Oregon Department of Environmental Quality

Clean Water State Revolving Fund Annual Report

SEPTEMBER 2020

Clean Water State Revolving Fund

State of Oregon Department of Environmental Quality

This report prepared by:

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Executive Summary

Oregon's Clean Water State Revolving Fund mission is to provide technical assistance and below-market rate loans for planning, design and construction projects that improve water quality and environmental outcomes. This program supports public health, local economies and environmental protection statewide.

Since the program began in 1988, communities all over Oregon have benefited from more than $1 billion in water infrastructure investments. The program finances traditional wastewater treatment projects that address point source pollution, as well as nontraditional treatment or nonpoint source pollution control projects. Unlike point source pollution from industrial and sewage treatment plants, nonpoint source pollution comes from a variety of sources such as rainfall or snowmelt moving over and through the ground, contaminating rivers, lakes and other bodies of water.

The Clean Water State Revolving Fund is maintained through an annual EPA capitalization grant, repaid loans, interest and fees. According to EPA, for each dollar of federal capitalization, $3 of assistance is provided to communities, maximizing funds and environmental benefits. The program issues an Intended Use Plan three times per year, which describes the projects approved for financing.

This annual report describes how the program met its goals and objectives, provides project highlights and includes financial data required by EPA from the state fiscal year July 1, 2019 through June 30, 2020.

State fiscal year 2020 overview

- DEQ provided financing to 31 borrowers
- The program financed all eligible projects listed in the Intended Use Plan that were ready to proceed
- DEQ executed 21 ***new*** loans totaling $95,169,338, with amounts ranging from $30,000 to $45,449,800
- The average interest rate for loans was 1.52 percent
- Financing to 10 small communities totaled $27,873,700
- Seven communities received principal forgiveness of up to $500,000

1. Program Goals

The program annually reviews how well it is meeting programmatic and financing goals and objectives from the previous state fiscal year. The "actions taken" items below offer examples of steps taken to achieve each objective.

Goal #1: Assist communities in restoring, maintaining and enhancing water quality by offering financial assistance for water pollution control, water quality improvement and protection projects.

Objective: Continue to focus on providing loans to publicly owned treatment facilities in Oregon. Develop tools to assist communities in obtaining loans.

Actions taken:

- Staff continue to identify ways to streamline forms and provide tools to assist applicants in applying for loans and understanding requirements. Examples include updating the loan program's website so that loan applicants can find the loan application information more quickly.
- Staff provided technical assistance, taking a team based approach in partnership with other state agencies, to assist communities in assessing their financial and organizational readiness for water quality project loans using outreach and marketing techniques including the promotion of the Clean Water Project Assistance program.

Objective: Support emerging markets to obtain loans; these include irrigation districts and eligible borrowers for local community loans.

Actions taken:

- The summer 2020 newsletter focused exclusively on how state and federal agencies can help communities maintain water quality during the COVID-19 pandemic and resulting economic uncertainty.
- Staff moderated a panel on Irrigation District Modernization at the Oregon Infrastructure Summit to promote the water quality and energy efficiency benefits.
- The program supported six irrigation districts with financing and loan application assistance.
- The program collaborated with Farmer's Conservation Alliance and Oregon Water Resources Congress, two organizations that promote and support irrigation district modernization efforts, to connect irrigation districts with the loan program.

Objective: Encourage innovative and non-traditional projects, such as green infrastructure, water and/or energy efficiency, climate resilience and environmentally and financially sustainable projects.

Actions taken:

- Staff participated in a statewide climate adaptation work group to ensure the CWSRF is partnering with other agencies for protection of water quality.
- As part of an agency-wide event, CWSRF staff presented financing opportunities for a variety of projects managed by other water quality programs.

Objective: Encourage innovative and non-traditional projects, such as green infrastructure, water and/or energy efficiency, climate resilience and environmentally and financially sustainable projects.

Actions taken:

- The program advertised financing for nonpoint source projects in two statewide publications.
- New outreach displays are used to promote financing for nonpoint source projects at conventions.
- The program began a rulemaking to include Community Development Financial Institutions as an eligible borrower for the purposes of making sub-loans to address failing septic systems.
- The program finalized a programmatic, multi-phased lending structure for financing a long-term riparian restoration project that will qualify for temperature trading credits.

Goal #2: Administer the Clean Water State Revolving Fund for program excellence and ensure compliance with program regulatory requirements, financial integrity, viability and perpetuity.

Financial Integrity

Objective: Maintain the revolving nature of the fund and an active pace of disbursements in conjunction with the receipt of new funds and loan repayments.

