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July 5, 2016

### Legal Notice

Legal notice of public review and comment period concerning the proposed Intended Use Plan (IUP) attached below for Oregon's Drinking Water State Revolving Fund (DWSRF) for state fiscal year 2016.

One of Oregon Health Authority (OHA) Drinking Water Services (DWS) responsibilities as a state agency managing the DWSRF program as set forth under Section 1452 (40 CFR 35.555 (b)) of the amended 1996 Safe Drinking Water Act (SDWA) is to provide the public the opportunity to comment on the proposed IUP as part of the grant application process to the U.S. Environmental Protection Agency (EPA). This IUP explains how OHA-DWS prioritizes low-interest loan assistance to eligible community and non-profit non-community public water systems and the funding of Set-Aside activities. It also is a key aspect of how we will procure the funding resources that the EPA has appropriated Oregon during federal fiscal year 2016.

The public comment period for the IUP will be from Monday, July 11 through Friday, August 12, 2016. If you would like to make a comment, please email me your comments by no later than 5pm on Friday, August 12<sup>th</sup> to be considered. If you have questions, you may also email or call me at (971) 673-0422.

Thank you!

*Adam DeSemple*

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**STATE OF OREGON  
DRINKING WATER STATE REVOLVING FUND PROGRAM**

Intended Use Plan:  
EXECUTIVE SUMMARY  
*(FINAL)*

**SFY-2016**



**Oregon Health Authority  
Public Health Division  
Center for Health Protection  
Drinking Water Services  
800 NE Oregon Street, STE 640  
Portland, OR. 97232**



2016 Drinking Water State Revolving Fund  
Capitalization Grant Application and Intended Use Plan  
Oregon Health Authority – Drinking Water Services

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## **ATTACHMENTS**

Attached documents shown below or other relevant information can be found on our EPA Staff Resources secure site at <http://healthoregon.org/dwpartners/> or they are located within the IUP Executive Summary.

### **A. REQUIRED DOCUMENTS**

- AG Certification
- SFY2015 Capacity Assessment Summary Report
- SFY-2016 “Combined” PPL
- Basic SDWRLF Financing Options (2016)
- Grant Allotment Use Summary (2016)
- FFATA Set-Aside reporting spreadsheet

### **B. SUPPORTING DOCUMENTS**

- Cost Allocation Letters (3)

### **C. FINANCIAL DATA**

- Estimated - Financial Status of Oregon’s SDWRLF
- Federal & State Contributions Bar Graph

### **D. SET-ASIDE WORK PLANS**

- Administrative Expense
- Small System Technical Assistance
- State Program Management
- Local Assistance & Other State Programs:
  - i. Implementation of Protection
  - ii. Capacity Development
  - iii. Drinking Water Source Protection

### **E. CONTRACTS**

- Circuit Rider Contract
- State & County/Ag. Requirements PE #50: SDW Program
- Department of Agriculture Contract
- Oregon Association of Water Utilities Contract
- Needs Survey Contract

### **F. AGREEMENTS**

- Inter-Agency Agreement (DEQ)
- Inter-Agency Agreement (IFA)

