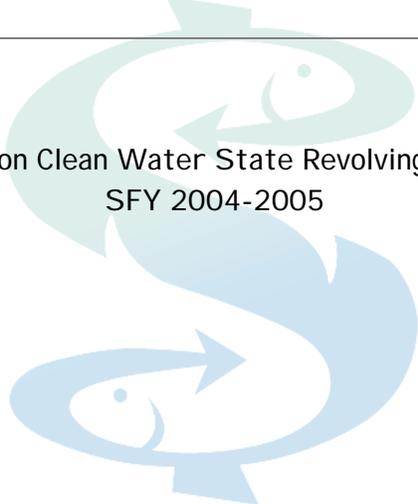


U.S. ENVIRONMENTAL PROTECTION AGENCY,
REGION 10
CLEAN WATER STATE REVOLVING FUND PROGRAM

PROGRAM EVALUATION REPORT

Oregon Clean Water State Revolving Fund
SFY 2004-2005



Clean Water
State Revolving Fund



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 10
1200 Sixth Avenue
Seattle, WA 98101

July 25, 2006

Reply to
Attn Of: OWW-137

Lauri Aunan, Administrator
Water Quality Division
Department of Environmental Quality
811 SW Sixth Avenue
Portland, Oregon 97204-1390

RE: Oregon Clean Water State Revolving Fund
Program Evaluation Report for SFYs 2004-2005

Dear Ms. Aunan:

The US Environmental Protection Agency (EPA) Region 10 has completed the 2004-2005 annual review of Oregon's Clean Water State Revolving Fund (CWSRF) as required by section 606(e) of the Clean Water Act. Enclosed is the 2004-2005 Program Evaluation Report (PER) of the Oregon Department of Environmental Quality's (ODEQ) CWSRF program.

The PER takes a new form this year in response to guidance published March 2004 governing how the EPA's regional offices structure and conduct their legally required annual program evaluations of the clean water state revolving loan funds. The report consists of several related documents. The first document is a narrative that articulates our findings, documents our reviews of loan project files and provides explanatory information, where necessary, for a set of completed review questionnaires. Those review questionnaires are incorporated into the second document, which is presented as a set of completed Excel worksheets. Those worksheets frame the questions that guided the EPA's annual performance review of the CWSRF.

Oregon's CWSRF continues to be one of the fastest paced direct loan programs in the nation. ODEQ's continuing commitment to the success and improvement of the program has led to several actions in the past few years: developing and implementing an integrated planning and priority setting system for ranking projects that are candidates for financial assistance from the fund; drastically increasing the funding of projects that implement Oregon's Nonpoint Source Management Plan; and being one of several states actively participating in helping EPA better document the environmental results being obtained from the CWSRF.

The PER also notes three areas where actions by ODEQ are required. First, and most significantly, ODEQ is not complying with 40 C.F.R. §35.3140. It inappropriately applies its EPA-approved alternative State Environmental Review Process (SERP) to all projects funded by the CWSRF. Additionally, ODEQ is not following its own procedures when the alternative process is appropriately applied to projects. In the Executive Summary, numerous actions are detailed which ODEQ must take before EPA can approve any additional capitalization grants for the CWSRF. Second, ODEQ should standardize its file maintenance procedures to ensure that all project officers are maintaining proper documents in project files. And finally, ODEQ needs a new Operating Agreement governing the administration of the Fund which reflects changes to state program regulations and procedures, cross-cutting federal authorities, and other structural and programmatic changes that have occurred since the last Operating Agreement was signed in 1993. EPA requests that the ODEQ describe the corrective actions that the ODEQ will implement to address these three areas and provide a schedule for those actions by August 31, 2006. We will add the response to the PER so that the document recognizes those plans.

We appreciate the time that your staff, particularly Mr. Bob Baumgartner, Mr. Larry McAllister, Mr. Rick Watters, Mr. Richard Satner, Ms. Elizabeth Hutchinson, Mr. Francis Dzata, and Mr. Jaime Isaza, spent in assisting us during our review and commenting on the draft version of the PER. If you have any questions regarding the enclosed report, please call me at (206) 553-7151, or contact Michelle Tucker at (206) 553-1414. We look forward to continuing to work with you in your efforts to manage the Oregon Clean Water Fund and to protect and improve water quality in the State of Oregon.

Sincerely,

Michael F. Gearhead, Director
Office of Water and Watersheds

Enclosure (1)



Oregon

Theodore R. Kulongoski, Governor

Department of Environmental Quality

811 SW Sixth Avenue
Portland, OR 97204-1390
503-229-5696
TTY: 503-229-6993

September 7, 2006

RECEIVED
OWW-135
SEP 14 2006

Michael Gearheard, Director
Office of Water and Watersheds
OWW-135
U.S. EPA, Region 10
1200 Sixth Avenue
Seattle, Washington 98101

RE: Oregon Clean Water State Revolving Fund (CWSRF)
Response to Program Evaluation Report for SFY 2004-2005

Dear Mr. Gearheard:

The Oregon Department of Environmental Quality (DEQ) appreciates the time and energy invested by the U.S. Environmental Protection Agency (EPA) Region 10 staff in developing the 2004-2005 Program Evaluation Report (PER). It highlights a number of program successes and identifies areas where our program can improve.

The PER indicates (on pages 26-27) several areas where actions are either recommended or required. Although DEQ does not agree with all these statements, our offices have a long history and relationship in support of this program and we are confident that we can mutually agree on appropriate follow up actions.

EPA recommends, and DEQ agrees with, four modifications to the Annual Report submitted by DEQ. The Annual Report will now include:

- a list of communities which have signed loan agreements during the fiscal year;
- an explanation of DEQ's "bypass procedure", when and why it was used during the fiscal year;
- an ongoing list of projects that DEQ has/has not required to meet the federal cross-cutting authorities; and
- a mutually agreed upon reporting of loan fees that aligns with EPA's 2005 fee guidance document.

This additional information will enhance the Annual Report and assist DEQ's tracking of this data. We anticipate these modifications will be included in the FFY 2006 Annual Report.

EPA recommends that the environmental review decision of each project be listed in the Annual Report. DEQ supports this recommendation, and we will commit to it when environmental review procedures have been resolved.

EPA recommends, and DEQ agrees to work with Region 10 to finalize a new Operating Agreement between EPA and DEQ for adoption during SFY 2007.

In addition to recommended actions, the PER requires DEQ to address two major activities within our program: standardizing our project files; and specific changes in our environmental review process. DEQ will implement changes resulting in more consistently maintained files during CY 2006.

The remaining requirement of the PER regards DEQ's environmental review procedures. Specifically, EPA is suggesting that our environmental reviews are not complying with 40 C.F.R. § 35.3140. We do not agree with EPA's interpretation of the C.F.R. Since its approval by EPA in 1999, DEQ has operated from the understanding our Alternative State Environment Review Process (alternative SERP) as the required procedure for environmental reviews. EPA has not raised this issue in past reviews. The proposed change in direction from EPA appears to be a substantial workload increase for DEQ and could require rule or statute changes by DEQ. Prior to changing our 1999 agreement DEQ needs clarification on the regulations that obligate us to provide a NEPA-like environmental review process. Once we understand and agree on the appropriate process, DEQ will discuss a reasonable remedy and timeline for establishing and implementing it. In the meantime, DEQ does not agree to return to using the environmental review practices in place before the approval of our alternative SERP for an amount equal to the capitalization grants that have been awarded to date on a cumulative basis, or on an ongoing annual basis.

DEQ agrees that our current procedures for implementing our alternative SERP can be improved. Program staff have already identified modifications that address EPA's concerns regarding documenting the environmental review process and results, including public involvement. DEQ commits to addressing EPA's concerns by the end of CY 2006.

Like EPA, DEQ is committed to ensuring the CWSRF loan program is operated effectively. We look forward to working with EPA to reach mutually beneficial solutions for the remaining issues.

Best regards,

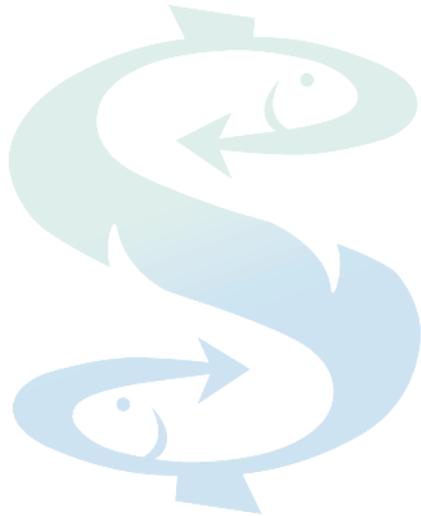


Lauri Aunan, Administrator
Water Quality Division
Oregon Department of Environmental Quality

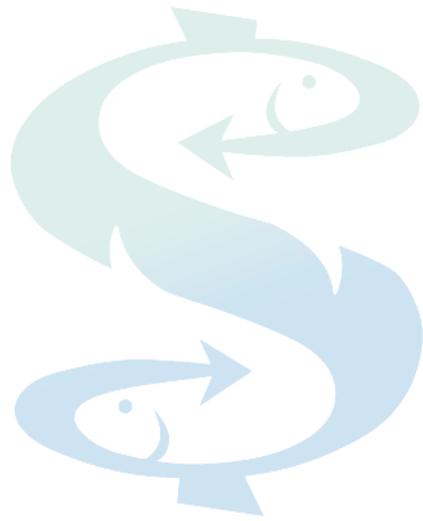
C: Bob Baumgartner, DEQ
Larry McAllister, DEQ
Paul Logan, Oregon Department of Justice

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Clean Water
State Revolving Fund



Clean Water
State Revolving Fund

EXECUTIVE SUMMARY

This report presents the Environmental Protection Agency's (EPA's) evaluation of the performance of the Oregon Department of Environmental Quality (ODEQ) in its administration of the Oregon Clean Water State Revolving Fund during State Fiscal Year (SFY) 2004 and SFY 2005. Our review was conducted pursuant to the Annual Review Guidance for the State Revolving Fund Programs (Interim Final) published by the EPA's Office of Water in March 2004.