Actions taken:

- DEQ maintains adequate fund reserves to increase the number and amounts of new loans, as verified by the program's annual audit by the Secretary of State.
- Program staff collaborate with the National Pollutant Discharge Elimination System Permitting Program to identify permit status and new permit issuance dates for CWSRF loan applicants to determine if or how permit status will impact design and construction timelines. Staff use this information to troubleshoot options to avoid any construction timeline delays that could impact pace.
- Hired a Loan Specialist 1 to support the Loan Specialist 3 and strengthen financial capabilities and integrity.
- EPA's calculations indicate an increased fund utilization rate to 97 percent, the highest since 2012.

Objective: Ensure the program budget adequately supports resources, administrative costs and anticipates future needs.

Action taken:

- The program maintains financial stability as part of long term planning efforts. Current projected solvency is for at least 60 years at 2020 funding and repayment levels, even in cases of reduced federal investments.

Objective: Provide financial assistance most advantageous to borrowers, to the maximum extent possible, and maintain sound financial management for the program.

Actions taken:

- DEQ offers its lowest interest rates to small communities below the median household income and reserves 15 percent of total funds available for small communities, making loans accessible to populations of fewer than 10,000 people. Principal forgiveness is prioritized first to small communities with median household incomes below the statewide median income.
- Financing was extended to ten small communities totaled $27,873,700 during state fiscal year 2020.

Objective: Establish criteria and implement pilot projects that encourage developing and emerging markets.

Action taken:

- The program is developing a guide for funding irrigation district projects in order to support markets outside of traditional wastewater treatment plants.

Program Requirements

Objective: Ensure the program effectively serves the needs of our existing, developing and emerging markets incorporating treatment and non-treatment solutions for all sources of water pollution.

Actions taken:

- The program approved 21 new loan applications for a variety of treatment and non-treatment projects for financing described in the 2020 Intended Use Plan.
- Staff provided technical assistance for eight communities to help them identify CWSRF-eligible projects that improve water quality and habitat.
- Staff updated a guide to help borrowers follow the Construction Management General Contracting approach, which can streamline the construction process.

Objective: Ensure the program complies with changing state and federal regulations.

Actions taken:

- The program met its federal requirements documented in EPA's annual Program Evaluation Review.
- The program continues to adapt to American Iron and Steel Provision updates, attend AIS webinars and inform loan applicants and borrowers about how to stay in compliance with AIS.

Objective: Strategically market and communicate the Clean Water State Revolving Fund availability, range of eligible projects and benefits to decision makers at eligible and interested public agencies. Build on previous successes and increase those market shares.

Actions taken:

- The program continues to advertise in statewide trade magazines, to distribute a program newsletter three times per year and to provide outreach at tradeshows to increase the program's visibility.
- The program staff participated in panel discussions, and marketed at several tradeshows, including the annual League of Oregon Cities conference that's attended by state and local elected officials, city managers and public works directors.

Goal #3: Assist borrowers with the loan process to meet regulatory requirements with federal and state water quality standards, utility and financial management.

Objective: Provide technical assistance to small communities using principals of effective utility management to assess financial, operational, managerial and infrastructure capability needs that will result in water quality improvements.

Actions taken:

- Circuit riders and other staff are versed in Effective Utility Management and available to assist communities in understanding implementation, and the benefits of this approach.
- Staff continue to attend One-Stop meetings in collaboration with other state and federal funding agencies to offer funding and co-funded financing options to potential borrowers. Of the 11 One-Stop meetings this past year, four communities submitted eight CWSRF loan applications for a total of $23,823,334 in requested financing.
- Staff delivered a workshop on Asset Management in collaboration with Rural Community Assistance Corporation at the Oregon Infrastructure Summit.

Objective: In priority basins, identify opportunities to address point source and nonpoint source water quality impairments. Direct other finance options, CWSRF loans and sponsorship options towards recipients whose projects can most effectively reduce the impairments.

Actions taken:

- Staff collaborated with basin coordinators to ensure information about financing opportunities was shared with communities.
- The program has six sponsorship option loans, the most the program has had at one time, for projects addressing nonpoint source pollution including brownfields clean up, riparian restoration, stream restoration and stormwater management.

2. Project Highlights

2.1 Principal Forgiveness

In addition to below-market rate loans, the CWSRF offers principal forgiveness to help less affluent communities afford loans, or for projects that conserve water or energy, or are environmentally innovative.

Additional subsidization, which Oregon provides in the form of principal forgiveness, is required under federal appropriations. EPA's $17,949,000 federal capitalization grant required DEQ to allocate a minimum of $1,794,900 in principal forgiveness. In state fiscal year 2020, loan forgiveness totaling $2,910,000 was spread among seven communities. Each awardee received up to 50 percent of their loan in principal forgiveness, but not exceeding $500,000.