### **G. PROGRAMMATIC UPDATES**

- DWSRF Project Eligibilities Summary
- Annual LOI Status List

### **H. PUBLIC NOTICES**

- IUP Public Notice Postcard
- PPL Quarterly Public Notice Letters

## COMMON ACRONYMS

+	ACS	-	AMERICAN COMMUNITY SURVEY
+	AIS	-	AMERICAN IRON & STEEL
+	ARRA	-	AMERICAN RECOVERY REINVESTMENT ACT
+	CFR	-	CODE OF FEDERAL REGULATIONS
+	CHP	-	CENTER FOR HEALTH PROTECTION
+	CUPSS	-	CHECK UP PROGRAM FOR SMALL SYSTEMS
+	CWSRF	-	CLEAN WATER STATE REVOLVING FUND
+	DB	-	DAVIS BACON
+	DBE	-	DISADVANTAGED BUSINESS ENTERPRISE
+	DEQ	-	DEPARTMENT OF ENVIRONMENTAL QUALITY
+	DWAC	-	DRINKING WATER ADVISORY COMMITTEE
+	DWS	-	DRINKING WATER SERVICES
+	DWSP	-	DRINKING WATER SOURCE PROTECTION
+	DWSRF	-	DRINKING WATER STATE REVOLVING FUND
+	EDU	-	EQUIVALENT DWELLING UNIT
+	EPA	-	ENVIRONMENTAL PROTECTION AGENCY
+	ERP	-	ENFORCEMENT RESPONSE POLICY
+	ETT	-	ENFORCEMENT TARGETING TOOL
+	FFATA	-	FEDERAL FUNDING ACCOUNTABILITY & TRANSPARENCY ACT
+	FSRS	-	FFATA SUBAWARD REPORTING SYSTEM
+	FTE	-	FULL TIME EQUIVALENT
+	GIS	-	GEOGRAPHICAL INFORMATION SYSTEMS
+	GPR	-	GREEN PROJECT RESERVE
+	IAA	-	INTER AGENCY AGREEMENT
+	IFA	-	INFRASTRUCTURE FINANCE AUTHORITY
+	IUP	-	INTENDED USE PLAN
+	LOI	-	LETTER OF INTEREST
+	MCL	-	MAXIMUM CONTAMINANT LEVEL
+	MHI	-	MEDIUM HOUSEHOLD INCOME
+	MOU	-	MEMORANDUM OF UNDERSTANDING
+	OA	-	OPERATING AGREEMENT
+	OAR	-	OREGON ADMINISTRATIVE RULE
+	OHA	-	OREGON HEALTH AUTHORITY
+	OMB	-	OFFICE OF MANAGEMENT & BUDGET
+	ORS	-	OREGON REVISED STATUTE
+	PPL	-	PROJECT PRIORITY LIST
+	RC	-	REGIONAL COORDINATOR
+	SDWA	-	SAFE DRINKING WATER ACT
+	SDWRLF	-	SAFE DRINKING WATER REVOLVING LOAN FUND
+	SFY	-	STATE FISCAL YEAR
+	SIPP	-	SUSTAINABLE INFRASTRUCTURE PLANNING PROJECTS
+	SPM	-	STATE PROGRAM MANAGEMENT
+	ULO	-	UNLIQUIDATED OBLIGATION



## **Introduction & Purpose**

On August 6, 1996, the Safe Drinking Water Act (SDWA) Amendments of 1996 (P.L. 104-182) were signed into law. Section 1452 of this act authorized the Administrator of the U.S. Environmental Protection Agency (EPA) to establish a Drinking Water State Revolving Fund (DWSRF) program to assist public water systems in financing the costs of infrastructure needed to achieve or maintain compliance with the SDWA requirements and to protect public health.

Section 1452(b) requires each state to annually prepare an Intended Use Plan (IUP) identifying the use of funds in the DWSRF and describe how those uses support the goal of protecting public health.

The State of Oregon, Drinking Water Services (DWS) is an Oregon Health Authority (OHA) program located within the Center for Health Protection (CHP). OHA will adopt the following IUP for State Fiscal Year 2017 (SFY-2017: July 1, 2016 – June 30, 2017). These efforts will be in coordination with our partners at Business Oregon, Infrastructure Finance Authority (IFA) by continuing to offer low interest loans from the DWSRF Loan Fund to eligible drinking water systems and also to continue to support the four separate Set-Aside activities to meet federal drinking water program mandates. In Oregon, the DWSRF program is often referred to as the Safe Drinking Water Revolving Loan Fund (SDWRLF).

## **Summary**

Oregon's DWS seeks the grant allotment of \$11,806,000 from the FFY-2016 DWSRF EPA appropriation as authorized under the amended 1996 SDWA. Oregon DWS will also be seeking leftover Set-Aside funds in the amount of \$8,708.30 to be reauthorized to our State Program Management (SPM) Set-Aside. Therefore, the total Oregon will be applying for is \$11,814,708.30.

This grant package presents details of Oregon's program that was developed in close cooperation with Oregon's Drinking Water Advisory Committee (DWAC), state agency partners (i.e. IFA & DEQ), many stakeholders and interested parties. Oregon's program continues its efforts to improve processes while protecting public drinking water supplies statewide.

### **I. Need for the Program**

The need for this program continues to be clear in Oregon. A nationwide Drinking Water Infrastructure Needs Survey, sponsored by the EPA with assistance from the OHA, DWS and its water suppliers, continue towards the completion of the recent 2015 Needs Survey. Previous results conducted from the 2011 Needs Survey increased our percentage to 1.42 percent of the total EPA DWSRF appropriation.

The first grants from the DWSRF, were distributed to states, tribes, and territories from the 1997 appropriation and totaled \$1.275 billion. From 1997 through 2015, cumulative federal grants

(including ARRA) for the DWSRF program to states total over \$18 billion. Oregon’s total federal grant allocations received through FFY-2015 (including ARRA) is over \$250 million.

To augment the federal grants awarded, states are required to provide matching funds equal to 20% of the federal grant award received along with the one-to-one State Program Management (SPM) Set-Aside match requirement for the DWSRF program per grant award.