In accordance with that guidance, this report is organized into the following components:

- This Executive Summary.
- A narrative statement that summarizes program highlights
- An annotated program review checklist for both programmatic and financial elements of revolving fund administration (Attachment I - annotated review checklists).
- Explanatory notes for those items in the review checklist that merit additional discussion (following the program highlights).
- Project file review checklists (Attachment II - file reviews).

This report reflects the EPA's examination of the following types of records:

- The Operating Agreement between the EPA and ODEQ governing the administration of Oregon's Clean Water State Revolving Fund.
- The grant agreements associated with each of the open EPA capitalization grants to ODEQ.
- The Intended Use Plans (IUPs) for the Oregon Clean Water State Revolving Fund for SFY 2004 and SFY 2005.
- Records of financial transactions maintained by the EPA and ODEQ
- The annual reports submitted by ODEQ for SFY 2004 and SFY 2005.
- Three project loan files, one each managed out of the ODEQ Northwestern, Western, and Eastern Regional Offices
- The independent financial audit of Oregon's Clean Water State Revolving Loan Fund for SFY 2005 completed by EPA's Office of Inspector General-Audit.

- Discussions held between ODEQ's management and program staff, as well as EPA interviews of ODEQ's regional project officers
- An on-site review (the Program Evaluation Visit [PEV]) held from January 31 - February 2, 2006 during which the EPA staff reviewed and discussed program issues with the staff of DEQ.

As part of our review, the EPA visited the Department of Environmental Quality for several days during the week of January 30, 2006. During that visit, we met with ODEQ staff to discuss and review several components of ODEQ's financial management system and environmental review processes. We also reviewed loan files for three loans. The record of these loan file reviews are included as Attachment II - file reviews of this report.

There are a number of positive factors that contribute to the success of the Oregon CWSRF program. ODEQ has a dedicated and competent staff in both its central and regional offices. It uses an integrated planning and priority setting system to allocate fund resources in a manner that maximizes the potential water quality benefits of the projects receiving financial assistance from the Fund. The State has recently hired a new project officer in its Western Regional Office and an additional Program Coordinator in its central office. The program uses a cash flow model to determine the volume of new loans that can be safely completed each calendar quarter, which has allowed it to significantly increase the number of active loans and allows it to support a larger number of projects under construction at any one time. The program is the fastest paced CWSRF in Region X and one of the best non-leveraged programs in the country at getting money "out the door" and making water quality improvements. The program also uses effective loan portfolio management practices to minimize the potential for borrowers to default on their loans.

However, the Oregon Department of Environmental Quality faces a few specific challenges in the operation of its clean water state revolving fund; ensuring that there is regional consistency to its environmental review procedures and project file maintenance. Based on our review of the Oregon Clean Water State Revolving Fund's performance in SFY 2004 and SFY 2005, we have identified the following matters for which corrective action by the Department of Environmental Quality is warranted:

- 1) ODEQ is not complying with 40 C.F.R. §35.3140. It inappropriately applies its EPA approved State alternative SERP to all projects funded by the CWSRF. Additionally, ODEQ is not following its own procedures

when the alternative SERP is appropriately applied to projects. The following immediate actions are required (For further discussion, see page 10):

- a) Return to using the environmental review practices in place prior to EPA's approval of the alternative SERP process for an amount equal to the capitalization grants that have been awarded to date on a cumulative basis;
- b) Continue to use the earlier environmental review process for projects totaling an amount of the capitalization grants annually;
- c) Begin following its EPA-approved State alternative SERP guidelines for all projects in excess of an amount equal to the capitalization grants received. Specifically, the alternative SERP requires that:
 - i) A statement of categorical exclusion will be made a part of the CWSRF project file for qualifying projects.
 - ii) If the project does not qualify for the Categorical Exclusion, a document must be prepared that provides comparative evaluations among alternatives, and describes the beneficial and adverse consequences to the existing and future environment. The "no action" alternative and at least two additional viable alternatives must be discussed.
 - iii) The fourth component of the State Environmental Review Process is the public notice and review. Proposed projects receive public notice and review when the CWSRF Intended Use Plan (IUP) is made available for comment. In order for the IUP to fulfill federal CWSRF requirements¹, it would have to be modified from its current form. A modified IUP would have to provide environmental determinations for projects slated to be funded, as well as information for obtaining the environmental documents upon which these decisions would be based (e.g. an address and/or hotlink to the relevant environmental assessment upon which a determination of no significant impact would be made.)

¹ CWSRF obligations under 40 C.F.R. §35.3140(5)(c)(5) state, "Provides for notice to the public of proposed projects and for the opportunity to comment on alternatives and to examine environmental review documents."

- 2) DEQ must standardize its file maintenance procedures and ensure that all project officers are maintaining proper documents in project files. There does not appear to be any uniformity as to which documents, certifications, checklists, and/or other records are kept in the file. Adequate records Management is an important part of the program, a grant condition, and a stated element in the Oregon CWSRF Operating Agreement (dated 7/1/93) page 12.
- 3) The Department of Environmental Quality has agreed to work with the EPA to develop a new Operating Agreement governing the administration of the Fund to reflect changes to state program regulations and procedures, cross-cutting federal authorities, and other structural and programmatic changes that have occurred since 1993. See the discussion at page 16.

PROGRAM HIGHLIGHTS

The Oregon Clean Water State Revolving Loan Fund (CWSRF) received its first capitalization grant from the Environmental Protection Agency (EPA) in September 1989. Through the end of SFY 2005 it had received a total of over \$251 million in EPA capitalization grants. These grants were matched by the State with approximately \$50 million in capital contributions. Historically, the CWSRF received its match from General Obligation Pollution Control Bonds that had been repaid by appropriations from the Oregon State Legislature. Beginning with SFY 2004, the CWSRF chose to issue a short-term bond for the state match and use the interest earnings from the CWSRF (investment interest and interest payments on loans) to retire the bond. Total funds available to the program through the end of SFY 2005, including Fund interest earnings over the life of the program, principal, and interest repayments, was approximately \$480 million. The Fund has always been operated as a direct loan program (The state has never leveraged the Fund by issuing bonds to increase the annual dollar volume of assistance that it could provide to eligible projects).

Oregon's Clean Water State Revolving Fund offers assistance to projects eligible under Sections 212, 319, and 320 of the Clean Water Act (CWA). Every year ODEQ develops an Intended Use Plan (IUP) that documents the total dollars and sources of funds available for the upcoming state fiscal year and all projects that have applied for possible funding shown on the Project Priority List. In addition, ODEQ indicates which projects it intends to fund in the coming year based on the priority ranking score of each project and project readiness to proceed with construction. The CWSRF has a continuous application cycle and the IUP is amended once five or more new applications are received, or every four months, whichever occurs first.

As of June 30, 2005, the Fund had executed approximately \$528 million in loans. Within this universe of projects, the Fund offered approximately \$479.5 million worth of loans for solving traditional publicly owned treatment work point source problems and \$48.5 million in assistance to projects that implemented the state's nonpoint source water quality strategy.

During SFY 2004, and continuing throughout 2005, the Oregon Clean Water State Revolving Fund offered interest rates comparable to the national average of state water pollution control revolving fund interest rates, offering communities an equivalent subsidy of approximately 43%-48% when compared to loan rates available from the traditional bond markets for public infrastructure projects. Interest rates vary depending on the length of the loan, the type of loan, and

program rules. Rates range from 25% of the bond rate for 5 year loans to 65% of the bond rate for 20 year loans. An additional 0.5% fee is also charged on all but planning loans to support the administration and project management costs of running the CWSRF.

In SFY 2003, ODEQ made some significant changes to its water quality financial assistance program. During the course of the fiscal year, ODEQ designed an Integrated Priority and Planning Setting System (IPPSS) that based the scoring and ranking of projects based on the assessed water quality priorities of the State. After completing the public review cycle, this new ranking system was in place for the SFY 2004 IUP. There were several significant changes in the funding priorities for the CWSRF:

- new application scoring criteria was developed to make application rankings more consistent between point source, nonpoint source, and estuary type projects,
- interest rates and fees were reduced,
- a new loan type, the "sponsorship option," was introduced to encourage Oregon communities to assist in reducing nonpoint source pollution,
- a new category of loan, expedited loans, was created to address emergency and urgent repairs, and
- provisions to establish local community loans were established allowing communities greater flexibility in dealing with failing onsite systems and other long-term community concerns.

Additionally, the new rules clearly defined how funds would be allocated amongst the various types of projects. No borrower on the Project Priority List (PPL) may be allocated more than the greater of \$2.5 million or 15% of the total available funds as reported in the initial IUP for that program year. If CWSRF moneys are available after allocating this limit to each eligible applicant, additional funds may be allocated above this limit.

ODEQ allocates annual funds to funding categories according to the following priorities:

- Increases to existing loans will be awarded first.
- Expedited Loan Reserve - A reserve of \$2 million will be established to fund expedited loans. Emergency loans and urgent repair loans will be awarded in rank order. Unused funds still remaining in the expedited loan reserve on May 31 of the program year can be reallocated to the CWSRF general fund.

- Small Community Reserve - A maximum of 15% of the total CWSRF monies will be available in each program year for allocation to communities with populations of 5,000 or less. Local community design and construction projects eligible within this reserve will be awarded in rank order. If reserve funds still remain on March 1st of the program year, these remaining funds may be allocated to any unfunded portions of a small community loan request in the order the loan agreements were executed. After reallocating as such, any remaining funds in the small community reserve can be moved into the CWSRF general fund.
- Planning Loan Reserve - A maximum of \$3 million of the total CWSRF will be available in each program year for allocation to planning loans. Projects will be selected from the project priority list in rank order for this reserve. If reserve funds still remain on March 1st of the program year, these remaining funds may be reallocated to any unfunded portions of planning loan requests in the order the loan agreements were executed. After reallocating as such, any funds still remaining in the planning reserve can be moved to the CWSRF general fund.
- General Fund - All new design or construction project loans not funded from a reserve will be allocated from the general fund. Any remaining emergency or urgent repair, small community, or planning projects not already allocated funds from their respective reserves, or allocated less than the total loan amount requested, may be awarded funding in rank order subject to available funds and the maximum loan amount for the program year.