Table 1: Principal forgiveness allocation state fiscal year 2020

Applicant	Application #	Loan Number	Criteria	Amount
City of Irrigon	47740-19	R47743	Affordability	$500,000
City of La Pine	5700-17b	R55700	Affordability	$500,000
City of Scappoose	80930-19	R80931	Affordability	$500,000
Gleneden SD	37440-19	R37440	Affordability	$85,000
City of Echo	30250A-19	R30252	Affordability	$500,000
City of Klamath Falls	52600-19	R52605	Affordability	$500,000
City of Madras	62370A-20	R62373	Affordability	$325,000
Total				**$2,910,000**

Project Highlights

The community of Scappoose, a suburb of Portland, is home to about 7,500 people. The city once had thriving dairy and logging industries, and still boasts a gravel company and agricultural operations. The city received $6,430,600 in CWSRF financing for design and construction of several projects in their recently completed Master Plan. Improvements include upgrades to a lift station, ultraviolet disinfection and their aerobic digester, among others.

Also receiving principal forgiveness was the City of Winston. This southern Oregon community of 5,500 people is primarily known for its Wildlife Safari, a tourist destination that allows visitors to interact with non-native animals such zebras and cheetahs. DEQ loaned $1,230,000 for replacement of a 40-year old pump station and associated sewer lines and manholes.

Top photo: Scappoose is built along the Multnomah Channel.
Lower right photo: Winston's new pump station.

2.2 Green Projects

EPA's annual federal capitalization grant requires DEQ to fund projects that are "green," based on EPA criteria, to the extent that there are sufficient eligible green projects. The $17,949,000 grant required that the amount of binding commitments for green projects must equal no less than 10 percent, or $1,794,900 in state fiscal year 2020.

DEQ established the Green Project Reserve, or GPR, to finance projects that are water efficient, energy efficient, environmentally innovative or include green infrastructure.

Since state fiscal year 2015, DEQ exceeded the minimum GPR allocation by more than $20 million in the aggregate. However, none of the 21 new project loans signed during fiscal year 2020 were eligible for the GPR designation.

DEQ's current Intended Use Plan has several loan applications that include green projects totaling $6.8 million. DEQ will continue to promote green projects and meet this requirement during the next fiscal year by encouraging applicants to consider environmentally innovative or conservation-related projects and assisting with expediting the loan execution process.

3. EPA Fiscal Requirements

EPA has several requirements that must be met by states each fiscal year. Below are the specific requirements, followed by an explanation of how the program complied.

3.1 Review all SRF funded section 212 projects in accordance with the approved environmental review procedures

Environmental review during state fiscal year 2020 was completed on all new projects, except for planning projects. For these projects, DEQ reviewed all requests for categorical exclusions and environmental assessments submitted by CWSRF borrowers according to the requirements of the State Environmental Review Process.

After incorporation of any DEQ comments, DEQ solicited public comments through notices published in one statewide and one local newspaper of general circulation. Table 3 below describes loan activity during the past four quarters. Included are determinations made by DEQ during an environmental review.

These include a Finding of No Significant Impact, also called a FONSI, which means DEQ determined that the action will not have significant environmental impacts. A Categorical Exclusion, CE, means that the project is exempt from a detailed environmental analysis because of no anticipated significant impact on the environment. Loans that have "N/A" in the environmental determination column in Table 3 were planning loans or design-only loans not subject to environmental review.

Table 2: Loan activity and environmental determinations by quarter

	Loan #	Borrower	Environmental Determination	Loan Amount	Binding Date	Quarterly Total
First Quarter	24002	Coos Bay	FONSI	3,610,838	7/2/2019	
	14520	Bend	FONSI	2,620,000	7/16/2019	
	25101	Crescent	FONSI	(3,000,000)	7/22/2019	
	24003	Coos Bay	N/A	100,000	7/29/2019	
	24004	Coos Bay	N/A	1,350,000	7/29/2019	
	24005	Coos Bay	N/A	165,000	7/29/2019	
	49801	Joseph	N/A	30,000	8/7/2019	
	97793	Winston	FONSI	1,230,000	8/7/2019	
	47742	Irrigon	CE	1,395,000	8/14/2019	
	47742	Irrigon	CE	1,120,506	9/6/2019	
	47602	Independence	FONSI	3,449,200	9/9/2019	**12,070,544**
Second Quarter	47743	Irrigon	CE	1,000,000	10/29/2019	
	69630	North Powder	N/A	(43,573)	11/12/2019	
	75264	Rainier	CE	60,000	11/25/2019	
	21311	Cascade Locks	FONSI	4,456,600	12/3/2019	
	26750	Dayton	CE	(200,000)	12/9/2019	
	89541	Sutherlin	FONSI	1,750,000	12/9/2019	
	14521	Bend	CE	10,000,000	12/9/2019	**17,023,027**
Third Quarter	92581	Tumalo	N/A	(1,654,541)	1/3/2020	
	25100	Crescent	FONSI	1,000,000	2/19/2020	
	80491	Sandy	N/A	350,000	2/21/2020	
	93052	Umatilla	FONSI	550,000	3/2/2020	
	55700	La Pine	FONSI	1,000,000	3/2/2020	
	55701	La Pine Interim	FONSI	7,832,500	3/2/2020	
	37440	Gleneden SD	C/E	170,000	3/16/2020	**9,247,959**
Fourth Quarter	30252	Echo	FONSI	1,000,000	4/24/2020	
	62373	Madras	FONSI	650,000	5/5/2020	
	80931	Scappoose	CE	6,430,600	5/5/2020	
	11753	Ashland	N/A	(1,068,303)	5/31/2020	
	11752	Ashland	FONSI	(9,900,000)	5/31/2020	
	30253	Echo	FONSI	929,000	6/11/2020	
	52605	Klamath Falls	FONSI	45,449,800	6/11/2020	
	14517	Bend	FONSI	(710,517)	6/11/2020	
	14522	Bend	CE	4,000,000	6/26/2020	**46,780,580**
	TOTAL					**85,122,110**