In addition to these substantial infrastructure needs, many small water systems in Oregon lack the technical, managerial, and financial capacities to provide safe drinking water to their respective users. EPA uses the ETT/ERP approach to ensure that no community or non-profit non-community systems with project(s) from the System Scores list with a score of 11 or higher receive DWSRF funding unless the funding directly supports the water system in achieving or regaining compliance. OHA uses its own ETT list to target systems for capacity development assistance and to ensure that these systems are given the fullest possible consideration for available DWSRF infrastructure funding assistance. For Oregon’s ETT System Scores list, see here, <https://yourwater.oregon.gov/sscore.php>. DWS and IFA also utilize an internal “Watch List” which includes Priority Non-Complying (PNC) systems taken from our own ETT list that are recommended as systems that could benefit from the DWSRF.

**II. Program Development Process in Oregon**

This year’s grant amends the program initiated in Oregon in 1997 and strengthens the previous year’s efforts. The DWAC maintains its major role in the enhancement of Set-Aside activities and of the Loan Fund. The DWAC, whose 15 members shown here, <http://public.health.oregon.gov/HealthyEnvironments/DrinkingWater/Documents/dwac/members.pdf>, represent a variety of drinking water stakeholder organizations, meets quarterly to advise and support the state DWS on drinking water policy and program issues.

**III. Elements of Oregon’s Program Using This Year’s Allotment**

The SFY-2016 program consists of the following elements summarized below:  
 (For more details, please visit the Grant Allotment Use Summary sheet in the **Attachment A** portion of the IUP)

	Federal Funds	Percent of Allotment	State Match Funds
Project Loans for Water Systems	\$ 8,146,140	69%	\$ 2,361,200
Set-Aside Activities:			
1.) Administrative Expense	\$ 472,240	4%	\$ -
2.) Small System Tech. Assist.	\$ 236,120	2%	\$ -
3.) State Program Management	\$ 1,189,308.30	10%	\$ 1,181,008.30
4.) Local Assist. & Other St. Pro.	\$ 1,770,900	15%	\$ -
<b>Total</b>	<b>\$ 11,814,708.30</b>	<b>100%</b>	<b>\$ 3,542,208.30</b>

\* The EPA requires ≥15% of the Loan Fund must be awarded to small public water systems (i.e., 10,000 or fewer) each year to the extent there are eligible project applications.

Oregon’s DWSRF program is carried out through direct involvement activities and with the utilization of partnership agreements. The primacy agency is OHA via its DWS who provides direct

services with a compliment of experienced and talented staff.

An Inter-Agency Agreement (IAA) between OHA and IFA was renewed on July 1, 2015 and still replaces the previous MOU agreement. OHA also has an IAA with the Department of Environmental Quality (DEQ) that was last updated in July 2015. Both IFA and DEQ are state agencies with their respective IAA agreements and are referenced in the **Attachment F** section of the IUP.

Since OHA is the lead agency, it is responsible for establishing program priorities, oversight of program operation, technical assistance, capacity development, and of the annual EPA grant process.

IFA operates and administers the Loan Fund for water projects, Drinking Water Source Protection (DWSP) loans and grants (when available), and utilization of the principal forgiveness strategy. They also perform loan servicing functions that result from the Loan Fund.

DEQ with OHA complete source water assessments and implement the local DWSP programs.

Additionally, this grant year, OHA will continue to impose its cost allocation plan. The cost allocation factor will affect some direct costs (e.g., Set-Aside activities), but not the Loan Fund, nor the DWSP loans or grants in the Local Assistance Set-Aside. Our cost allocation rate remains at 17.45% and is expected to be applied to \$2,745,414 of Set-Asides, resulting in a cost of approximately \$479,076. OHA continues to undergo an in-depth cost rate review for future state fiscal years as explained in our recent cost allocation letter dated, July 1, 2015. Cost allocation is similar to indirect cost, as allowed under OMB 2 CFR Part 225 (formerly OMB Circular A-87).

#### **IV. The Set-Aside Activities:**

##### **A. Establishing Set-Aside Activities and Setting Funding Levels**

The SDWA authorizes states to use a maximum of 31% of its annual allotment for Set-Aside activities. Set-Aside activities are available to administer the Loan Fund and to assist water systems in meeting the requirements of the SDWA. OHA evaluated each of the four Set-Aside activities with a view toward protecting public health through prevention, while maximizing Loan Fund dollars for capital improvement projects.