During SFY 2004 and SFY 2005, the EPA started a pilot effort at better documenting the environmental results being obtained from its water infrastructure finance programs. Based on experience with the pilot, the EPA was able to incorporate a simplified system for reporting environmental results for state revolving fund programs into the SFY 2006 grants management guidance. In addition to providing an environmental benefits form for each project funded during the fiscal year, Oregon has also agreed to participate in a pilot project by entering locational data for each project to allow the State and EPA mapping capabilities.

FOLLOW-UP FROM THE EPA'S LAST PROGRAM EVALUATION

The Clean Water Act State Revolving Fund regulations require an annual review of state CWSRF programs. Region X did not conduct this review in SFY 2004. This report documents a combined SFYs 2004 and 2005 review. The region has set an objective of performing an on-site review every year, travel funds permitting.

In years when an on-site review is not done, the region has reviewed the key documents submitted by states as part of the CWSRF annual cycle. These consist of the Annual Report, CWSRF Capitalization Grant Application, the Intended Use Plan (IUP), and other documents as appropriate. If a review of these documents did not identify any particular issues, and the state programs appeared to be performing satisfactorily, EPA did not prepare a written report or conduct formal follow up to these reviews.

The EPA's Headquarters CWSRF program staff believes that a more formal approach to annual reviews is necessary. In particular, they requested that a report be prepared that would document that a review occurred and that would note any findings. An annotated program review checklist for both programmatic and financial elements of revolving fund administration was prepared in response to that request. Comments were based on a review of the documents noted in the preceding paragraph, telephone conversations with Oregon Program staff, and EPA's active participation in substantive rule changes throughout SFY 2003.

The only concern noted in the SFY 2003 checklist stated,

Uncertain about Environmental Cross-cutters; no SERP in place for many years and several project files reviewed didn't follow correct environmental review process/all cross-cutters; need to review newer project files to determine if problem has been fixed. Interview with senior engineer indicates problem solved, will determine in future review.

In previous years, ODEQ requested that EPA make a determination that Oregon had fulfilled its equivalency requirements. An insufficient number of files had been reviewed at that time and EPA responded that it must review several more project files to which the State of Oregon had required all equivalency requirements to be met. For this reason, during the SFY 2003 review, older files had been requested and EPA was unable to make a determination as to the current environmental review process.

CURRENT PROGRAM EVALUATION TOPICS

REQUIRED PROGRAM ELEMENTS

ANNUAL REPORT

The excellent annual reports submitted by ODEQ are always well-prepared, thorough, on time, and include an extensive set of exhibits. In particular, the annual report effectively combines comprehensive financial reporting and analysis with understandable narrative. EPA especially appreciates the ongoing effort by ODEQ staff to make the annual report a useful and informative document.

Improvement is needed in four areas; reporting on which projects signed binding commitments during the fiscal year; how/when/why bypass procedures were implemented; which projects (on a cumulative basis) were required to implement all the Federal Cross-Cutting authorities; and the environmental determinations made for projects during the fiscal year.

- **Binding Commitments** – In the Annual Report ODEQ does an excellent job of showing Binding Commitments as a percentage of funds available, however there is not a list of exactly which projects signed Binding Commitments in that fiscal year. It would make it much easier for EPA and any others who read the Annual Report if ODEQ provided a list of communities which signed loan agreements during the fiscal year in this section of the Annual Report.
- **Bypass Procedure** - One of the requirements of an Integrated Planning and Priority Setting System is to fund projects in priority order. Often a project ranked very high on the priority list doesn't get funded and a project much lower on the list does based on a State's bypass procedure. This is a normal process used when working with so many different communities and situations. The IUP briefly explains the ODEQ procedure for bypassing a project. However when the bypass procedures are used, the annual report should include an explanation indicating when, why, and how this procedure was invoked.
- **Cross-Cutters** – The CWSRF program requires the cross-cutting authorities requirements must be met by projects or activities whose cumulative funding equals the amount of the federal capitalization grant to the state. The state decides which projects will be used to meet this requirements and must ensure that these projects comply with federal cross-cutting authorities. Once the state determines which projects will

receive funding that cumulatively equals the amount of the capitalization grant, other projects funded with CWSRF monies are not generally subject to cross-cutting authorities (see page 12 for further details). Since Oregon chooses to allow certain projects and/or borrowers to not implement Federal Cross-Cutting authorities, the Annual Report must maintain an ongoing list of which projects have or have not been required to meet these federal cross-cutting authorities so that EPA is assured that a sufficient number of projects are meeting these requirements.

- **Environmental Review Decisions** – Please indicate in the Annual Report the environmental review decisions that have been made during the fiscal year. It is sufficient to indicate which projects received the state equivalent of a categorical exclusion, Finding of No Significant Impact, a full-blown Environmental Impact Statement, or when the environmental determination of another agency has been adopted.

ENVIRONMENTAL REVIEW

Under the Clean Water Act and 40 C.F.R. §35.3140(a), EPA requires that all section 212 projects undergo a NEPA-like environmental review. These projects include the familiar wastewater treatment projects as well as nonpoint source pollution control and estuary projects that can also fit the definitions of “construction” and “treatment works” in CWA §212.

EPA’s regulations implementing the CWSRF program at 40 C.F.R. Part 35 Subpart K extract the fundamental principles of EPA’s 40 C.F.R. Part 6 NEPA regulations in a way that fits the unique structure of the CWSRF program. They set forth the minimum requirements that must be incorporated in state environmental review processes (SERPs) for all project. These requirements allow state agencies to distinguish between the environmental review procedures that must be applied to project that receive funds equaling the amount of the grant and alternative procedures that may be applied to other projects. States must conduct environmental reviews of CWSRF projects, but for those activities funded in an amount greater than the capitalization grant, a state may elect to apply an alternative SERP.

Early in 1997, DEQ submitted a proposed alternative SERP pursuant to 40 C.F.R. §35.3140(c). EPA indicated that it would be able to approve this process when it was officially submitted by DEQ. During the SFY 1998 annual review, DEQ indicated that it planned to present the originally proposed SERP to a review

committee for approval in early June. Following committee approval, the SERP would have a 30-day public review period. At that time, around August 1999, DEQ was supposed to send the SERP to EPA for official approval. No action was taken on the SERP during SFY99 and EPA sent DEQ a letter on August 23, 1999 indicating that EPA would be forced to issue a notice of noncompliance if an official submittal was not received by October 22, 1999. A final SERP submittal was received by EPA on November 3, 1999 and on November 17, 1999 EPA provided official approval of the SERP and the Procedures Manual in which it is contained.

Our review of project files during this SFY 2004-2005 annual review found that the agreed upon environmental review procedures have not been consistently followed. ODEQ is not complying with 40 C.F.R. §35.3140. It inappropriately applies its alternative SERP to all projects funded by the CWSRF. Additionally, ODEQ is not following its own procedures even when the alternative SERP is applicable. Effective immediately, ODEQ must:

- 1) Return to using the environmental review practices in place prior to EPA's approval of the alternative SERP process for an amount equal to the capitalization grants that have been awarded to date on a cumulative basis (this includes all relevant environmental cross-cutters which are discussed further in the next section of this document);
- 2) Continue to use the earlier environmental review process for projects totaling an amount of the capitalization grants annually;
- 3) Begin following its alternative SERP guidelines for all projects in excess of an amount equal to the capitalization grants received. Specifically, the alternative SERP requires that:
 - a) A statement of categorical exclusion will be made a part of the CWSRF project file for qualifying projects.
 - b) If the project does not qualify for the Categorical Exclusion, a document must be prepared that provides comparative evaluations among alternatives, and describes the beneficial and adverse consequences to the existing and future environment. The "no action" alternative and at least two additional viable alternatives must be discussed.
 - c) The fourth component of the State Environmental Review Process is the public notice and review. Proposed projects receive public notice and review when the CWSRF Intended Use Plan is made available for comment.

In order for the CWSRF Intended Use Plan (IUP) to fulfill the obligations under 40 C.F.R. §35.3140(c)(5), "Provides for notice to the public of proposed projects and for the opportunity to comment on alternatives and to examine environmental review documents," the IUP must be modified from its current form. The environmental determinations for projects to be funded must be provided as well as information for obtaining the environmental documents upon which the decision has been based (e.g. an address or hotlink to the relevant environmental assessment upon which a determination of no significant impact was made.)

COMPLIANCE WITH CROSS-CUTTERS

Cross-cutting federal authorities are the requirements of other federal laws and Executive Orders that apply in federal financial assistance programs. Often, these authorities are expressly applied by the statute authorizing the assistance itself. More frequently, the requirements are not cited in the authorizing statute, but apply broadly by their own terms to a wide range of federal financial assistance programs. In the CWSRF program, these include environmental laws such as the Endangered Species Act, the National Historic Preservation Act and executive orders on the protection of wetlands and flood plains, social policy authorities such as executive orders on equal employment opportunity in federally assisted programs, and economic authorities such as rules implementing executive orders on the debarment and suspension of persons who have engaged in misconduct.

Cross-cutters apply to the CWSRF agency as the grant recipient and to projects and activities receiving federal financial assistance. Because CWSRFs may consist of funds from several sources (federal grants, state match, loan repayments, or bond proceeds), states must apply cross-cutter requirements to projects whose cumulative funding is equal to the amount of the federal capitalization grant.