3.2 Deposit match on or before the date on which each quarterly grant payment was made

Each year, DEQ documents to EPA non-federal disbursements equal to 20 percent of the capitalization grant prior to drawing grant funding. In state fiscal year 2020 DEQ continued to use remaining funds raised in a $10 million overnight match bond during state fiscal year 2019. The remaining funds were sufficient to equal the required match for the FFY2019 grant, which DEQ met in September 2019.

The CWSRF uses program interest earnings to pay the principal and interest on general obligation bonds that were previously issued by the state to provide the 20 percent matching funds as required by the Clean Water Act. Table 4 summarizes bonds outstanding as of June 30, 2020.

Table 4: Outstanding bonds in state fiscal year 2020

Bond Series	Principal Paid	Interest Paid	Total Paid	Total Principal Outstanding
09A	2,185,000.00	43,700.00	2,228,700.00	0.00
10A	235,000.00	104,147.50	339,147.50	2,825,000.00
12A	180,000.00	126,250.00	306,250.00	3,205,000.00
13A	405,000.00	102,125.00	507,125.00	1,840,000.00
15A	370,000.00	142,000.00	512,000.00	3,434,590.80
TOTAL	**$3,375,000.00**	**$518,222.50**	**$3,893,222.50**	**$11,304,590.80**

3.3 Assure compliance with the requirements of §35.3135(f) - *refers to equivalency component of the federal grant*

DEQ's CWSRF loan program complied with equivalency requirements for loan projects that equal an amount no less than that of the capitalization grant. Equivalency requirements include demonstration of compliance with applicable federal environmental cross-cutters, qualifications based procurement for architecture and engineering services requirements, signage, Disadvantaged Business Enterprises procurement efforts, FFATA reporting and Single Audit Act reporting. For state fiscal year 2020, the City of Klamath Falls, loan number R52605 for $45,449,800, was selected for this purpose.

3.4 Make binding commitments to provide assistance equal to 120 percent of the amount of each grant payment within one year after receiving the grant payment pursuant to §35.3135(c)

Table 5 summarizes loan activity and program administrative expense. This demonstrates DEQ's compliance with the federal requirement, 40 CFR §35.3135(c), to execute binding commitments in an amount equal to or greater than 120 percent of all federal grant payments within one year of those payments on a cumulative basis.

Table 5: Loan activity during state fiscal year 2020 and program administrative expenses

Total loans as of June 30, 2019	1,330,093,818
Total Admin. Exp. Pd. From Grants	10,101,744
Total Commitments	1,340,195,562
Federal Payments thru June 30, 2019	495,498,785
STATE FISCAL YEAR 2019 ACTIVITY	
Loans	85,122,110
Admin. Expense Pd. From Grants	0
Federal Payments (prior yr.)	17,949,000
Cumulative Total Loans as of June 30, 2020	1,416,001,835
Cumulative Total Admin. Exp. Pd. From Grants	10,101,744
Total Commitments	1,426,103,579
Cumulative Total Fed. Payments thru FFY2020	513,447,785
Commitments as a percentage of federal payments (cumulative)	278%

3.5 Expend all funds in an expeditious and timely manner pursuant to §35.3135(d)

DEQ scores and ranks each eligible loan application and incorporates the loan application in the Intended Use Plan, known as the IUP. Projects can only be funded if they are included in the IUP and are "ready to proceed," meaning the project satisfies all CWSRF loan requirements. This may include, for example, a land use compatibility statement, an environmental review and documentation supporting compliance with the federal environmental cross-cutting authorities. An applicant is not considered ready to execute a loan agreement until all such requirements have been satisfied.

Currently, DEQ has sufficient funds to award funding to all projects as they become ready to proceed. This ensures the fund is utilized in a timely manner. In the event the program does not have sufficient funds available to finance all projects that are ready to proceed, DEQ will award funding to projects that are ready to proceed in priority order based on project score.