OHA decided on basic and mandated programs in each of the four Set-Aside activities and plans to use all 31% for Set-Aside activities available under the Act to extend program efforts into other areas, retaining 69% for the Loan Fund. Set-Aside activities needed for OHA's SFY-2017 include:

- Administrative Expense (4 %)
- Technical Assistance (2%)
  - Circuit Rider Assistance
- State Program Management (10%)
  - State & County Program Support
- Local Assistance and Other State Programs (15%)



- Implementation of Source Water Protection Program (10%)
- Water System Capacity Development Program (3.30%)
- Drinking Water Source Protection Fund/Grants (1.70%)

## **B. Description of Oregon Health Authority's Set-Aside Activities**

Work plans for each of the Set-Aside Activities are outlined here. Specific detailed work plans are included in **Attachment D** and submitted as part of the Capitalization Grant application. All of the activities described are continuation activities from the previous grant years and may include additional updates for that Set-Aside.

- 1. Administrative Expense:** OHA, DWS will use 0.70 FTE staff to prepare the annual EPA capitalization grant application, the IUP, the PPL, assess environmental reviews and capacity of each loan recipient, along with conducting financial monitoring and control. Under its partnership contract, IFA will utilize 3.80 FTE necessary to making loans to water systems from the PPL. Therefore a total of 4.50 FTE will be used to administer the overall DWSRF program.

A maximum of 4% of the annual grant allotment of \$11,806,000 is allowed for this Set-Aside. This year, OHA will plan to use all 4% of the allocation, or \$472,240. For more Set-Aside information, please reference the **Attachment D** section of the IUP.

- 2. Small Systems Technical Assistance:** OHA, DWS, continues providing technical assistance and related services to small water systems serving 10,000 or fewer people by contracting for these services. A total of 0.30 FTE will be associated to these Set-Aside activities.

A maximum of 2% of the annual grant allotment of \$11,806,000 is allowed for this activity. This year, OHA will plan to use all 2% of the allotment, or \$236,120. For more Set-Aside information, please reference the **Attachment D** section of the IUP.

- 3. State Program Management (SPM) – State and County Program Support:** These funds will continue contractual support of County drinking water programs and of the Oregon Department of Agriculture as a way to augment the Public Water System Supervision (Primacy) program. These activities include sanitary surveys, the investigation and resolution of significant non-compliance concerns and adjacent activity. OHA will use 7.85 FTE (split between federal and one-to-one state match funds) to conduct direct services and to manage contracts.

A maximum of 10% of the \$11,806,000 annual allotment is allowed for this Set-Aside. This year, OHA will plan to use all 10% of the allotment, or \$1,180,600. In addition, leftover 2012 Set-Aside funds totaling \$8,708.30 will be reauthorized to use solely under the SPM Set-Aside. Also an \$8,300 credit towards the SPM one-to-one match requirement will also be applied since OHA overpaid this amount when applying for the 2015 capitalization grant. This will leave a slight differentiation between the 2016 SPM Set-Aside total versus its one-to-one match total.

For more Set-Aside information, please reference the **Attachment D** section of the IUP.

#### **4. Local Assistance & Other State Programs:**

- **Implementation of Protection:** OHA, DWS continues to assist water systems to protect their respective sources of drinking water. OHA will continue this work with 1.90 FTE. Additionally, through contracting with the DEQ and others for technical services to place source water assessment information on the GIS, and to provide training and technical support.

A maximum of 15% for all local assistance activities of the \$11,806,000 annual allotment is allowed for this Set-Aside. This year, OHA will plan to use all 15%, or \$1,770,900. The Implementation of Protection effort will use \$1,180,600 or 10% of the total grant this year. For more Set-Aside information, please reference the **Attachment D** section of the IUP.

- **Capacity Development Program:** OHA, DWS works with water systems that have had histories of non-compliance to ensure that they have the technical, managerial, and financial capacities needed to return to compliance status using the strategy developed by OHA and approved by EPA. This work will be carried out by 2.15 FTE and will use \$390,300 or 3.30% of the grant this year. For more Set-Aside information, please reference the **Attachment D** section of the IUP.
- **Drinking Water Source Protection Fund/Grants:** The Loan Fund will assist water systems to protect their source(s) of drinking water by providing an aggregate total of \$200,000 in various loans/grants to undertake source water protection activities. There is no FTE assigned to this activity since it will be part of the local assistance implementation of protection Set-Aside FTE. This activity will use \$200,000 or 1.70 % of the grant this year. For more Set-Aside information, please reference the **Attachment D** section of the IUP.

The level of Set-Aside funding on a year-to-year basis will continue in collaboration with the DWAC and partner agencies to assure that public water suppliers in Oregon are well trained in and knowledgeable of the most current drinking water quality standards and techniques. In addition, Set-Aside transfers to the Loan Fund will be performed on an as needed basis to address our current and legacy unliquidated obligations (ULO).

#### **V. Current & Future Years of the Program**

This year's program represents a continuation of significant initiatives begun in 1997 by DWS, including its partner agencies, stakeholder organizations, and service providers as well as public water systems. New initiatives, strategic proposals, and process improvements are continually being introduced between partnering agencies and our short and long-term goals, as shown in our annual reports, will continue to be carried out through SFY-2017.

