

Oregon Department
of Environmental Quality

Clean Water State Revolving Fund Annual Report

2018



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Executive Summary

Oregon's Clean Water State Revolving Fund continues its mission to provide technical assistance and below-market rate loans for planning, design and construction projects related to stormwater and wastewater. This program supports public health, local economies and environmental protection statewide.

Since the program began in 1988, nearly four hundred communities have benefited from more than a billion dollars of infrastructure investments. The program finances traditional wastewater treatment projects that address point source pollution, as well as nontraditional treatment or nonpoint source pollution 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 and contaminating rivers, lakes and other bodies of water.

The Clean Water State Revolving Fund is maintained through an annual EPA capitalization grant from the U.S. Environmental Protection Agency, repaid loans, interest and fees. According to EPA, for each dollar of federal capitalization, \$3 of assistance is provided to communities, maximizing the use of these funds to gain the most benefit to the environment.

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 required financial data from the state fiscal year July 1, 2017 through June 30, 2018.

State Fiscal Year 2018 (SFY 2018) Overview

- All eligible projects were funded, with loan amounts ranging from \$250,000 to \$13 million
- Loans totaled \$75,306,681
- Assistance was provided to six small communities, which is defined as fewer than 10,000 people, four large communities and one irrigation district
- Financing was provided to one non-traditional project, a combined heat and power digester for the City of The Dalles
- Principal forgiveness was awarded to four communities, totaling \$1,778,000.

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” show how we are achieving our objectives.

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

Actions taken:

- Updated and streamlined the application documents, making it easier to apply.
- Updated the program website to be more informative for applicants and borrowers.

Objective: Support emerging markets to obtain loans; these include irrigation districts, working with tribes and local community loans.

Actions taken:

- Staff are working with non-traditional borrowers to expand the local community loans program.
- Staff attended the Oregon Water Resources Congress’ annual conference to present loan options and program requirements to irrigation district managers from across the state.
- Staff collaborated with Farmers Conservation Alliance, an irrigation district modernization technical assistance organization, to support irrigation districts in understanding and complying with program requirements and timelines.
- The Environmental Quality Commission adopted new program rules allowing borrowers to choose between the State of Oregon’s process for contracting architectural and engineering services and the federal process. This allows federally recognized Indian Tribes to elect to follow the federal process instead of the State of Oregon process, which does not apply to tribes.



Above, Ashland Creek



Objective: Encourage innovative and non-traditional projects, such as green infrastructure, energy efficiency, climate resilience, and sustainability projects.

Actions taken:

- Staff are developing a series of stormwater management guides so that communities can learn about low impact development and green infrastructure treatment for nonpoint source pollution.
- The program developed a cost-eligibility matrix for a stream restoration/riparian buffer as its first water quality trading project to ensure alignment between DEQ's water quality trading plan requirements and Clean Water State Revolving Fund requirements.

Objective: Encourage communities to focus on high priority, water quality improvements projects state wide, including stormwater, nonpoint and estuary projects.

Action taken:

- Created a "letter of interest" outreach effort to assist communities in identifying areas of concern and following up with coordinated assistance.



CWSRF loans finance water treatment and pollution prevention activities

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:

- Maintained adequate reserves to increase the number and amounts of new loans, as verified by the program's annual audit by the Secretary of State.
- The Environmental Quality Commission adopted new CWSRF program rules that allow the program to restructure and refinance loans and charge holding costs instead of cancelling loans for loan recipients that had not drawn down loan funds for two years, ensuring borrower retention and the fund's perpetuity.
- Identified National Pollutant Discharge Elimination System, NPDES, permittees on DEQ's permit issuance plan for the next two years to prioritize loan applicants and loan recipients and to outreach to potential borrowers.

Objective: Ensure 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 60 years at 2018 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:

- Provided financing to five small communities totaled \$13,281,050 during FY2018.
- Committed to providing at least 15 percent of total loan funds to small communities with fewer than 10,000 people. Principal forgiveness is prioritized first to small communities with median household income less than the statewide median household income.
- Provided lower interest rates are given to disadvantaged communities.
- Program has two full time staff dedicated time to customized technical assistance for small communities. Communities are considered "disadvantaged" based on median household income and population.

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

Action taken:

- Developing guides for funding markets outside of traditional wastewater treatment plants, including stormwater and irrigation districts.



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.