The state decides which projects will be used to meet this requirement and must ensure that these projects comply with federal cross-cutting authorities. Once the state determines which projects will receive funding that cumulatively equals the amount of the capitalization grant, other projects funded with CWSRF

monies are not generally subject to cross-cutting authorities². However, the state may require compliance with cross-cutters by projects whose cumulative funding is greater than the amount of the federal capitalization grant. If the state does this, it may bank the excess to meet future requirements.³

For a number of years, Oregon has been allowing particular projects or communities (typically nonpoint source projects, short-term interim financing loans, and particularly rural or poor communities) an exemption from implementing most federal cross-cutters. EPA applauds Oregon's effort to identify particular projects/communities for which elimination of these cross-cutters would make CWSRF loans easier to obtain and less costly to implement. Given the bankable nature of these requirements, ODEQ needs to begin documenting in its annual report which projects, cumulatively, have been given this exemption and which have not.

Oregon has worked with EPA over the past few years to significantly improve its implementation and documentation of the Social Policy Authorities such as the Civil Rights Laws and Disadvantaged Business Enterprise Provisions. EPA would like to thank the Oregon CWSRF staff for all the work they've done towards improving these processes and documenting the results of these actions.

During the SFY 2004-2005 annual review, EPA found significant problems related to ODEQ's implementation of the cross-cutters represented by the Environmental Authorities. As was mentioned in the Environmental Review section above, an alternative SERP was approved by EPA for the state on November 17, 1999. This alternative SERP was only to be used for projects in excess of the capitalization grants awarded to the state as none of the federal environmental cross-cutters are applied to projects which undergo this review. Projects totaling the amount of capitalization grants awarded are to undergo a traditional, NEPA-like state environmental review process.

² All programs, projects, and activities undertaken by the CWSRF program are subject to the federal anti-discrimination laws, including the Civil Rights Act of 1964, Pub. L. No. 88-352 §601, 78 Stat. 252 (codified as amended at 42 U.S.C. §2000d), the Rehabilitation Act of 1973, Pub. L. No. 93-1123, 87 Stat. No. 94-135, §303, 89 Stat. 713, 728 (codified at 42 U.S.C. §6102). Further, these broader anti-discrimination laws apply by their own terms to the entire organization receiving federal financial assistance, not just to the project itself.

³ Required compliance under the minority-owned and women-owned business enterprise laws by projects whose cumulative funding is greater than the amount of the federal capitalization grant is not "bankable."

The intent underlying the SERP process is to ensure that recipients consider environmental impacts early in the planning process, to resolve compliance issues through prudent planning, and to integrate under the SERP umbrella procedures for compliance with the other cross-cutting environmental laws. Most of these other environmental authorities must also be addressed early in the planning process of a project or activity.

With some variations to account for differences in the laws or in the roles of the different levels of government, there is a series of steps that when followed, result in achieving compliance with the environmental cross-cutters through the SERP process.

1. With the assistance of the CWSRF agency, the assistance recipient must first conduct the necessary studies and analyses and prepare documentation demonstrating that the proposed project is in compliance with the cross-cutting environmental authorities, or that appropriate mitigation measures are included in its planning. These studies should be done in conjunction with the SERP's broader environmental analysis. The assistance recipient also need to consult with representatives of responsible states agencies on particular cross-cutters to resolve compliance issues before the state-level review begins.
2. The state CWSRF agency conducts an independent review of the documents prepared in step one and drafts the SERP documentation, which should include a preliminary determination regarding compliance with relevant cross-cutters, or the measures the assistance recipient must take to achieve compliance.
3. The state CWSRF agency must notify the responsible state or federal agency of its findings. If the responsible state or federal agency concurs in the CWSRF agency's determination (for example, where the Fish and Wildlife Service issues a "No Affect" letter), the CWSRF agency may then issue its final decision document and proceed with the project. If the responsible state or federal agency objects to the CWSRF agency's findings, the CWSRF agency must either revise its findings or seek to resolve outstanding issues directly with the responsible agency.

When the CWSRF agency and the responsible federal agency cannot resolve issues between themselves, these issues must be raised with the EPA regional office. During this process, the EPA regional office may consult with the responsible federal agencies. The CWSRF agency must maintain a file on each project, which documents the CWSRF agency's actions with respect to

environmental cross-cutters (e.g., including the letter requesting comments on the preliminary determination and a summary of comments).

We assessed the Fund's compliance with all Federal cross-cutting authorities as a part of our review of project loan files. Highlights from those reviews are noted below. To see those reviews in detail, please refer to the Project File Review Tables, Attachment II. Though the CWSRF in Oregon has fulfilled its equivalency requirements (see page 16), the program still must document its compliance with Federal cross-cutters at least in an amount equal to the cumulative capitalization grants received from EPA.

EPA reviewed three project files; Deschutes Soil and Water Conservation District (SWCD) Caprine Restoration Services (loan # R27610), Gresham's Wastewater Treatment Plant Expansion (loan # R39187), and Waldport's Wastewater System Improvements (loan #R94344). None of the three project files reviewed implemented federal cross-cutting authorities.

The decision was made on the Deschutes project not to require federal cross-cutting authorities because it was an unusual nonpoint source project. It was funded wholly with second round funds from the state treasurer's office.

The City of Waldport obtained a short-term, interim financing loan from the CWSRF. Though the community had already obtained a Rural Utility Services (RUS) grant and loan package, RUS would not give the actual funds to the community until the project was complete. The CWSRF provided the up-front money via a short-term loan to complete the necessary wastewater system improvements and the community pledged its RUS grant and loan to repay the CWSRF loan. Because the community was already working with RUS on this project, the CWSRF did not want to unnecessarily burden the community by making it resubmit everything to ODEQ as well. For this reason, ODEQ did not require the City of Waldport to meet federal cross-cutting authorities.

Though the wastewater treatment plant expansion by Gresham fulfilled federal socio-economic cross-cutters, it did not implement federal environmental cross-cutting authorities. There was no facility plan, plans & specifications, environmental review document or decision in the file other than a FONSI issued from 1987. Under 40 C.F.R. §35.3140(b)(3)(iii), the previous 1987 FONSI determination could only have been used if the State fully documented the information, processes and premises that influenced the decision to "reaffirm or modify a decision contained in a previously issued categorical exclusion (CE), EA/FNSI or EIS/ROD following a mandatory 5 year environmental reevaluation of a proposed project." Additionally, 40 C.F.R. §35.3140(b)(4)(i) states that, "The State must provide public notice when a CE is issued or rescinded, a FNSI is issued but before it becomes effective, a

decision issued 5 years earlier is reaffirmed or revised, and prior to initiating an EIS.”

Where a state chooses to house various documents such as Facility Plans, Environmental Review documents, Plans & Specifications, etc. is up to the State. These documents, while potentially not filed with a Project Officer’s official “project file,” must still be available to EPA during an on-sight review for those projects which the state asserts have implemented federal cross-cutting requirements.

OPERATING AGREEMENT

Oregon’s Clean Water State Revolving Fund continues to be managed in accordance with the revised Operating Agreement between the Department of Environmental Quality and EPA, Region 10. This Operating Agreement, from July 1993, is outdated. It does not reflect some of the current practices or cross-cutters and it does not account for the changes that have been made to the program as it has evolved over more than a decade.

The EPA has been working with the Department of Environmental Quality to update the Operating Agreement (OA). This work should be completed during SFY 2007 and a new OA must be in place by the start of SFY 2008.

EQUIVALENCY REQUIREMENTS

§602(b)(6) of the Clean Water Act “attaches” 16 specific statutory requirements from Title II of the Act to publicly owned treatment works projects constructed in whole or in part before Federal Fiscal Year 1995 with funds directly made available from the EPA capitalization grants. There are two basic elements to establishing compliance with this requirement at this late date. First, the state needs to submit a document that identifies the specific projects that were required to meet these terms as well as the amount and binding commitment date of the loans involved. Second, the EPA needs to conduct file reviews on a sample of those project loans to verify that these projects did, indeed, comply with the 16 specific requirements.

The ODEQ provided the EPA with a document that identified all CWSRF financed publicly owned treatment works projects that had stated construction by September 30, 1994 (the end of FFY 1994). This list showed borrowers, loan numbers, descriptions of the types of projects, and loan amounts. This list

established that the program needed to have \$74.5 million worth of projects which complied with all of the 16 Type II equivalency requirements. It also demonstrated that approximately \$86.9 million had been disbursed to projects that met all requirements as of June 30, 2003.

Over the last several years, as a part of our annual review process, the EPA has reviewed files for publicly owned treatment works projects financed in whole or in part by loans from the Oregon CWSRF. Those file reviews demonstrated that the ODEQ:

1. Has always clearly communicated the obligation of the project owner (borrower) to comply with the 16 Title II requirements, including the inclusion of appropriate loan terms.
2. Has had a comprehensive system in place to verify and document that the borrower, indeed, met those requirements.
3. That the projects typically met these requirements (as demonstrated in facilities plans and environmental information documents in the project loan files).

Given this record, the EPA has concluded that the ODEQ program has fully complied with the mandate of §602(b)(6). Consequently, future Intended Use Plans do not need to address this element of the statute and the ODEQ may, at its discretion, modify the corresponding state program requirements and loan terms as it deems appropriate.

REQUIRED FINANCIAL ELEMENTS

The SFY04/05 annual review process covered an expanded range of financial elements. This expanded set of financial elements is incorporated in the interim final annual review guidance and checklist issued by the EPA CWSRF national program office in March 2004. Oregon's CWSRF SFY04/05 review was the first year in which the new checklist was applied. Additionally, this SFY04/05 annual review was the first review of Oregon's program by EPA's new CWSRF Financial Analyst. Consequently a greater array of financial topics was included in the staff discussions as well. We appreciate the extra effort for financial analysis and report preparation that we requested and ODEQ staff provided during this review.