In addition, IUP attachments will continue to be available on our secure website. Please go to <http://healthoregon.org/dwpartners/> and login. Only authorized users may gain access to this secure

webpage. To see what is included in these attachments, visit the Attachment sheet after the Table of Contents.

### ❖ **Loan Principal Forgiveness**

The Program has institutionalized the utilization of a Loan Principal Forgiveness strategy as an Oregon DWSRF incentive and financial tool option; augmenting the Program’s existing flexible interest rate structure and repayment terms. The goal in using Loan Principal Forgiveness is to: promote increased project affordability, enhance DWSRF accessibility, and to provide effective and innovative project financing tools in an effort to reach more water systems in need of drinking water project financing. This expands upon the partnership the DWSRF has with the EPA.

The Loan Principal Forgiveness strategy is a tailored and targeted approach. For eligible water systems seeking financing for water system improvement projects, a reduction of the principal loan amount may be utilized as a subsidy at the time the loan is structured in addition to below market municipal bond interest rates and flexible repayment terms.

It’s anticipated that Loan Principal Forgiveness will facilitate expanded affordability and will be a complimentary project financing option, so that a water system’s access to capital would not be a hindrance to implementing effective water system improvements. “SDWRLF Financing Options (2016)” within the **Attachment A** section, depicts this tailored and targeted approach in the use of the Oregon DWSRF comprehensive Loan Principal Forgiveness program; coupled with its flexible interest rates and loan repayment terms. IFA closely monitors industry rates and has the ability to make necessary adjustments to our Financing Options when necessary.

Additional Loan Principal Forgiveness incentives can be found within the **Attachment A** section of the IUP.

### ❖ **Green Project Reserve (GPR)**

While Oregon continues to encourage systems to incorporate “green” components in to their projects, Oregon will no longer be providing any additional subsidy incentives under the GPR. State DWSRF programs have the flexibility to forgo or incentivize GPR until the EPA makes it a requirement again.

### ❖ **Sustainable Infrastructure Planning Projects (SIPP)**

The Sustainable Infrastructure Planning Projects program objectives are to assist communities with DWSRF forgivable loan financing for water system planning and related activities that promote sustainable water infrastructure. Priority will be given to those systems that serve fewer than 300 service connections and/or are considered disadvantaged communities.

For more information, visit

<http://public.health.oregon.gov/HealthyEnvironments/DrinkingWater/SRF/Pages/sipp.aspx> or reference the **Attachment G** section of the IUP.

❖ **Letter of Interest (LOI) packet**

OHA, DWS has had a long standing practice of utilizing a Letter of Interest (LOI) solicitation process to inform, gather, and process (rating and ranking) requests from eligible water systems interested in obtaining financing for drinking water infrastructure improvements towards planning, design, and/or construction. For more information about project eligibilities, reference the **Attachment G** section of the IUP.

On April 2013, OHA’s DWSRF program launched its first web based LOI (for infrastructure projects only) which is open year-round and can be found at [www.orinfrastructure.org/LOI-Form/](http://www.orinfrastructure.org/LOI-Form/). This version saves money, streamlines the application process, is environmentally friendly, and extremely convenient for water systems. It also incorporates the IFA project intake and funding applications rolled in to the original LOI format. While this increases the size of the LOI, it reduces redundancy of the funding process so viable projects can obtain funding sooner than in years past. A paper version of this LOI is only available upon request.

The Drinking Water Source Protection (DWSP) program LOI is available separately in a fillable formatted paper version as well at, <http://public.health.oregon.gov/HealthyEnvironments/DrinkingWater/SRF/Pages/spf.aspx>.

❖ **Federal Funding Accountability and Transparency Act (FFATA)**

On March 23, 2011, the EPA released a memo explaining this federal requirement to states and the use of the FFATA Subaward Reporting System (FSRS) tool. States have the option to apply FFATA to all awarded projects, or only the projects and Set-Asides equivalent to the annual federal award amount (i.e., 100% of the award). Oregon’s DWSRF program has chosen to apply FFATA equivalent to the annual federal award amount. The charts below demonstrate what Oregon intends to apply FFATA requirements to.

In accordance with the EPA September 22, 2014 memo, “Application of Equivalency Under the FFATA,” these reporting requirements specific to the Set-Asides relate only to subaward contracted obligations at or above \$30,000 and that only those Set-Aside activities that meet or exceed this amount need to be reported in to the FSRS database. Specific contract details can be found on the Set-Aside FFATA spreadsheet within the **Attachment A** section of the IUP.