If an applicant declines funding, DEQ will go to the next highest ranking project and offer funding to that applicant until all available funds have been committed.

3.6 First use all funds as a result of capitalization grants to assure maintenance of progress toward compliance with the enforceable requirements of the Clean Water the Act pursuant to §35.3135(e)

DEQ funded the following projects with monies directly from the federal capitalization grant for the associated federal fiscal year after demonstrating state match requirements and prior to disbursing revolved funds.

Borrower	Loan Number	Amount
City of Klamath Falls	52602	$269,230
City of Albany	10514	$ 5,688,673
Water Environment Services	95030	$10,789,434
City of Bend	14517, 14519	$1,201,663
Total		**$17,949,000**

4. Financial Reports

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2020

	Loan Fund	Administration	TOTAL
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 255,120,414	$ 2,239,880	$ 257,360,294
Loans Receivable, Net	44,420,628	-	44,420,628
Loan Interest Receivable	2,198,855	-	2,198,855
Other Accounts Receivable	6,646	-	6,646
Total Current Assets	301,746,543	2,239,880	303,986,423
Non-Current Assets:			
Loans Receivable, Net	455,353,702	-	455,353,702
Loan Interest Receivable	2,351,878	-	2,351,878
Total Non-Current Assets	457,705,580	-	457,705,580
Total Assets	$ 759,452,123	$ 2,239,880	$ 761,692,003
Liabilities and Net Position			
Current Liabilities:			
Accounts Payable	$ -	$ 4,491	$ 4,491
Payroll Payable	-	153,700	153,700
Compensated Absences Payable	-	92,079	92,079
Due To Oregon DEQ	-	13,903	13,903
Bond Interest Payable	130,120	-	130,120
Bonds Payable	1,250,000	-	1,250,000
Total Current Liabilities	1,380,120	264,173	1,644,293
Non-Current Liabilities:			
Compensated Absences Payable	-	4,845	4,845
Bonds Payable	10,261,401	-	10,261,401
Total Non-Current Liabilities	10,261,401	4,845	10,266,246
Total Liabilities	11,641,521	269,018	11,910,539

CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Loan Fund	Administration	TOTAL
Operating Revenues			
Loan Interest Income	$ 7,409,016	$ -	$ 7,409,016
Loan Fees	-	1,860,320	1,860,320
Total Operating Revenues	7,409,016	1,860,320	9,269,336
Operating Expenses			
Bond Interest	237,708	-	237,708
Principal Forgiveness on Loans	2,814,780	-	2,814,780
Salaries and Benefits	-	1,777,959	1,777,959
Services and Supplies	-	333,547	333,547
Indirect Costs	-	383,205	383,205
Total Operating Expenses	3,052,488	2,494,711	5,547,199
Operating Income (Loss)	4,356,528	(634,391)	3,722,137
Non-Operating Revenues (Expenses)			
Federal Grants	24,750,898	-	24,750,898
Interest Income on Cash and Cash Equivalents	5,732,770	57,431	5,790,201
Total Non-Operating Revenues (Expenses)	30,483,668	57,431	30,541,099
Change in Net Position	34,840,196	(576,960)	34,263,236
Net Position - Beginning	712,970,406	2,547,822	715,518,228
Net Position - Ending	$ 747,810,602	$ 1,970,862	$ 749,781,464

The accompanying notes are an integral part of the financial statements
The above numbers are unaudited and subject to modification.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Loan Fund	Administration	TOTAL
Cash Flows From Operating Activities:			
Receipts from Loan Fees	$ -	$ 1,860,320	$ 1,860,320
Payments to Vendors	(2,131)	(349,768)	(351,899)
Payments to Employees	-	(1,745,238)	(1,745,238)
Payments for Indirect Cost	-	(383,205)	(383,205)
Net Cash Flows Provided (Used) in Operating Activities	(2,131)	(617,891)	(620,022)
Cash Flows From Noncapital Financing Activities:			
Receipts from Federal Grants	24,750,898	-	24,750,898
Bond Issuance Proceeds	-	-	-
Bond Issuance Costs	-	-	-
Principal Payments on Bonds	(3,375,000)	-	(3,375,000)
Interest Payments on Bonds	(518,223)	-	(518,223)
Net Cash Provided (Used) in Noncapital Financing Activities	20,857,675	-	20,857,675
Cash Flows from Investing Activities:			
Receipts from Treasury Interest Credits	5,732,770	57,431	5,790,201
Repayments from Loan Interest	7,222,037	-	7,222,037
Repayments from Loan Principal	36,703,025	-	36,703,025
Receipt from Settlement	-	-	-
Disbursements to Borrowers	(77,094,805)	-	(77,094,805)
Net Cash Provided (Used) in Investing Activities	(27,436,973)	57,431	(27,379,542)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,581,429)	(560,460)	(7,141,889)