When reviewed against the financial elements of the annual review checklist, ODEQ's management of its CWSRF program affirmatively meets almost all of the financial management criteria assessed. ODEQ's accounting procedures, its annual reporting, and its sub-recipient monitoring are noteworthy examples of good financial management of the program. With assistance from program and fiscal department staff, the EPA financial analyst was able to reconcile all of the financial data points included in our year-end financial worksheet.

The annual review checklist contains some financial elements that are based on regulatory requirements, and other elements that are not regulatory. The non-regulatory elements are included on the checklist to help assess program performance and implementation.

There are three areas where Oregon's CWSRF program did not warrant an affirmative answer in the financial section of the annual review checklist. Two of the elements relate to financial management practices that are recommended by EPA to ensure fiscal integrity of the CWSRF program and loan projects. The first of these is the recommendation that an annual independent audit be performed on the state's CWSRF program. For SFY04, ODEQ did not have an independent audit performed for the CWSRF program. This was the basis for not answering the checklist question about annual audits with a "yes" answer. For SFY05, EPA's Office of Inspector General, OIG, performed a financial audit of the program and found the OR CWSRF to be in compliance with the required financial reporting requirements. A more complete discussion of the financial statements and audit is provided in the section below titled "Audit and Financial Statements". A second financial element not answered affirmatively asks about the programs oversight of borrower's accounting practices, specifically in ensuring that loan recipient's are maintaining accounts in accordance with Generally Accepted Accounting Principles-GAAP. We noted that ODEQ's loan agreement(s) specify that borrower's will keep project accounts in accordance with generally accepted government accounting standards, with GAAP, and with State Minimum Standards for Audits of Municipal Corporations. We also

note that OR law does allow for entities to use cash basis accounting which is not in accordance with GAAP - so there is no specific assurance that all loan recipients are adhering to GAAP accounting requirements. On this basis, the checklist question is not answered affirmatively, however we are satisfied that the loan agreements provide for appropriate accounting safeguards and we are not requesting a change at this time.

The third financial element from the checklist not marked affirmatively is the fact that loan policies do not include a requirement for assistance recipients, i.e. CWSRF borrowers, to have access to additional funding to ensure project completion. However, ODEQ loan documents do contain language that specifies: "If the Loan Amount is not sufficient...borrower shall pay at its own expense from its own funds." As such, we are not requesting a change in the loan agreement language at this time to address this checklist item.

Additional financial elements discussed below are not presented as a result of a checklist mark. Rather they are included in this report because they are significant aspects of the financial requirements and performance of the Oregon CWSRF program.

STATE MATCHING CAPITAL CONTRIBUTION

In SFY2004, the Oregon CWSRF program began providing the required state match funds by issuing general obligation bonds to be repaid by interest earned on CWSRF funds (loan interest and investment interest). Oregon received concurrence in June of 2003, by EPA's Headquarters Office of Wastewater Management (OWM) allowing The Oregon CWSRF to use interest earned after the 2003 grant award date, August 22, 2003, to pay remaining debt on bonds previously issued for state match and for subsequent match bond issues.

The match requirement for the 2003 federal capitalization grant was funded partially by proceeds from a bond issued on Dec 16, 2003. After meeting the 20% match requirements for the 2003 capitalization grant, the residual amounts from this bond was applied towards the state match for the 2004 grant. Similarly, a bond issued in September of 2004 provided funds to finish meeting the match requirement for the 2004 grant and the residual was applied to match required for the 2005 grant. It is anticipated that the state match for the FY2006 capitalization grant will be fully funded by previously issued bond proceeds. No new issuance of a bond for matching the FY2006 grant is expected.

To implement the repayment of previously issued bonds, the Oregon program staff, in consultation with the EPA's Office of the Inspector General (OIG), made a number of accounting adjustments in the fiscal year 2005 Financial Statements. These accounting adjustments were necessary to more accurately record the liability and cash flows

associated with the bond debt. In addition, amounts previously recorded as state match in the Clean Water National Information Management System (CWNIMS) were adjusted to more accurately reflect the timing of deposits of state match bond proceeds into the CWSRF. Capitalization grants awarded under the CWSRF program require at least 20% state match. After the adjustments were made to reflect the timing of bond proceeds deposits into the CWSRF, the Oregon CWSRF has a cumulative total state match equal to 21% of the cumulative grant funds. As a result of these accounting changes, a technical adjustment was made in CWNIMS for the 2002 transfer of \$3 million from the loan fees account into the OR Water Pollution Control Revolving Fund. Whereas previously the \$3 million of fee revenue was counted as *additional state dollars in excess of match* (CWNIMS line 92), the revised entries in the 2005 CWNIMS counts the \$3 million as regular state match (CWNIMS line 84).

The practice of using fund interest earnings to pay debt incurred from bonds issued for state match means there are fewer funds available for financing water quality projects. Although the Oregon CWSRF has been allowed to fund their state match through this mechanism, we recommend the program seek state appropriations to meet future grant match requirements.

BINDING COMMITMENTS

CWSRF program regulations require states to enter into binding commitments (that is, to sign loan agreements) for amounts equal to or greater than 120% of capitalization grants within 12 months of the grant payment. The Oregon CWSRF program exceeds this requirement. In SFY2004 cumulative binding commitments were 153% of grant fund payments and in SFY2005 cumulative binding commitments equaled 159% of federal grant payments. The Oregon CWSRF program also meets the requirements for timely and expeditious use of funds, by entering into loan agreements equal to or greater than 100% of the funds available, including loan repayments and interest earnings, within one year of receiving those funds.

FINANCIAL INDICATORS

The ratio of binding commitments to federal grant payments discussed above is used to calculate the Return on Federal Investment, one indicator within a suite of financial indicators used nationally to report on the progress and results of the CWSRF program. Oregon's CWSRF program performs very well in a number of the financial indicators. As mentioned above, the program's Return on Federal Investment is over 150% for both SFY2004 and SFY2005; the national average is 147% for SFY2005.

In another measure of program performance, the Oregon CWSRF is achieving impressive loan volume when compared to funds available in a given fiscal year. In SFY2005, the program entered into loan agreements equal to 108% of the funds available during the fiscal year. Oregon achieved these positive results by projecting funds available beyond the immediate fiscal year and incorporating careful cash management practices, thereby allowing for an aggressive level of loan agreements. The result is more water quality projects being funded and less idle cash.

These are very positive results and provide clear evidence of the success of the Oregon CWSRF staff and management. Please refer to the following chart for a comparison of recent fiscal year performance according to financial indicators by which state CWSRF programs are evaluated.

Oregon Clean Water State Revolving Fund				
Financial Indicators for SFY 2004 and SFY 2005				
Description	OR CWSRF SFY 2004	OR CWSRF SFY 2005	Regional Average for FY2005	National Average for FY2005 ⁴
# 1- Return on Federal Investment - Shows the amount invested in water quality beneficial projects for each federal dollar invested	152.3%	158.6%	147.3%	147.0%
# 2-Percentage of Closed (executed) Loans to Funds Available For Loans - Shows the amount of signed loan agreements compared to the amount of funds available for loans	105.6%	107.7%	98%	95%
# 3-Percentage of Funds Disbursed to Closed Loans - Shows the amount of funds actually disbursed compared to the amount of signed loan agreements	75.3%	75.5%	75.3%	80%
# 4-Benefits of Leveraging - (generating additional SRF funds by issuing bonds)	N/A	N/A	N/A	N/A
# 5-Perpetuity of Fund - Demonstrates whether the program is maintaining its contributed capital. A positive result indicates the Program is maintaining its capital base	\$68,635,998	\$79,697,418	N/A	N/A
# 6-Estimated Subsidy - An estimate of the CWSRF interest rate subsidy, stated as a percentage of the market rate.	48.6%	43.8%	50.1%	55.1%

⁴ National Average data is from CWNIMS; results from non-leveraged states only.

AUDIT AND FINANCIAL STATEMENTS

EPA's Office of the Inspector General (OIG) conducted an audit of the Oregon CWSRF for the fiscal year ending June 30, 2005. This financial audit addressed three primary areas; the presentation of the program's financial statements, the program's compliance with applicable laws and regulations, and the internal controls over financial reporting. The OIG's audit report issued in January 2006 gave the Oregon CWSRF an unqualified opinion⁵ on the financial statements and compliance requirements and noted no material weaknesses involving the internal control system. The Oregon CWSRF staff and program management deserve positive recognition for the results of the OIG's audit.

EPA's OIG has informed the CWSRF program that it will no longer be providing financial audits for state CWSRF programs. Prior to this notification, Oregon was one of the few states nationally that did not arrange for their own annual independent audit. In light of the notice that EPA's OIG is discontinuing its CWSRF financial audits, the Oregon CWSRF program contacted the Oregon Secretary of State's Audits Division to inquire about scheduling an audit through the state's office. The response was positive and beginning with SFY2006, the Oregon Secretary of States Audits Division will plan to perform a financial opinion audit for the CWSRF program. This arrangement was confirmed in an e-mail from the Audit Manager at the Secretary of States Audit Division to the SRF Loan Specialist at the Oregon CWSRF program. A copy of the e-mail was provided to EPA during the 2005 annual review for EPA records. Noted in the e-mail was the statement that audit work for 2006 would most likely not be completed until February or March of 2007 due to limited resources on the part of the Audits Division. Although EPA would prefer to have audited financial statements presented with the submission of Oregon's CWSRF Annual Report which is due by September 30 of each year, we recognize the time constraints involved and we will look for un-audited financial statements to be included in the timely submission of the 2006 Annual Report.

EPA congratulates the Oregon CWSRF program for making the necessary contacts to schedule a financial audit for the 2006 fiscal year. We encourage the CWSRF program to establish an on-going agreement with the Secretary of State Audits Division to ensure continuity of an annual audit schedule.