Oregon Safe Drinking Water Revolving Loan Fund 2016 IUP  
FFATA Reportable Project List (including Set-Asides)

Applicant	Applicant Number - 4	Score	Amount
City of Bly	SD-2014-54	30	\$ 3,300,000
City of Banks	SD-2015-72	30	\$ 3,511,503
City of Warrenton	SD-2015-88	30	\$ 1,334,637
Set-Asides	N/a	N/a	\$ 3,659,860
<b>FFATA TOTALS:</b>			<b>\$ 11,806,000</b>

## ❖ **Davis Bacon (DB) Wage Rate Compliance & Buy American Iron & Steel Provisions**

Loan recipients will be made aware of all specific programmatic requirements as part of a federal appropriation. Contract language will reflect those requirements.

Davis Bacon wage rate requirements apply to all construction, alteration and repair of treatment works carried out in whole or in part with assistance made available through the DWSRF. In order to ensure compliance, applicable DB contract clauses are inserted into all relevant contracts. Recipients of DWSRF funds are briefed on their responsibility to ensure that all relevant DB regulations are adhered to. In addition, IFA Regional Coordinators will periodically monitor certified payroll documents and other necessary and relevant documents for the adherence to DB regulations. Recipients of DWSRF funds are encouraged to contract with individuals or organizations that have demonstrated expertise in the administration of DB rules and regulations. Principal Forgiveness is available to eligible recipients who choose to hire such expertise.

American Iron and Steel (AIS) Provisions require DWSRF assistance recipients to use iron and steel products that are produced in the United States. Language regarding Buy American will be included with all DWSRF contracts to assistance recipients. Monitoring of compliance requirements will occur at appropriate intervals to ensure that any issues are addressed with immediacy.

## ❖ **Emergency Funding**

Emergency DWSRF funding is available for those infrastructure projects that fit specific criteria that warrant these funds. Specific details about the requirements that a system and its project must meet in order to qualify for emergency funding are detailed in the latest version of the Program Guidelines and Handbook in section 2.6.5.4, available on request.

## ❖ **Program Guidelines & Handbook**

The SDWRLF Program Guidelines and Handbook provides guidance for those interested in applying for and administering awards for infrastructure and DWSP projects. The Handbook serves as both an internal and external resource and is a critical element in ensuring that loan and grant funds are administered in an effective and efficient manner and that regulations and guidelines are administered correctly and uniformly.

The latest version of the Handbook is available at <http://www.orinfrastructure.org/assets/docs/IFA/SDWhandbook14.pdf>.

## ❖ **Operating Agreement (OA)**

The original 1998 Operating Agreement between the EPA and OHA for the DWSRF is being amended. The OA explains and itemizes the agreed-upon implementation and management of Oregon's DWSRF program. OHA will inform the EPA once the OA is ready for final review and signatures.

## **VI. Financial Status**

The financial status of Oregon's DWSRF program is detailed on the following chart. The chart provides *projected* DWSRF resources available to loan. Refer also to **Attachments A and C** in the IUP for more detailed financial information.

See chart below.

Oregon DWSRF Resources Available to Loan	
<b>Current Resources:</b>	
Cash	\$ 88,557,714
EPA Capitalization Grant FFY 2013	\$ -
State Match (20%)	\$ -
EPA Capitalization Grant FFY 2014	\$ 2,771,538
State Match (20%)	\$ -
EPA Capitalization Grant FFY 2015	\$ 8,585,470
State Match (20%)	\$ -
EPA Capitalization Grant FFY 2016	\$ 8,146,140
State Match (20%)	\$ 2,361,200
<b>Scheduled Principal on Loans:</b>	
SFY 2017	\$ 7,748,765
SFY 2018	\$ 7,949,051
SFY 2019	\$ 8,156,081
<b>Scheduled Interest on Loans:</b>	
SFY 2017	\$ 3,611,382
SFY 2018	\$ 3,402,446
SFY 2019	\$ 3,195,797
<b>Other Pending Loans Receivable Principal:</b>	
SFY 2017	\$ 328,744
SFY 2018	\$ 463,043
SFY 2019	\$ 614,527
<b>Other Pending Loans Receivable Interest:</b>	
SFY 2017	\$ 210,211
SFY 2018	\$ 285,457
SFY 2019	\$ 367,305
<b>Interest on Cash/Investments:</b>	
SFY 2017	\$ 136,000
SFY 2018	\$ 142,120
SFY 2019	\$ 148,515
<b>Total Resources:</b>	<b>\$ 147,181,506</b>
<b>Current Remaining Loan Obligations (as of 3/31/2016):</b>	<b>\$ 44,951,603</b>
<b>Net Resources Available to Loan</b>	<b>\$ 102,229,903</b>
<b>Key Assumptions:</b>	
Other Pending Loans Receivable includes estimated principal and interest on loans in construction and loans in workout status that are expected to resume or begin scheduled repayment in the state fiscal year.	