Cash and Cash Equivalents, Beginning	261,701,843	2,800,340	264,502,183
Cash and Cash Equivalents, Ending	$ 255,120,414	$ 2,239,880	$ 257,360,294
Reconciliation of Operating Income to Net Net Cash Provided (Used) in Operating Activities:			
Operating Income (Loss)	$ 4,356,528	$(634,391)	$ 3,722,137
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) in Operating Activities:			
Loan Interest Receipts Reported as Operating Revenue	(7,222,037)	-	(7,222,037)
Bond Interest Payments Reported as Operating Expense	518,223	-	518,223
Bad Debt Expense Reported as Operating Expense	-		-
Principal Forgiveness Expense Reported as Operating Expense	2,814,780		2,814,780
Amortization of Bond Discount	15,446	-	15,446
Amortization of Bond Premium	(262,572)	-	(262,572)
Net Changes in Assets and Liabilities:			
Loan Interest Receivable	(186,979)	-	(186,979)
Loan Disbursements Payable	-	-	-
Accounts Payable	(2,131)	(12,655)	(14,786)
Payroll Payable	-	21,113	21,113
Due To Oregon DEQ	-	(3,566)	(3,566)
Bond Interest Payable	(33,389)	-	(33,389)
Compensated Absences Payable	-	11,608	11,608
Total Adjustments	(4,358,659)	16,500	(4,342,159)
Net Cash Provided (Used) in Operating Activities	$(2,131)	$(617,891)	$(620,022)

The accompanying notes are an integral part of the financial statements.
The above numbers are unaudited and subject to modification.

Notes to the Basic Financial Statements-Enterprise Fund June 30, 2020

Summary of Significant Accounting Policies

The accompanying financial statements of the State of Oregon Department of Environmental Quality Clean Water State Revolving Fund have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing accounting and financial reporting principles.

Reporting Entity

The Oregon Clean Water State Revolving Fund (CWSRF) was established pursuant to Oregon Revised Statutes 468.423 – 468.440 and the 1987 amendments to the federal Clean Water Act. The purpose of CWSRF is to provide low interest loans to local governments for the planning, design and construction of wastewater treatment facilities, implementation of nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 30 years, and all repayments, including interest and principal, must be credited to the CWSRF.

The CWSRF program is administered by the State of Oregon Department of Environmental Quality (DEQ). The CWSRF program consists of several funds to record loan and related activity, and an administrative fund that collects loan fees and pays the operating costs of the program, and are collectively referred to as the Fund. DEQ's primary responsibilities for the CWSRF include obtaining capitalization grants from the U.S. Environmental Protection Agency (EPA), soliciting potential interested parties for loans, negotiating loan agreements with eligible public agencies, reviewing and approving payment requests from loan recipients, monitoring the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

DEQ charges the CWSRF for staff time spent on CWSRF activities, and the CWSRF pays those expenses from the Administration fund. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to CWSRF. The rate of indirect cost is negotiated annually with EPA.

The Annual Financial Report is prepared for the U.S. Environmental Protection Agency as an Enterprise Fund of the State of Oregon, which uses the accrual basis of accounting. For the purpose of the State of Oregon's Comprehensive Annual Financial Report (CAFR), the CWSRF is included in the Environmental Management Fund, which is reported as a governmental special revenue fund using the modified accrual basis of accounting. Due to differences in basis of accounting, there may be differences between the amounts reported in these financial statements and the State of Oregon's CAFR.

Basis of Presentation – Fund Accounting

DEQ programs and accounts are organized by "funds", each of which is a separate accounting entity. Each major program utilizes a separate set of self-balancing accounts to record the assets, liabilities, net position, revenues and expenses of their activities. DEQ's CWSRF loan program is classified as a proprietary fund for the purposes of these financial statements, however DEQ treats this fund as a governmental fund. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. The CWSRF loan program is accounted for in an Enterprise Fund. Enterprise Funds account for and report any activity for which fees are charged to external users for goods and services.

Measurement Focus and Basis of Accounting

The basic financial statements for the Fund are presented as an Enterprise Fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual basis of accounting, in accordance with state policy (OAM 15.40.00). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flow. All revenues and expenses of the Fund are considered to be operating revenues and operating expenses, with the exception of federal grant income and interest income, which are considered to be non-operating revenue. All assets and liabilities associated with the operations of the Fund are included on the Statement of Net Position. Cash and Cash Equivalents

All monies of the Fund are deposited with the Office of the State Treasurer, which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash and cash equivalents. Interest earnings on these deposits are received by the Fund on a monthly basis. The Fund has no other cash deposits or investments.

