 provides direction on how to apply Monte Carlo simulation when performing economic evaluations of alternatives designed to

mitigate the effects of natural and man-made hazards that occur infrequently but have significant consequences. Practice E 917 contains a comprehensive example on the application of Monte Carlo simulation in evaluating the merits of alternative risk mitigation strategies for a prototypical data center.

10.2.2 Describe any significant effects that remain unquantified. Explain how these effects impact the recommended alternative. Refer to Practice E 1765 for guidance on how to present unquantified effects along with the computed values of the BCR, SIR, or any other measures of economic performance.

11. BCR or SIR Report

11.1 A report should document the BCR or SIR analysis. Key data and assumptions should be identified for each of the alternatives considered. Significant effects that remain unquantified should be described in the report. And it should explain the basis for arriving at a decision. (This topic is discussed in more detail in Section 11 of Practice E 917.)

11.2 Guide E 2204 presents a generic format for reporting the results of a BCR or SIR analysis. It provides technical persons, analysts, and researchers a tool for communicating results in a condensed format to management and non-technical persons. The generic format calls for a description of the significance of the project, the analysis strategy, a listing of data and assumptions, and a presentation of the computed values of the BCR, SIR, or any other measures of economic performance.

12. Applications

12.1 The BCR and SIR methods can be used to indicate whether a given investment is economically attractive, to choose among nonmutually exclusive projects competing for a limited budget, and to determine which engineering alternative (that is, which project design or size) is most economically efficient. This practice gives five illustrations of applications of the BCR and SIR methods. One is a detailed example of a real estate investment problem. It appears in Appendix X1. The other four are brief illustrations presented in Tables 1-5.

12.2 *Accepting or Rejecting Individual Investments*:

12.2.1 If an investment's BCR or SIR is greater than 1.0, its discounted benefits or savings exceed its discounted costs, and it is economically attractive. On the other hand, if the ratio is less than 1.0, discounted benefits or savings are less than discounted costs, and it is not economically attractive.

12.2.2 An illustration of the application of the BCR method to decide whether to accept an investment in real estate is given in Appendix X1. The example shows the evaluation of an investment in an apartment building. It is an after-tax evalua-

tion, and shows year-by-year cash flows. The BCR of 5.36 means that the real estate investment is estimated to return $5.36 for every dollar invested, over and above the minimum required rate of return imposed by the discount rate.

12.2.3 Table 1 illustrates the application of the SIR method to evaluate three energy conservation projects. Evaluated independently of one another, each project is cost effective as indicated in Column 7 by SIRs greater than 1.0.

12.3 *Choosing Among Nonmutually Exclusive Projects Competing for a Limited Budget*:

12.3.1 A second use of the BCR or SIR is to choose among nonmutually exclusive projects competing for a limited budget. If there were no budget constraint, it would pay to accept all projects whose discounted benefits or savings exceed their discounted costs. With a budget constraint, it may not be

TABLE 2 Illustration of SIR Ranking

(1) Project	(2) Investment Costs, PV $[A]	(3) Savings, PV $[A]	(4) Net Savings, PV $[A] (4) = (3) – (2)	(5) SIR	(6) SIR Ranking
A	10 000	8 500	−1500	0.85	6
B	30 000	33 220	3220	1.11	3
C	5 000	6 660	1660	1.33	1
D	40 000	42 550	2550	1.06	5
E	90 000	96 250	6250	1.07	4
F	10 000	12 620	2620	1.26	2
G	45 000	49 840	4840	1.11	3

[A] PV $ = present value dollars.

TABLE 3 Project Data

(1) Project Size Alternatives	(2) Total Investment Required, $	(3) Project Life, years	(4) Total Benefits, $	(5) Net Benefits, $
0	0	0	0	0
A	100 000	20	500 000	400 000
B	125 000	20	575 000	450 000
C	145 000	20	600 000	455 000
D	155 000	20	605 000	450 000

TABLE 4 BCRs for Project Size Changes[A]

(1) From Size	(2) To Size 0	(3) A	(4) B	(5) C	(6) D
0	...	5.0	4.6	4.1	3.9
A	...	...	3.0	2.2	1.9
B	...	...	...	1.3	1.0
C	...	...	...	...	0.5

[A] Based on data in Table 3.

TABLE 1 Illustration of SIR to Evaluate Project Cost Effectiveness

(1) Projects	(2) Investment Costs, PV $[A]	(3) Energy Savings, PV $[A]	(4) Maintenance Cost, PV $[A]	(5) Savings Less Future Costs, PV $[A] (5) = (3) – (4)	(6) Net Savings, PV $[A] (6) = (5) – (2)	(7) SIR[B]
A	1000	6000	2300	3700	2700	3.70
B	1000	3800	0	3800	2800	3.80
C	1000	3000	−600	3600	2600	3.60

[A] PV $ = present value dollars.
[B] Calculated according to Eq 2; for example, for project alternative A, SIR = ($6000 − $2300)/$1000 = 3.70.