⁵ An unqualified opinion is an auditor's judgment that he or she has no reservation as to the fairness of presentation of a entity's financial statements and their conformity with Generally Accepted Accounting Principles (GAAP), also termed *clean opinion*.

INTERNAL CONTROLS AND ACCOUNTING PROCESSES

Many of the accounting procedures and financial statement entries looked at during the audit were again reviewed by EPA Regional CWSRF program staff during the on-site annual review visit. The results of our annual review visit confirmed the positive report provided by the OIG audit. EPA's Regional Financial Analyst concurs that the accounting practices and internal controls are appropriate for managing the CWSRF and found that these procedures are being consistently followed. To further certify the program's internal controls, EPA suggests that the Oregon CWSRF document the procedures followed for processing CWSRF financial transactions. This documentation at a minimum should include loan application review and approval, loan account set-up, disbursement processing, treasury draws from the SRF fund, capitalization grant draws, loan repayments, fee accounting, and loan balance accounting. EPA recognizes that some documentation of these procedures may already be in existence. However, EPA's Regional Financial Analyst did not observe documentation during the annual review visit.

The annual review visit by EPA for SFY2005 included some additional areas of financial review and scrutiny resulting from the implementation of the annual review checklist and the addition of the Financial Analyst to the EPA Regional CWSRF review team. In light of these additional review areas we especially appreciate the cooperation and assistance provided by the program staff during this EPA annual review which followed shortly after the completion of the OIG audit.

FEES AND PROGRAM INCOME -ACCOUNTING AND REPORTING

The Oregon CWSRF has been assessing fees as part of their loan program for all loans originating after 1992. Fee income is reported in the SFY2004 and SFY2005 financial statements in the Statement of Revenues, Expenses and Change in Net Assets. A more detailed accounting of loan fees is provided in a year-by-year table included in the Notes to the Financial Statements. During the annual review visit, state program staff and the EPA Financial Analyst discussed the current use of fees for administrative expenses and a worksheet was provided by program staff that allowed EPA to reconcile the loan fee account balance with the statement of net assets in the financial statements. For future reporting, loan fees and the uses of loan fee income are subject to recently published guidelines. EPA final guidance on fees was published in the Federal Register⁶ in October of 2005 with specific fees and program income use constraints as well as accounting and

⁶ Federal Register Vol. 70, pg. 61039, October 20, 2005 "Guidance on Fees Charged by States to Recipients of Clean Water State Revolving Fund Program Assistance"

reporting requirements. EPA Regional CWSRF staff will be working with the Oregon CWSRF program during 2006 to suggest appropriate modification of Oregon's loan fees reporting to better meet the requirements set forth by the fees guidance. The fees guidance impacts both the annual report/financial statements and also the discussion of fees included in the IUP. Changes to Oregon's reporting of fees and program income could include, but are not limited to, the following:

- Year -by-year report of fee amounts collected and classified as program income or non-program income
- Reporting of fees collected during specific capitalization grant periods and /or after grant periods
- Reporting of what kind and how much fee income has been used to pay for CWSRF administrative expenses with balance of the fee / program income accounts reconciled to the financial statements.

Additionally, since administrative expenses in the past have been paid with both the administrative allowance from capitalization grants and from loan fees / program income, a complete accounting report delineating the source of funds used to pay program administrative expenses is needed. The accounting report should provide a narrative or other method of explaining the flow of funds from the different administrative and fee accounts. EPA requests that this report be incorporated into the 2006 annual report or notes to the financial statements.

FINANCIAL CAPABILITY ASSESSMENTS AND LOAN RECIPIENT MONITORING:

The Oregon CWSRF program is set up to conduct consistent financial capability assessment of loan applicants and still meet the program policy of "wanting to make loans" for water quality projects. To ensure that loans made will not create an unreasonable level of portfolio risk, the program incorporates financial capability requirements into their loan application and repayment processes. The requirement that loan recipients have a dedicated source of revenue for repayment is built into each of the program's loan documents. Additional loan conditions stipulate that the borrower will keep adequate financial records and provide an annual audited financial statement. Finally, a tracking sheet for receipt of annual financial statements from borrowers is maintained by the SFR Loan Specialist.

Discussion during EPA's on-site review with staff confirmed that the program follows procedures for conducting financial capability assessments. Similarly, loan recipient monitoring is carried out as a regular part of the program's operating procedures. To the program's credit, the Oregon CWSRF has not realized any loan defaults and only a very

few instances of borrower difficulties resulting in loan restructuring. EPA encourages the Oregon CWSRF to maintain high standards for loan applicants and for monitoring borrower financial conditions after the loan is made. Doing a good job in these areas has allowed the OR CWSRF to achieve a high level of performance with the capital resources available. This effort needs to continue to ensure the long term viability of the CWSRF program.

LONG-TERM PLANNING:

During the annual review visit, financial projections generated by EPA's Financial Planning Model (FPM) were used as a basis for discussing long range planning. The discussion focused on the expectation of reduced or ending capitalization grants and cost inflation factors for infrastructure construction projects. Using the EPA model, annual loan disbursements of approximately \$30 million per year were projected. The Oregon CWSRF program recognizes that declines in the amount of capitalization grants experienced in recent years are having significant impact on the fund, and that loan interest rates need to be assessed more regularly in light of maintaining fund perpetuity. Not all of the program's current practices are supportive of the long-range financial health of the Oregon CWSRF. For example, the current practice of paying for state match debt using fund interest earnings means fewer funds available for loans, fewer loan repayments in the future, and less interest earnings contributing to fund perpetuity. As stated earlier in this report, EPA recommends that the OREGON CWSRF program seek state appropriations to meet future grant state match requirements.

Aside from the EPA Financial Planning Model, Oregon CWSRF staff currently uses a spreadsheet modeling tool to evaluate differing conditions and fund performance. This modeling tool assists the program in projecting funds available for future loans, estimating administrative costs and fee revenues, and assessing the impact of paying state match bonds with earnings from the fund. Staff and management were comfortable discussing these and other factors affecting the long-term financial health of the fund. It was apparent that the Oregon CWSRF program conducts long-range planning discussions with some regularity. We encourage OR CWSRF program to keep long-term planning a regular part of their program management agenda.

CONCLUSIONS AND RECOMMENDATIONS

REQUIRED ACTIONS

Based on our review of the Oregon Clean Water State Revolving Fund's performance in SFY 2004 and SFY 2005, we have identified the following matters for which corrective action by the Department of Environmental Quality is warranted:

- 1) ODEQ is not complying with 40 C.F.R. §35.3140. It inappropriately applies its EPA approved State alternative SERP to all projects funded by the CWSRF. Additionally, ODEQ does not follow its own procedures even when the alternative SERP is applicable. The following immediate actions are required (For further discussion, see page 10):
 - a) Return to using the environmental review practices in place prior to EPA's approval of the alternative SERP process for an amount equal to the capitalization grants that have been awarded to date on a cumulative basis;
 - b) Continue to use the earlier environmental review process for projects totaling an amount of the capitalization grants annually;
 - c) Begin following its EPA approved State alternative SERP guidelines for all projects in excess of an amount equal to the capitalization grants received. Specifically the alternative SERP requires that:
 - i) A statement of categorical exclusion will be made a part of the CWSRF project file for qualifying projects.
 - ii) If the project does not qualify for the Categorical Exclusion, a document must be prepared that provides comparative evaluations among alternatives, and describes the beneficial and adverse consequences to the existing and future environment. The "no action" alternative and at least two additional viable alternatives must be discussed.
 - iii) The fourth component of the State Environmental Review Process is the public notice and review. Proposed projects receive public notice and review when the CWSRF Intended Use Plan (IUP) is made available for comment. In order for the IUP to fulfill federal CWSRF requirements⁷, it would have to be modified from its current form. A modified IUP would have to provide environmental determinations for projects slated

⁷ CWSRF obligations under 40 C.F.R. §35.3140(5)(c)(5) state, "Provides for notice to the public of proposed projects and for the opportunity to comment on alternatives and to examine environmental review documents."

to be funded, as well as information for obtaining the environmental documents upon which these decisions would be based (e.g. an address and/or hotlink to the relevant environmental assessment upon which a determination of no significant impact would be made.)

- 2) DEQ must standardize its file maintenance procedures and ensure that **all** project officers are maintaining proper documents in project files. There does not appear to be any uniformity as to which documents, certifications, checklists, and/or other records are kept in the file. Adequate records Management is an important part of the program, a grant condition, and a stated element in the Oregon CWSRF Operating Agreement (dated 7/1/93) page 12.

RECOMMENDED ACTIONS

For reasons stated earlier in this document, EPA would like to request ODEQ consider making the following changes:

- Modifications to the annual report (see discussion on page 9)
- Develop a new Operating Agreement governing the administration of the Fund to reflect changes to state program regulations and procedures, cross-cutting federal authorities, and other structural and programmatic changes that have occurred since 1993. (see discussion on page 16)
- Work with EPA on appropriate modification of Oregon's loan fees reporting to better meet the requirements set forth the by the fees guidance (see discussion on page 23)

ATTACHMENT I - ANNOTATED REVIEW CHECKLISTS

Use of these Checklists

The checklists that follow are designed to provide a convenient method for ensuring that the annual review has addressed all of the major review elements. The checklists are organized by topic for easy reference and do not represent a suggested order for conducting the review. For example, project file reviews may touch on many different annual review topics and the checklists provide a mechanism to quickly locate the topic and record the findings while moving from one topic to another. Once the review is completed, all of the topics must either be specifically addressed or noted as not being covered during this review. If an area was not reviewed, note the reason for not reviewing it and any future review activities.

For the items that are reviewed, the requested information on the checklist must be completed noting your findings. Make sure to check all data sources that were used in determining the findings. Pertinent attachments should be added to the checklists and referred to as is appropriate. The checklists must be used as your work papers for the overall evaluation and a reference document in the future to prepare for the next annual review.