Oregon intends to package DWSRF projects with other state infrastructure program funds, including bond funds from the Oregon Bond Bank if additional funds are needed to complete projects, saving scarce Loan Fund dollars for more projects.

The Oregon Bond Bank is a leveraging mechanism whereby the state sells revenue bonds and lends the proceeds to local governments for drinking water and other infrastructure projects.

The state considers this a leveraging procedure, even though it does not fit EPA's definition of "leveraging."

The long-term financial viability of Oregon's Loan Fund depends on maximizing return to the Loan Fund without decreasing demand for the funds or increasing risk to Fund principal. Lending to eligible disadvantaged communities is balanced with loans funding other eligible projects in order to maximize the Loan Fund and still assist financially distressed communities that need system improvements.

The interest rate for the DWSRF Loan Fund base program will continue to be set at a rate between 60% and 80% of the previous quarterly municipal Bond Buyer 20 index.

## **VII. Disadvantaged Community Program**

Loans to Disadvantaged Communities are assessed interest on a sliding scale between the interest rate for a standard loan (i.e. four percent) and one percent. Loans will be based on loan affordability. The goal will be to offer the most affordable loan possible (within program constraints) such that user rates are brought as close to the affordability rate as programmatically possible for the community. The affordability rate is calculated as a ratio of the average annual water rate (based on 7,500 gallons) to the local median household income from the most recent decennial Census.

Please note that the affordability rate is adjusted annually based on an indexed percentage of local median household income (MHI). Adjustment utilized the most recent decennial Census until the next decennial Census figures are available and/or changes are made to the computational factors used. An example can be provided upon request.

The loan amortization period ranges from 20 years up to 30 years. If amortizing loan up to 30 years does not bring the user rate, as close to the affordability rate as possible programmatically, reduced interest rates will be considered which may include:

- ❖ Interest rate level will be adjusted between the standard loan rate (set quarterly to a rate between 0% and 80% of the Bond Buyer 20-Bond Index) and the fully subsidized rate of 1%. If reducing the interest rate to 1% does not bring the user rate close to the affordability rate, then Principal Forgiveness may be considered.
- ❖ Principal forgiveness will be awarded at a level sufficient to bring the user rate as close to the affordability level, up to a maximum of \$500,000 or above 50% of the loan amount per project, whichever is less. Additional subsidies for administration of Davis-Bacon Labor Standards may also be applicable. See the current Financing Options in **Attachment A** of the IUP.



On a project by project basis, Principal forgiveness may also be awarded to eligible Disadvantaged Communities to address special activities such as security measures; DWSP; and, asset management activities.

Principal forgiveness for these special program activities will be handled by IFA and will document award of principal forgiveness for special program activities in the project financial analysis document as well as report the activities in the Annual Report.

Oregon also expanded its Disadvantaged Communities program to provide for the following additional eligibility activities:

- ❖ Consolidation/Elimination of Non-Viable Public Water Systems: Within the context of this activity, a Disadvantaged Community is defined as a community served by a public water system that lacks capacity as defined by the SDWA, Sections 1420 and 1452 (a)(3). Principal forgiveness loans and reduced interest/expanded term loans will be made to the most appropriate public water system having capacity *that is willing to take over a failing* Disadvantaged Community water system.
- ❖ In most cases, this will consist of a project to run supply to and replace the distribution system in the Disadvantaged Community.
- ❖ Emergency based projects associated to eligible public water systems may be given disadvantaged community status, provided that the project meets certain characteristics. More information can be found in section 2.6.5.4 of the current Program Guidelines and Handbook.

More detailed information on the Disadvantaged Community Status can be obtained within Section 2.6.5 of the Program Guidelines and Handbook, <http://www.ornfrastructure.org/assets/docs/IFA/SDWhandbook14.pdf>.

### **VIII. Asset Management Training**

Water systems qualifying as Disadvantaged Communities are encouraged to participate in [Asset Management](#) training provided through the Oregon DWS website. Types of Asset Management training includes: fact sheets, handouts, website resource links, and training by DWS Technical Staff. Some of these materials can also be found on our [Financial Capacity](#) webpage. These types of training materials offer important insights on best management practices, how to save money while being organized, and how to project for future infrastructure improvements all at the same time. Additionally, programs like EPA’s Check Up Program for Small Systems (CUPSS) are very helpful Asset Management programs which also implement a *sustainable approach* for water systems and their users. These trainings will be funded through the Local Assistance Set-Aside: Capacity Development Program.

For more information about Asset Management and Oregon’s approach to *implement sustainable activities* for their water systems, please visit the “Capacity Development Work Plan” in **Attachment D** of the IUP, the Capacity Development Annual Report, and/or the SIPP program.