Action taken:

- Approved a variety of treatment and non-treatment projects for financing, described in the 2018 Intended Use Plan.

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.
- Updated two major programmatic technical guides to ensure compliance with new state and federal regulations and to increase easy usage: [Manual](#) for Design, Bid, Build and [Guidelines](#) for Preparing Wastewater Planning Documents and Environmental Reports for Public Utilities.

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:

- Created new brochures to explain the loan process, eligibilities and benefits of the financing program.
- Continued to advertise in statewide trade magazine, to distribute a program newsletter three times per year and to table at tradeshow to increase the program's visibility.
- Encouraged more borrowers and stakeholders to sign up for notifications through Gov Delivery.



Installation of a sewer outfall pipe. Photo credit: City of Hood River

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:

- Created and promoted a “Letter of Interest” outreach effort to offer assistance in identifying solutions to wastewater and stormwater issues and help navigating the loan application process.
- Technical assistance providers, known as circuit riders, are trained in [Effective Utility Management](#) and continue to assist communities in understanding implementation and benefits of this approach.

Objective: Provide training and technical assistance to communities in conjunction with new program requirements of the Water Resources Reform and Development Act of 2014.

Actions taken:

- Updated applications, guidance and forms to reflect 2014 requirements.
- Updated were announced through mass email software, GovDelivery, and highlighted in the summer e-newsletter.

Goal #4: Coordinate and collaborate with other state and federal programs to provide financial assistance for water quality improvements to Oregon public agencies.

Objective: Develop a strategy with other funding agencies to communicate, coordinate and jointly fund projects with high priority water quality needs in the state.

Actions taken:

- Worked on collaborating more closely with partner agencies, including the Governor’s Office of Regional Solutions, to identify potential revolving fund projects.
- Continued to attend One-Stop meetings in collaboration with other state and federal agencies to offer financing options to potential borrowers.
- Developed a comprehensive One-Stop meeting tracking tool to document funding attained and to provide information for future funding opportunities.
- Participated in the Oregon Water/Wastewater Infrastructure Collaborative, a group

of state, federal, local, organizational, and financial stakeholder partners who meet quarterly to foster communication, coordination and collaboration around water and environmental infrastructure in Oregon. The collaborative focused on trends, discreet projects and community readiness during SFY 2018.

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

Action taken:

- Program staff met with DEQ basin coordinators to explain how the fund could help the communities they serve.

2. Project Highlights



Coos Bay water treatment facility. Photo credit: Oregon DEQ

The City of Coos Bay is nearly finished with an ambitious project to build a new wastewater treatment plant that will increase capacity and mitigate the risks of sanitary sewer overflow during intense storms. The project is financed entirely by a loan from the Clean Water State Revolving Fund. In addition to the new facility, Coos Bay is addressing stormwater runoff through the loan program's Sponsorship Option. This allows borrowers to pair point source and nonpoint source projects into one loan to reduce the overall interest rate. To address nonpoint source pollution, the City is creating a stormwater management plan and development standards, along with best management practices interventions to reduce volume and velocity of stormwater runoff.

2.1 Principal Forgiveness



Above, Siphon Power Project Pipe.
Photo credit: Central Oregon Irrigation District

In addition to below-market rate loans, the Clean Water State Revolving Fund program offers additional assistance to help small, less affluent communities meet their water quality needs. The program also offers additional assistance 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. In State Fiscal Year 2018, principal forgiveness totaling \$1,778,000 was spread among four communities. Each awardee received up to 50 percent of their loan, not to exceed \$500,000, in principal forgiveness.

With a population of fewer than 10,000 people, the Crescent Sanitary District’s new wastewater treatment facility and lagoon project qualified for small community designation, along with 11 other applicants. This means more favorable loan terms, and in the case of the City of Joseph’s planning project, also principal forgiveness. Central Oregon Irrigation District also received principal forgiveness for their piping project, estimated to conserve five cubic feet per second of water for instream use.