It should be noted that the checklist topics are references and are not intended to be comprehensive statements of each program item. Other supporting documents, such as the Annual Review Guidance, program documents provided in the SRF Document Library, the SRF Audit Compliance Supplement, the EPA SRF Financial Planning Model, and many other SRF related information and tools should be utilized to delve in depth into specific review topics.

Print Information Sheet

SRF Annual Review Information Sheet

State Under Review: Oregon
 DW or CW Program? CW

For SRF Fiscal Year Beginning: 07/01/2003 Ending: 06/30/2005

Annual / Biennial Report Received: 09/29/2005 (draft); 12/21/2005 (final)

State
 Contact: Larry McAllister

Annual Audit Received: 01/12/2006

Audit Year: 2005

Phone No. (503) 229-6412

Core Review Team:

<u>Role</u>	<u>Name</u>
Team Leader	Michelle Tucker
Financial Analyst	Chris Castner

<u>State Staff Interviewed</u>
Larry McAllister, Program Manager
Richard Watters, Loan Specialist
Richard Santner, Senior Project Officer
Elizabeth Hutchinson, Project Officer
Francis Dzata, Project Engineer
Jaime Isaza, Project Officer

Project Files Reviewed: City of Gresham - R39187 _____
Deschutes Soil and Water Conservation District - R27610 _____
City of Waldport - R94344 _____

	First Team Meeting	Second Team Meeting	On-Site Visit	Draft PER	Final PER
Estimated Date:	10/20/2005	11/28/2005	12/12/2005 - 12/15/2005	2/28/2006	3/30/2006
Actual Date:	10/20/2005	Multiple Nov-Jan	1/3/2006 - 2/2/2006	7/7/2006	___/___/___

Print Details

Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>		Yes	No	N/A	Comments	Data Sources (check all that apply)
1.1 Annual / Biennial Report						
1	Does the State's Annual / Biennial Report meet all requirements?	X				X Report Date: Sept 29, 2005 (draft) Dec. 21, 2005 (final)
	a. Reports on progress towards goals and objectives	X				X Annual Report, pgs 29-32
	b. Reports on use of funds and binding commitments	X			agreements (Binding Commitments) during the State Fiscal Year.	X Annual Report, pg 28
	c. Reports on the timely and expeditious use of funds	X				X Annual Report, pg 28
	d. Identifies projects and types of assistance provided.	X			As stated previously, EPA needs a list of communities which signed loan agreements during the State Fiscal Year.	X Annual Report, pg 30
	e. Includes financial statements and cross-references independent audit report		X		Financial Statements present. State does not obtain third-person independent audit. OIG currently auditing SFY05 financial statements but report won't be published until spring 2006.	X Annual Report, pgs 4-14
	f. Provides overall assessment of the SRF's financial position and long-term financial health	X				X Annual Report
	g. Demonstrates compliance with all SRF assurances	X				X Annual Report, pgs 37-40
	h. Demonstrates compliance with SRF program grant conditions	X				X Annual Report, pgs 37-40
	i. Demonstrates that the highest priority projects listed in the IUP were funded (DW only)			X		
	j. Documents why priority projects were bypassed in accordance with state bypass procedures and whether state complied with bypass procedures.		X		Annual Report does not indicate when by-pass procedures were used and why.	X Annual Report, pg
	k. Documents use of set-aside funds (see set-aside sheet for details)			X		
2	Was the Annual / Biennial Report submitted on time?	X			Version sent on September 29, 2005 not final. Program Income not stated correctly and State requested time to change. Extension granted.	X Report Date: Sept 29, 2005
3	If the State assesses the environmental and public health benefits of projects, are the benefits discussed in the Annual/Biennial Report? If the answer is yes, the comment section should contain an explanation.			X		

1.2 Funding Eligibility

1	Are projects receiving assistance eligible for funding?	X	_____	_____	_____	_____	_____	<input checked="" type="checkbox"/> Project Files <input checked="" type="checkbox"/> Priority List <input checked="" type="checkbox"/> Project ranking and selection process
2	Is documentation being received from assistance recipients to support the amount and eligibility of disbursement requests?	X	_____	_____	_____	_____	_____	Amount and eligibility of disbursement requests checked by Project Officers and Financial Analyst. <input checked="" type="checkbox"/> Project Files - Pay Request Documentation <input checked="" type="checkbox"/> Approval documentation <input type="checkbox"/> Inspection reports
3	Does the State have controls over SRF disbursements to ensure that funds are used for eligible purposes?	X	_____	_____	_____	_____	_____	
4	Is the state meeting the 15% small system requirement? (DW only)	_____	_____	X	_____	_____	_____	
5	Does the State have procedures to ensure that systems in significant noncompliance with any NPDWR are not receiving assistance, except to achieve compliance? (DW only)	_____	_____	X	_____	_____	_____	

1.3 Compliance with DBE Requirements

1	Is the State complying with all DBE requirements (setting goals, six affirmative steps and reporting)?	_____	_____	X	_____	_____	_____	<input type="checkbox"/> Grant / Operating Agreement <input type="checkbox"/> Annual / Biennial Report <input type="checkbox"/> Project Files <input type="checkbox"/> DBE Reporting Forms
2	Are assistance recipients complying with all DBE requirements?	_____	_____	X	_____	_____	_____	

1.4 Compliance with Federal Cross-Cutting Authorities (Cross-Cutters)

1	Is the State complying with applicable federal cross-cutting authorities?	_____	X	_____	_____	_____	_____	State is complying with MBE/WBE and socio-economic requirements. Not complying with Environmental Cross-Cutters <input checked="" type="checkbox"/> Project Files <input type="checkbox"/> Grant / Operating Agreement <input type="checkbox"/> Annual / Biennial Report
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2	X	State is complying with MBE/WBE and socio-economic requirements. Not complying with Environmental Cross-Cutters	
3	X	Though there may have been if Environmental Cross-Cutters were being applied.	
a.		What did the consultation conclude with regard to compliance with the cross-cutter?	
1.5 Compliance with Environmental Review Requirements			
1	X	Documentation not in all files as to environmental determination. Not all projects being required to provide at least two viable alternatives in addition to no action alternative. Public review supposed to take place with IUP public review but insufficient information contained in IUP to allow this.	<input checked="" type="checkbox"/> Project Files <input checked="" type="checkbox"/> State Environmental Review Procedures
2	X	Alternative SERP does not contain method for reaffirming or modifying previous SERP decisions or adopting decisions from other agencies.	Annual / Biennial Report
2	X	Does the State document the information, processes, and premises leading to decisions during the environmental review process?	<input checked="" type="checkbox"/> Project Files <input checked="" type="checkbox"/> Staff interviews
a.	X	Decisions that projects meet requirements for a categorical exclusion (CE) or the State equivalent?	No consist from region to region.
b.	X	Environmental Assessment (EA)/Findings of No Significant Impacts (FONSI) or the state equivalent.	No consist from region to region.
c.	X	Decisions to reaffirm or modify previous SERP decisions.	Never done.
d.	X	Environmental Impact Statement (EIS)/Records of Decisions (RODS) or the State equivalent.	
3	X	Are public notices and meetings, as required by the SERP, provided during the environmental review process?	SERP says this will occur with public comment of IUP but IUP does not currently contain sufficient information to allow this to happen.
4	X	Are documented public concerns being addressed/resolved by the State in the environmental review process?	There are no documented public concerns given that public review not happening.
5	X	Do environmental reviews document the anticipated environmental and public health benefits of the project?	No documentation is many files; practice differs region to region.

1.6 Operating Agreement

1	Is the State's Operating Agreement up to date reflecting current operating practices?	<u> </u>	<u> </u>	<u> </u>	State working with EPA to update Operating Agreement.	<u> </u>	<u> </u>	Last update date: 1993
	a. Program administration	<u> </u>	<u> </u>	<u> </u>	Cross-cutters inaccurate. Equivalency requirements still required, etc.	<u> </u>	<u> </u>	
	b. MOUs	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	c. Description of responsible parties	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	d. Standard operating procedures	<u> </u>	<u> </u>	<u> </u>	Practices have changed since last signed OA from 1993.	<u> </u>	<u> </u>	

1.7 Staff Capacity

1	Does the State have staff, in terms of numbers and capability, to effectively operate the SRF?	<u> </u>	<u> </u>	<u> </u>	Staff short Program Manager and Western Region Project Officer. Detailed description of work not getting completed was to be included in PER but State has subsequently filled both positions. State has adequately addressed this issue.	<u> </u>	<u> </u>	Program Budget X Organization Chart X Staff interviews
	a. Accounting & Finance	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	b. Engineering and field inspection	<u> </u>	<u> </u>	<u> </u>	Project Officer position in Western Region vacant for extended period. Environmental review process slowed significantly. Document review slowed significantly. Other issue identified but State has recently hired a new PO in Western Region and EPA satisfied that staffing now adequate.	<u> </u>	<u> </u>	
	c. Environmental review / planning	<u> </u>	<u> </u>	<u> </u>	Program Manager managing rule-making for all of ODEQ and devotes less than 50% time to CWSRF. Operating Agreement Update, IPPSS application, etc not getting done. New Program Manager has been hired and EPA satisfied staffing now adequate.	<u> </u>	<u> </u>	
	d. Management	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	e. Management of set-asides (DW only)	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
2	Does the program have an organizational structure to effectively operate the SRF?	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	