## **IX. Fund Linkage between DWSRF and CWSRF**

Oregon will not transfer funds between the Drinking Water and the Clean Water funds this grant year.

## **X. Drinking Water State Revolving Fund Projects**

### **A. Project Identification Process**

Before projects are placed on the project priority list, water systems must first submit an LOI. An LOI is a document that provides information about the water system, its water quality problem, its finances, its readiness-to-proceed, and its project solution and estimated cost. This is sufficient information to rate and rank each project to create the PPL, as required by the amended 1996 SDWA. Oregon's primary focus remains with projects that address drinking water public health risks and compliance issues while assisting systems most in need on a per household basis using state affordability criteria.

During SFY-2016, a total of seventeen new eligible projects successfully submitted an LOI for consideration. Fifteen of the seventeen (i.e., 88%) serve less than 10,000 people. These seventeen new projects are asking for approximately \$38 million and have been rated, ranked, reviewed and approved by DWS Technical Staff and the EPA and placed on the most current PPL. These projects are currently in the process of being funded by IFA or have already been funded. Also by adding these new projects to the PPL, it increases the combined project total request to over \$77 million. The combined PPL allows Oregon to better manage the Loan Fund and assures ready-to-proceed projects continue through financing and project implementation quickly. For more information on the PPL, reference **Attachment A** of the IUP.

An additional twelve LOIs (and counting) are currently being completed by system Applicants with the assistance of IFA Regional Coordinators (RC). The new web-based LOI is open year-round and is more robust by asking Applicants to provide more information early on in this process. This expedites the funding process once the LOI has been submitted and has proven to reduce future stagnant projects from being added to the PPL.

Most water systems not in full compliance with the Safe Drinking Water Act have some form of administrative enforcement order from OHA, DWS that defines the problem(s) to be resolved and includes a compliance schedule. If a water system has an enforcement order, then the proposed project must be able to return the water system to a full compliance status. DWSRF funds can be used to assist systems in reaching their compliance issues provided that the system has the technical and managerial capacity required to operate the system being funded.

### **B. Project Selection Criteria – Rating and Ranking, By-Pass**

The criteria used to establish funding priorities were adopted by Oregon under the Oregon Administrative Rule (OAR 123-049) process and were approved by the EPA. Project rating criteria are outlined in Oregon's rating document, "LOI Rating Form & Guidance" found here, <http://public.health.oregon.gov/HealthyEnvironments/DrinkingWater/SRF/Documents/rateandrank-ppl.pdf>.

The By-Pass Process is equivalent to skipping over a project higher on the PPL that is not ready-to-proceed in order to fund a project lower on the PPL that is ready-to-proceed. Unfunded Projects may remain on the PPL for up to two years from the approval of the IUP of the federal grant that they submitted their LOI for. Please reference the LOI Rating Form document referenced above for more By-Pass information.

Finally in order to comply with provisions of the amended 1996 SDWA, Oregon will assure at least 15% of the Loan Fund will be used to assist small water supplies, those that serve 10,000 or fewer people. If it is not at the 15% mark, then “only” these small systems will be considered until this federal requirement is met. Historically, Oregon is in compliance with this requirement.

## **XI. Public Reviews & Comments**

### **❖ Process**

The public has been invited to review and comment on Oregon’s proposed SFY-2016 IUP of the DWSRF grant application. If comments are received and it is determined that our SFY-2016 IUP must be amended, we will notify the EPA Region 10 office immediately.

According to the SDWA’s Federal Register Interim Final Rule, Section “O. Meaningful Public Review of the IUP (40 CFR 35.3555 (b)),”

- *“This interim final rule does not include specific requirements as to what constitutes “meaningful public review” of the IUP. Due to the variation among States, no single approach will work under all conditions.”*

EPA interprets the above language to provide States the ability to determine what is appropriate for meeting this requirement provided an effort is made to provide the public an opportunity to make comments. EPA Region 10 also supports Oregon’s public notice decisions referenced below. The end result is a more rapid process that also reduces program costs.

Below is a list of resources we use when posting notices for public comments related to our annual IUP and our quarterly PPL. List includes:

- DWSRF webpage, <http://healthoregon.org/srf>
- DWS main website front page, <http://healthoregon.org/dwp>
- Orange postcards mailed out (annually for the IUP) to public water systems and other interested parties throughout Oregon
- Publication of “Pipeline” Newsletter includes permanent information about policy, <http://public.health.oregon.gov/HealthyEnvironments/DrinkingWater/Operations/Pages/pipeline.aspx>

Public Notice materials can be found in **Attachment H** of the IUP.

◆ End of Summary ◆