2.2 Green Projects

Table 1: Green Project Reserve met during State Fiscal Years 2015-2018

| | FFY Grant | 2015 | 2016 | 2017 | 2018 |
|----------|---------------------------------|--------------------|------------------|--------------------|--------------------|
| Borrower | GPR Req | 1,575,800 | 1,494,000 | 1,497,700 | 1,813,200 |
| | Clackamas SWCD | 250,000 | | | |
| | Rock Creek | 270,786 | | | |
| | Coos Bay | 2,200,000 | | | |
| | prior year Coverage | | 1,144,986 | 950,986 | 1,203,286 |
| | City of Ashland | | 1,300,000 | | |
| | City of Dallas | | | 1,750,000 | |
| | Central Oregon Irrigation Dist. | | | 3,113,311 | |
| | City of Bend | | | | 8,000,000 |
| | Amount of GPR remaining | (1,144,986) | (950,986) | (1,203,286) | (7,390,086) |

DEQ is required, as part of its annual federal capitalization grant, to fund projects that are “green,” based on EPA criteria. Categorized as Green Project Reserve, or GPR, these are projects

that are water or energy efficient, environmentally innovative or include green infrastructure. The amount of binding commitments for green projects must equal no less than 10 percent of the annual



Central Oregon Irrigation District open canal. Photo credit: Oregon DEQ

federal capitalization grant the program receives. Table 1 above shows how the program met the minimum GPR obligation over the past four state fiscal years. However, in SFY 2018 the program financed more “green” projects than the required number.

Ten projects met the water efficiency criteria and four met the criteria for energy efficiency, including Dee Irrigation District. Their project features a high efficiency pump station which will leave water in the West Fork Hood River, helping endangered species and improving fish passage.

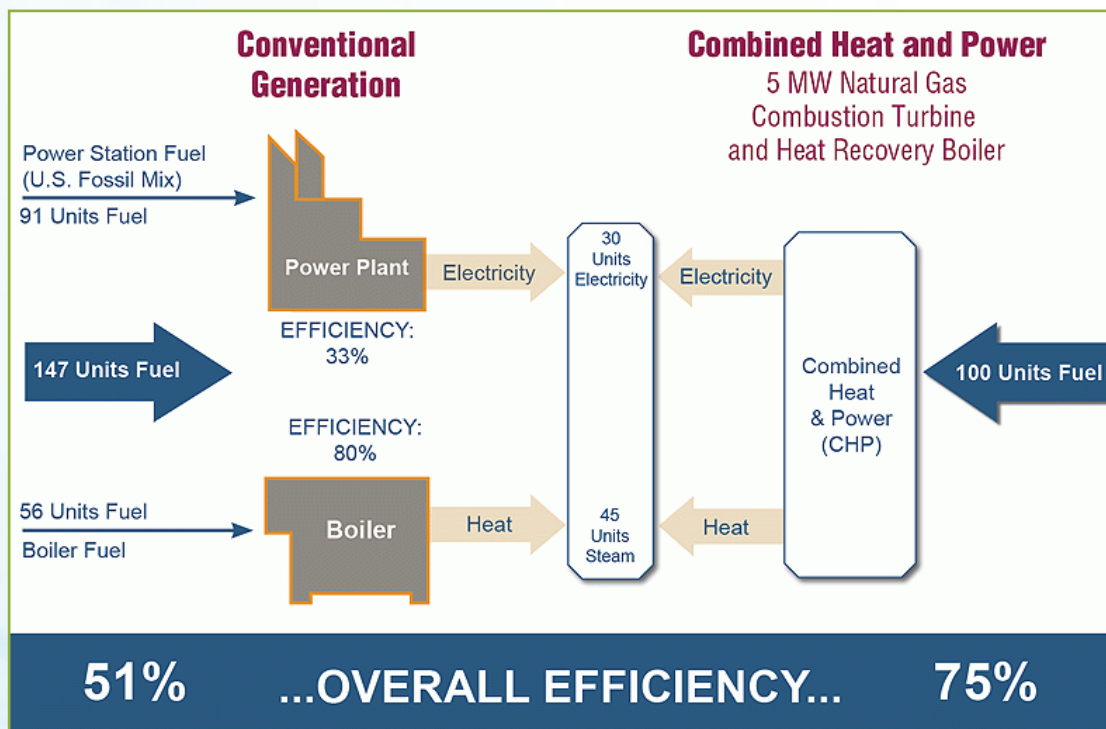
The City of the Dalles’ project, an anaerobic digester, achieves energy efficiency through cogeneration, also known as combined heat and power. This design is energy efficient because it uses the digester gas to generate heat and electrical power.

[According to EPA](#), “the average efficiency of fossil-fueled power plants in the United States is 33 percent. This means that two-thirds of the energy used to produce electricity at most power plants in the United States is wasted in the form of heat discharged to the atmosphere.