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Loans Receivable/Bonds Receivable

Loans and bonds are funded by federal capitalization grants, state matching funds, loan repayments and fund earnings. The CWSRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the project is complete, repayment begins with an interest only payment. Loans and bonds are fully amortized to assure full repayment by the loan or bond maturity date.

DEQ has been required, under the terms of several grant awards from EPA, to offer additional subsidization to certain borrowers. DEQ has chosen to offer this subsidization in the form of principal forgiveness and has implemented this in administrative rule (OAR 340-054-0065). Loans Receivable are stated net of the allowance for principal forgiveness.

Long-Term Obligations

Long term obligations of the Fund consist of bonds issued to provide the required State matching funds for the federal capitalization grants, and the non-current portion of compensated absences. Bonds issued on behalf of the CWSRF are reported on the Statement of Net Position, net of the related premium or discount. Bond premium and discount are amortized over the life of the bond issues. Bond premium and discount are reported in the Statement of Revenues, Expenses and Changes in Fund Net Position as bond interest expense.

Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the state does not pay any amounts when employees separate from state service. A liability for vacation leave (compensated absences) is accrued when incurred as employees may be paid for up to a maximum of 300 hours of accrued vacation leave upon separation from state service.

Cash and Cash Equivalents

On June 30, 2020, the book balance of cash and cash equivalents was $257,360,294 and the bank balance was $258,736,230. All cash in the Fund is deposited in demand accounts with the State Treasurer in the Oregon Short-Term Fund (OSTF), a cash and investment pool for use by all state agencies.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The CWSRF does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and the Oregon law.

Further details of the investments and a copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896 or located at the following web site: http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx

Loans Receivable

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate (see ORS 468.440). Interest rates vary depending on the length of the loan, the type of loan, and program rules (at OAR 340-054). Rates range from 25% of the bond rate for 5 year loans to 55% of the bond rate for 30 year loans. Recipients make semiannual or, in some cases, annual payments, and must begin loan principal and interest repayments within one year of the date the facility is operationally complete and ready for the purpose it was planned, designed, and built or the project is completed, as determined by DEQ. There is an allowance account for that portion of loan disbursements that will not be repaid due to principal forgiveness offered to some borrowers. Principal forgiveness is offered to some borrowers, based on criteria in administrative rule, to comply with a requirement included in DEQ's grant agreement with EPA. There is no additional allowance account, because Fund management believes all existing borrowers will pay as agreed. The detail of loans receivable as of June 30, 2020 is as follows:

Loans Receivable	$503,801,049
Less: Allowance for Doubtful Accounts	($4,026,719)
Net Loans Receivable, 6/30/2020	$499,774,330

Bonds Payable

In July 2003 EPA agreed to the use of the CWSRF Fund assets to pay the principal and interest on general obligation bonds that were previously issued by the State to provide the 20 percent state matching funds as required by the Clean Water Act. The following table summarizes bonds with activity during Fiscal Year 2020:

Original Issue

Series	Due Dates	Interest Range	Original Amount
2009A	2010-2030	2%-4%	4,890,000
2010A	2011-2030	2%-3.75%	4,945,000
2012A	2014-2024	2.0%-5.0%	4,015,000
2013A	2016-2026	5%	4,040,000

Bonds Outstanding

Series	Balance 6/30/2019	Increases	Decreases	Balance 6/30/2020	Due Within One Year
2009A	2,185,000.00	-	2,185,000	-	
2010A	3,060,000	-	235,000	2,825,000	245,000
2012A	3,385,000	-	180,000	3,205,000	190,000
2013A	2,245,000	-	405,000	1,840,000	425,000
2015A	3,025,000	-	370,000	2,655,000	390,000
TOTAL	**$13,900,000**	**-**	**$3,375,000**	**$10,525,000**	**$1,250,000**

The bond interest rates noted above differ depending on the term of the individual security. Thus, those securities with the longest term yield the highest interest rate.

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements for each year during the next five-year period, and in five year increments thereafter.

Year Ending 6/30/19	Bond Principal	Bond Interest	Total Debt Service
2021	1,250,000	418,473	1,668,473
2022	1,305,000	359,623	1,664,623
2023	1,365,000	298,123	1,663,123
2024	1,430,000	233,313	1,663,313
2025	980,000	177,950	1,157,950
2026-2030	3,320,000	420,250	3,740,250
2031-2035	875,000	39,825	914,825
TOTALS	**10,525,000**	**1,947,555**	**12,472,555**

Changes in Long-Term Liabilities

The liability for compensated absences is calculated based on the vacation accrual at June 30, 2020 for each employee whose duties include CWSRF related activities. Bonds payable includes amounts payable on bonds issued to benefit the CWSRF fund, and also includes the unamortized amounts of bond discount or premium.