TABLE 5 Allocating a Budget Among Projects of Alternative Size[A]

(1) Investment Alternative	(2) Investment Cost, PV $[B]	(3) Cumulative Investment, PV $[B]	(4) Energy Savings,[C] PV $[B]	(5) Net Savings (5) = (4) − (2), PV $[B]	(6) SIR (6) = (4)/(2)	(7) Ranking
Add R-8 insulation	400	400	5000	4600	12.5	1
Increase insulation from R-8 to R-19	250	650	1600	1350	6.4	2
Add storm windows on north side	800	1450	3200	2400	4.0	3
Increase insulation from R-19 to R-30	250	1700	600	350	2.4	4
Add solar water heater	1500	3200	3300	1800	2.2	5
Add storm windows on south side	800	4000	1200	400	1.5	6
Increase insulation from R-30 to R-38	200	4200	250	50	1.3	7
Replace furnace	2500	6700	2750	250	1.1	8

[A] This example is solely for the purpose of illustrating use of the SIR method for making decisions. The costs and savings data are purely hypothetical.
[B] PV $ = present value dollars.
[C] Based on a 15 year holding period for the building with no residual value.

possible to accept all economically worthwhile projects, and a method of choosing among them is needed.

12.3.2 If the available budget can be fully exhausted by selecting projects in descending order of their BCRs or SIRs, the BCR or SIR method will provide a reliable guide for selecting projects. But if "lumpiness" in project costs precludes selecting projects exactly in descending order of their BCRs or SIRs, the BCR or SIR can be used only as an indicator of potential economic combinations of projects. In this case, potential combinations must be tested on a trial-and-error basis to determine which combination maximizes aggregate net benefits or net savings.

12.3.3 Table 2 illustrates the use of the SIR by a public agency to choose among potential investments in energy conservation. Seven independent projects (A through G) for different buildings are listed with their corresponding savings and costs. Column 6 ranks the projects by their SIR values.

12.3.4 To maximize net savings, the agency will undertake projects in descending order of their SIRs until the budget is exhausted. For example, if the budget were $90 000, Projects C, F, G, and B would be selected. No other combination of projects for that budget could produce a greater net savings.

12.3.5 If the SIRs fall below 1.0 before the available budget is exhausted, then project acceptance should terminate with the last project whose SIR exceeds 1.0. For example, a budget of $230 000 or more would allow accepting all projects in Table 2 except Project A which has an SIR less than 1.0. Project A is not cost effective and would be rejected even if the budget were sufficiently large to fund it.

12.3.6 If a higher-ranked project costs more than the available budget while lower-ranked projects are still affordable within the available budget, it may pay to skip over the higher-ranked project and select lower-ranked projects with ratios greater than 1.0 until the budget is exhausted. Alternatively, it may pay to drop projects already selected rather than pass over a project to take lower-ranked projects.

12.3.7 When the budget cannot be completely exhausted by strictly following the ratio ranking, it is sound practice to test different combinations of projects on a trial-and-error basis until the combination is found for which aggregate net benefits or net savings are maximized for the given budget. This may involve holding back part of the budget if it cannot be spent in such a way that aggregate net benefits or net savings increase with its expenditure.

NOTE 4—In evaluating multiple projects, the problem of interdependency among projects may arise; that is, undertaking one project may affect the relative life-cycle costs and savings of remaining projects. For example, the value of adding an automatic environmental control system will be different depending on the level of insulation in the building envelope and vice versa. Undertaking one will tend to diminish the value of the other. A simultaneous solution would be ideal.

A practical approach often used to approximate the combination of interdependent projects that maximizes aggregate net benefits or net savings is to evaluate each of the candidate projects independently of one another, select the one with the highest BCR or SIR, and then adjust the BCR or SIR on any remaining projects that are expected to be substantially altered by the first, higher-priority selection. The selection process can then be continued, with necessary adjustments to the BCRs or SIRs of all projects, as each additional selection is made. The need to find optimal combinations of interdependent projects may arise even if there is no budget constraint.

12.4 *Selecting Among Alternative Engineering Alternatives*:

12.4.1 A third application of the BCR or SIR method is to determine which project size or design is most efficient (that is, which engineering alternative maximizes net benefits or net savings). Determination of a dam's height and capacity is an example of sizing. Selecting among single, double, or triple glazing is an example of choosing the appropriate design.

12.4.2 If there is no budget limitation for a given project, the most efficient size or design occurs when the ratio of incremental benefits or savings to incremental costs equals (or approximates) 1.0 for the last unit of investment (that is, when marginal benefits equal marginal costs).

12.4.3 Tables 3 and 4 together illustrate how project size can be selected on the basis of incremental BCR analysis. Table 3 presents five size alternatives (zero and A through D) for a project, and corresponding total costs, total benefits, and net benefits. An inspection of net benefits in Column 5 shows that Size C maximizes net benefits and, hence, is the economically efficient choice in the absence of a budget constraint. This provides the correct solution against which to compare the results of the incremental BCR analysis in Table 4.

12.4.4 Table 4 shows the BCRs for all possible size changes for the alternatives described in Table 3. Table 4 is read by row and from left to right. By comparing each size against a zero baseline, the top row gives, in effect, BCRs on total investment. Although Size A has the highest BCR (5), it is not the size that gives the highest net benefits. (This may be confirmed by Table