By recovering this wasted heat, Combined Heat and Power systems typically achieve total system efficiencies of 60 to 80 percent for producing electricity and useful thermal energy. Some systems achieve efficiencies approaching 90 percent.

This approach has many potential environmental benefits, such as:

- Decreasing purchase of additional electricity
- Improving process reliability to meet water quality standards
- Allowing for greater capacity of the aeration basin, reducing energy costs



Graphic: Environmental Protection Agency

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 achieved compliance.

3.1 Review all State Revolving Fund funded section 212 projects in accordance with the approved environmental review procedures

Environmental review during state FY2018 was completed on all new Equivalency projects. Equivalency refers to loans made in the same amount as the capitalization grant given by EPA. 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 reviewing comments from borrowers, DEQ then solicited public comments by posting public notices online and in statewide and local

newspapers. Table 2 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, which means DEQ determined that the action will not have significant environmental impacts. A Categorical Exclusion means the project is exempt from a detailed environmental analysis because of no anticipated significant impact on the environment.



The Dalles

Table 2: Loan activity by quarter

| Loan # | FONSI/CE | Borrower | Action | Amount | Cross-Cutters? |
|---|----------|---------------|----------|---------------|----------------|
| First Quarter FY 2018 - July through September 2017 | | | | | |
| 90700 | CE | The Dalles | NEW | 2,000,000 | N/A |
| 80491 | N/A | Sandy | NEW | 250,000 | N/A |
| 11752 | FONSI | Ashland | NEW | 9,900,000 | Y |
| 11753 | FONSI | Ashland | NEW | 1,300,000 | Y |
| 14516 | N/A | Bend | Increase | 31,204,851.00 | N/A |
| 45761 | N/A | Hood River | Decrease | -1,065,898.00 | N/A |
| 37820 | N/A | Gold Hill | Decrease | -663,200.00 | N/A |
| 97791 | N/A | Winston | Decrease | -25,275.00 | N/A |
| | | | | 42,900,478.00 | |
| Second Quarter FY 2017 - October through December 2017 | | | | | |
| 23552 | CE | Columbia City | NEW | 476,000 | Y |
| 24000 | N/A | Coos Bay | Increase | 4,894,944 | N/A |
| 47602 | FONSI | Independence | NEW | 5,966,930 | Y |
| 93052 | FONSI | Umatilla | NEW | 2,342,420 | Y |
| | | | | 13,680,294.00 | |
| Third Quarter FY 2018 - January through March 2018 | | | | | |
| 11754 | N/A | Ashland | NEW | 4,829,000 | N/A |
| 66270 | N/A | Monroe | Decrease | (100,800) | N/A |
| 10514 | FONSI | Albany | NEW | 13,000,000 | Y |
| 43690 | N/A | Heppner | Decrease | (304) | N/A |
| 11751 | N/A | Ashland | Decrease | (2,904,411) | N/A |
| 94945 | N/A | Warrenton | Decrease | (55,542) | N/A |
| | | | | 14,767,943.00 | |
| Fourth Quarter FY 2018 - April through June 2018 | | | | | |
| 73540 | FONSI | Pilot Rock | NEW | 4,135,000 | N/A |
| 21642 | N/A | COID | Decrease | (3,250,000) | Y |
| 21643 | FONSI | COID | NEW | 3,113,311 | Y |
| 75264 | CE | Rainier | NEW | 556,700 | N/A |
| 14515 | N/A | Bend | Decrease | (597,045) | N/A |
| | | | | 3,957,966.00 | |
| | | | | 75,306,681.00 | |

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, as shown in Table 3 below.

Table 3: SFY 2018 Match Data

| | |
|---|---------------|
| Federal Grant Payments through 2017 | \$433,092,785 |
| State Match Payments through 2017 | 93,599,025 |
| Match payments as a percentage of federal payments | 21.61% |
| Fiscal Year 2018 Activity | |
| Grant Payments | 14,977,000 |
| Match Payments (new money to the SRF) | 0 |
| Cumulative Totals | |
| Grant Payments | \$448,069,785 |
| Match Payments | 93,599,025 |
| Commitments as a percentage of federal payments (cumulative) | 20.89% |

The CWSRF Clean Water State Revolving Fund uses 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. Table 4, below, summarizes bonds outstanding as of June 30, State Fiscal Year 2018.