The long term liability activity for the year ended June 30, 2020 was as follows:

	Balance 7/1/2019	Increases	Decreases	Ending Balance 6/30/2020	Due Within One Year
Bonds Payable	$13,900,000	-	$3,375,000	$10,525,000	$1,250,000
Issuance Premium	1,248,973	-	262,572	986,401	245,000
Issuance Discount	(15,445)	-	(15,445)	-	-
Total Bonds Payable	15,133,528	-	3,622,127	11,511,401	1,250,000
Compensation Absences	85,316	96,924	85,316	96,924	92,079
Total Long Term Liabilities	**$15,218,844**	**$96,924**	**$3,707,443**	**$11,608,325**	**$1,342,079**

Loan Fees

In order to support administration and project management costs, loan fees are assessed on loans originating after 1992. A fee of 0.50 percent is assessed on the outstanding loan principal balance and is collected annually, beginning with the second loan payment.

Fees are deposited to a separate Treasury account and are used only for administrative and project management costs. Planning loans are not assessed annual fees in order to encourage Oregon communities to complete more planning.

Employee Retirement Plan

Plan Description

As part of the State of Oregon, the Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans to the Fund's employees. PERS is a cost-sharing multiple-employer defined benefit pension plan. All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the members IAP account. The pension plans provide pension benefits, death benefits, and disability benefits.

PERS issued a separate, publicly available, audited financial report that may be obtained from the Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2020 for state agencies general service members were: 22.24% for Tier One/Tier Two and 14.75% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by state agencies.

Employer contributions for the fiscal year ended June 30, 2020 were $76,140 for Tier One/Tier Two and $128,933 for OPSRP. Member contributions for the fiscal year ended June 30, 2020 were $72,989.

At June 30, 2019, the State reported a liability of $2.8 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. At the June 30, 2018, measurement date, the State's proportion, was 20.7 percent.

The Fund's portion of the net pension liability was not specifically identified. See Note 14. Employee Retirement Plans, in the State of Oregon Comprehensive Annual Financial Report (CAFR), for more detail.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2020, the State reported a liability of $3.2 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. At the June 30, 2018, measurement date, the State's proportion, was 21.1 percent.

The Fund's portion of the net pension liability was not specifically identified. See Note 14. Employee Retirement Plans, in the State of Oregon Comprehensive Annual Financial Report (CAFR), for more detail.

Other Postemployment Benefit Plans

The Fund's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by ORS 238 and the Public Employees Benefit Board (PEBB) as established by ORS 243. A copy of the audited annual financial report may be obtained from Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Retirement Health Insurance Account

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple employer OPEB plan which provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: 1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more creditable service in PERS, 2) receive both Medicare Parts A and B coverage, and 3) enroll in a PERS-sponsored health insurance plan.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year end June 30, 2020 was 0.50 percent. Combined employer contributions for the years ended June 30, 2020, 2019 and 2018, was approximately $5,470, $4,229 and $4,064, respectively, equal to the required contributions each year.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (RHIPA) is a single employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and the health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each employee's covered salary for the fiscal year ended June 30, 2020 was 0.49 percent. The Fund's actual contribution for the year ended June 30, 2020, 2019 and 2018 was approximately $4,999, $3,906, and $3,774, respectively, which was equal to the actuarial required contribution.

Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is a single-employer plan which offers medical, dental and vision benefits to eligible retired employees. Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

The State of Oregon's liability for the primary government was $118.8 million for the fiscal year ended June 30, 2019, and was determined by an actuarial valuation as of July 1, 2017. The Fund's portion of this liability was not specifically identified.

Commitments

As of June 30, 2020 the CWSRF has active loan agreements in the amount of $335,560,590 and has disbursed a total of $143,715,126 in cash to these borrowers. The amount of undisbursed loan commitments is, therefore, $191,845,464.

Risk Financing

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible. The monies set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. For example, the self-insured property and liability program is backed by an excess property policy with a limit of $400 million and a blanket commercial crime policy with a limit of $20 million. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions, and boards participate in the self-insured property and liability program. Risk Management allocates the cost of claims and claim administration by charging an assessment to each State agency, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The CWSRF participates in this risk financing program through DEQ, which, as a State agency, is a participant. Settlements have not exceeded insurance coverage in each of the past three years.

Subsequent Events

On September 11, 2020, the federal fiscal year 2020 capitalization grant from EPA was awarded in the amount of $21,542,400. This amount provides additional capital funding for the CWSRF program.

On March 23, 2020, a Stay-At-Home order was issued by the Governor of Oregon in response to the COVID-19 pandemic. The COVID-19 pandemic has posed economic hardships globally, thus, a determination was made regarding the financial impact on the CWSRF program. It is concluded there was no financial impact for fiscal year 2020. There has been no official request of debt relief received from loan borrowers. Potential financial impact will be continually assessed during fiscal year 2021.

Clean Water
State Revolving Fund

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