Table 4: Outstanding bonds in State Fiscal Year 2018

| Bond Series | Issue Amount | Principal Paid | | | Balance |
|---------------|-------------------|------------------|------------------|------------------|-------------------|
| | | Through FY 15 | FY2017 | FY2018 | 6/30/2018 |
| 2008A | 4,800,000 | 1,481,290 | 216,774 | 224,516 | 2,877,420 |
| 2009A | 4,890,000 | 1,930,000 | 250,000 | 190,000 | 2,520,000 |
| 2010A | 4,945,000 | 1,215,000 | 215,000 | 225,000 | 3,290,000 |
| 2012A | 4,235,000 | 355,000 | 160,000 | 165,000 | 3,555,000 |
| 2013A | 4,015,000 | 965,000 | 355,000 | 370,000 | 2,325,000 |
| 2015A | 4,040,000 | 0 | 320,000 | 340,000 | 3,380,000 |
| TOTAL: | 26,925,000 | 5,946,290 | 1,516,774 | 1,514,516 | 17,947,420 |



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

DEQ's Clean Water State Revolving Fund loan program documents continuing compliance with all applicable cross cutters for all projects, in an amount no less than that of the capitalization grants. With the rule revisions of October 2015, DEQ established a new type of loan, the "federal loan." Launching of the federal loans is a pilot project giving DEQ the opportunity annually to offer incentives, in the form of a reduced interest rate, on a first come, first serve basis for a subset of borrowers subject to additional federal funding requirements. These projects are funded with monies directly made available by the federal

capitalization grant for the associated federal fiscal year. This strategy obligates one or two large communities in each state fiscal year to complete the cross cutters, thus allowing DEQ, when appropriate, to waive the cross cutter documentation from smaller communities with less resources. For SFY 2018, City of Bend, loan number R14516 for \$31,204,851 met all the "equivalency" requirements, thus allowing four borrowers to have complete cross cutters documentation waived: City of Rainier, City of The Dalles, City of Pilot Rock and Water Environment Services of Clackamas County.

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 during SFY 2018 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 SFY 2018 and program administrative expense

| | |
|--|----------------------|
| Total loans as of June 30, 2017 | 1,188,793,638 |
| Total Admin. Exp. Pd. From Grants | 10,101,744 |
| Total Commitments | 1,198,895,382 |
| Federal Payments thru June 30, 2017 | 447,307,785 |
| FISCAL YEAR 2018 ACTIVITY | |
| Loans | 75,306,681 |
| Admin. Expense Pd. From Grants | 0 |
| Federal Payments (prior yr.) | 14,977,000 |
| Cumulative Total Loans as of June 30, 2017 | 1,264,100,319 |
| Cumulative Total Admin. Exp. Pd. From Grants | 10,101,744 |
| Total Commitments | 1,274,202,063 |
| Cumulative Total Fed. Payments thru FFY2017 | 462,284,785 |
| Commitments as a percentage of federal payments (cumulative) | 276% |

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

Each loan application submitted to DEQ is scored and ranked by program staff and included in the Intended Use Plan. Projects can only be funded if they are included in the Intended Use Plan and are “ready to proceed,” meaning the project satisfies all loan requirements. This may include a land use compatibility statement, an environmental review, and documentation supporting compliance with the federal cross cutting authorities, as applicable. An applicant is not considered ready to execute a loan agreement until all such requirements have been satisfied.

Currently, DEQ awards funding without regard to project score or ranking because the program has sufficient funds to finance all projects 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 offer funding to all projects that

are ready to proceed, DEQ will award funding to projects that are ready to proceed in rank order based on project ranking in Appendix 2. If an applicant declines funding, DEQ will go to the next highest ranking project and offer funding to that project, until all available funds have been committed. DEQ will use this same procedure for the Green Project Reserve funding to ensure these are fully obligated in accordance with DEQ and federal requirements.

This approach prevents a situation in which DEQ would have to wait for the highest ranking projects to satisfy all requirements before offering loans to lower ranking projects that are ready to proceed. If DEQ did not implement this approach, the program would be hindered in its ability to provide financing in a timely manner for projects that are ready to proceed. The program had sufficient funds available for all loan agreements during FY2018.

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

DEQ funded initial projects with money from the federal capitalization grant for the associated federal fiscal year. For State Fiscal Year 2018, City of Bend, loan number R14516 for \$31,204,851 met all the “equivalency” requirements.





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