Print Details

Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)
2.1 State Match					
1 Has the State provided match equal to 20 percent of the grant amount?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	As a result of the OIG 's audit for SFY2005, the state adjusted past year's accounting for state match to reflect more accurately the periods in which state match funds were deposited to the CWSRF. Previous amounts of interest earned on state bond match funds were deducted from state match totals; (as these interest earnings could not be counted towards state match totals.) The adjustments reduced the overall amount of state match credited to the CWSRF but still left enough state match funds to exceed the required 20% match of federal capitilization grants. ODEQ's Rick Watters made corrections to the CWNIMS data base during the 2005 NIMS data collection period. A technical dajustment was made to the 2002 CWNIMS -which had previously recorded \$3 million of fee income as state funds <i>in excess of state match</i> , to now reflect the \$3 million as <i>regular state match</i> deposited into the fund.	<input checked="" type="checkbox"/> Audited Financial Statements <input checked="" type="checkbox"/> Annual / Biennial Report <input checked="" type="checkbox"/> State Accounting Records Review
2 Was each match amount deposited at or before the federal cash draw?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	When each state match bond is sold, proceeds are deposited directly into the State Treasury and credited to the CWSRF account.	<input checked="" type="checkbox"/> Audited Financial Statements <input type="checkbox"/> Annual / Biennial Report <input checked="" type="checkbox"/> State Accounting Records Review
3 What is the source of the match (e.g., appropriation, State GO bonding, revenue bonds, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Prior to 2003, state match was provided by an annual appropriations from the Ore State legislature. Beginning with the award of the 2003 capitilization grant, OR began issuing state match bonds that are repaid with interest earnings from the Fund.	<input type="checkbox"/> Grant Application <input checked="" type="checkbox"/> Audited Financial Statements <input checked="" type="checkbox"/> Annual / Biennial Report
4 Are match funds held outside the SRF until the time of cash draws?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Beginning with the award of the 2003 capitilization grant, OR began issuing state match bonds. The proceeds from these state match bonds are deposited into the CWSRF account upon issuance.	Accounting records from State Treasury banking services showing net bond procedes deposit into CWSRF account # 585

5	If bonds are issued for state match, and the SRF is used to retire these bonds, do the bond documents clearly state what funds are being used for debt service and security?	<u>X</u>	Reviewed page C-2 of the " Official Notice of Bond Sale" Mar 22, 2000 and noted the details of the security provisions and the source of repayment funds for the bonds. Note that these bond documents pledge the full faith and credit of the State of Oregon, but the Pollution Control Sinking Fund is the primary source for debt service of the bonds. Also requested and recieved a copy of more recent bond issue for further review.	
	a. Has the state match structure been approved by Headquarters?	<u>X</u>	EPA memo dated July 28, 2003 from OWM Director to Region 10 Adminstrator documents concurrence with OR plans to use SRF interest earnings to pay debt service on previoulsy issued state match bonds.	
6	Is the state match bond activity consistent with the approved state match structure?	<u>X</u>		
2.2 Binding Commitment Requirements				
1	Are binding commitment requirements being met?	<u>X</u>	In SFY04, \$68.6 M in loan commitments were made (CWNIMS) against \$67.9 M funds available (SFY04 funds available includes \$33 million projected repayments and interest in the calculation - data from SFY04 IUP - 10/10/03). In SFY05, \$52.2 M in loan commitments were made (CWNIMS) against \$55.1M funds available (SFY05 funds available amount includes \$82 million in projected repayments and interest in the calculation; data from SFY05 IUP " Final" 03/12/03)	<u>X</u> Binding commitment worksheet <u>X</u> Annual / Biennial Report <u>X</u> CWNIMS <u>X</u> Financial Indicators report
	a. Are cumulative binding commitments greater than or equal to cumulative grant payments and accompanying State match within one year of receipt of payment?	<u>X</u>	Loan commitments as of the end of SFY04 were equal to 201% of total grant payments cumulative through the previous fiscal year. Loan commitments as of the end of SFY05 were equal to 223% of cumulative previous fiscal year grant payments.	Binding commitment worksheet
2	Are binding commitments documented in the project files?		Project files reviewed contained copies of loan agreements and amendments to loan agreements if any.	File Reviews conducted: Gresham loan # R39187, Deschutes loan # R27610,
	a. Do the commitment dates match reported commitments in the Annual/Biennial report?	<u>X</u>	File Reviews conducted: Gresham loan # R39187 loan document and annual report dates match. Deschutes loan # R27610- checked the loan date on the loan document but was not able to locate loan date in annual report (However the Deschutes loan was appropriately included in 04 IUP).	File Reviews conducted: Gresham loan # R39187, Deschutes loan # R27610,

3	Is there a significant lag between binding commitments, loan execution, or the actual start of the projects?	<u> X </u>	Gresham project loan signed 9/97, construction started 2/99. Deschutes loan signed 11/03, project was already operational when first disbursement made that same month 11/03.	<u> X </u> Project Files <u> </u> Record of binding commitment dates <u> X </u> Loan documents <u> X </u> Inspection Report -Gresahm project
a.	What is the typical and longest lag from binding commitment to project start?		Did not ask for particular answer to this question during annual review.	
b.	How many projects have never started?		Only one or two instances where this occurred; i.e. Gresham had a loan commitment for a stream riparian project that never started.	
c.	How many projects have been replaced because they never started?		In addition to the Gresham riparian project that did not go forward, there have only been 2 or 3 other loans written where later the communities decided they did not want the loan.	
d.	If this problem exists, is it recurring? If so, what steps are the State taking to correct the situation?	<u> X </u>	This is not a problem.	Staff Interviews
2.3 Cash Draws				
1	Has the State correctly adhered to the "Rules of Cash Draw" ?	<u> X </u>		<u> X </u> Project disbursement requests <u> X </u> Accounting transactions <u> </u> Approved leveraging structure <u> X </u> Federal draw records (IFMS) <u> X </u> Audits
2	Does a review of specific cash draw transactions confirm use of correct proportionality percentages?	<u> </u> <u> </u> <u> X </u>	Cash draws are not calculated to meet proportionality. OR CWSRF frequently pays for a disbursement either entirely from non-federal funds, or entirely from federal cap grant funds. However OR DEQ initiated a policy in June 2005 whereby federal cash draws are used for eligible construction expenses only. Eligible non-construction costs, even though they might be part of the same disbursement request, are reimbursed by non-federal CWSRF funds. Thus a disbursement may include a mix of federal/ non-federal funds but not in proportional amounts. Two of the cash draws tested during the annual review were of this mixed funding and documentation validated the federal / non-federal split disbursement.	Project disbursement files, invoices and cost documentation, ACH draw documentation, and accounting records provided by ODEQ's business office.

3	For leveraged states, what proportionality ratio is the state using to draw federal funds?	<u> </u>	<u> </u>	<u> X </u>	Oregon does not leverage their loan program	
4	Have any erroneous payments/cash draws/disbursements been discovered and, if so, what corrective steps are being taken?	<u> </u>	<u> X </u>	<u> </u>	No erroneous payments were discovered during the course of checking disbursement transactions or during the annual review visit.	
5	Does a review of specific Project cash draw transactions confirm the use of federal funds for eligible purposes?	<u> </u>	<u> </u>	<u> </u>	Eight disbursement transactions from four different projects were checked; these representing cash draws of federal funds totaling \$3,724,936 . (two of the disbursements checked did not entail federal fund cash draws). All of the disbursements reviewed were accompanied by appropriate documentation including: signed OR DEQ disbursement request form, detailed project expenditure reports and /or construction costs, invoices for professional services, and invoices for equipment purchases and titles of equipment where applicable.	Project files / disbursement files, and accounting records requested by EPA and provided by ODEQ's business office.
6	Does a review of specific Administrative cash draw transactions confirm the use of federal funds for eligible purposes?	<u> X </u>	<u> </u>	<u> </u>	Two draws of federal funds for administration costs were reviewed; (one from SFY2004 and one from SFY2005). The amounts combined totaled \$158,483 . Copies of the ODEQ general ledger account showing admin charging were provided, and details of the admin account charges were observed by EPA Financial Analyst during the on-site annual review visit.	Admin disbursement request forms, admin charging records, and accounting records requested by EPA and provided by ODEQ's business office.
2.4 Timely and Expeditious Use of Funds						
1	Is the State using SRF funds in a timely and expeditious manner?	<u> X </u>	<u> </u>	<u> </u>	Oregon has one of the best performing CWSRF programs in terms of timely and expeditious use of funds. For SFY04, 105.55% of funds available were committed to new loans. In SFY05, 108% of funds available were committed to new loans.	IUP <u> X </u> Binding commitments <u> X </u> Annual / Biennial Report
a.	Does the fund have large uncommitted balances?	<u> </u>	<u> X </u>	<u> </u>	For SFY04, 105.55% of funds available were committed to new loans.	
b.	Does the fund have large balances of undrawn federal and state funds?	<u> </u>	<u> X </u>	<u> </u>	As of June 30, 2004, undrawn federal funds were only \$1.15 M. As of June 30, 2005, all of the previously awarded federal grant funds had been drawn. OR's CWSRF program disbursed over \$20M during SFY04 and over \$40M during SFY05.	Data from Financial Data Warehouse / IFMS
c.	Are the uncommitted balances growing at a faster annual percentage rate than the growth of the total assets of the SRF?	<u> </u>	<u> </u>	<u> X </u>		
2	Does the State need to improve its use of funds to ensure timely and expeditious use? Has the state developed a plan to address the issue?	<u> </u>	<u> X </u>	<u> </u>		

3	Has the program implemented prior audit recommendations and/or recommendations in the "management" letter?	<u> </u> <u> </u> <u> X </u>	There were no audit recommendations contained within the prior SFY01 audit report (SFY01 is the last audit that was performed prior to current audit performed at the end of SFY05)	<u> </u> <u> </u> <u> </u>	
4	Are the states cash management and investment practices consistent with State law, policies, and any applicable bond requirements?	<u> X </u> <u> </u> <u> </u>	All monies of the Fund are deposited with the Oregon State Treasurer's Office which is responsible for investing excess cash of the Fund	<u> X </u>	Audit
a.	Is the SRF earning a reasonable rate of return on invested funds?	<u> X </u> <u> </u> <u> </u>	In SFY05, the OR CWSRF earned 2.06% Rate of Return on investments (ROI). OR State Treasury, Investment Division reports an overall ROI of 2.28% during SFY05. In SFY04, OR CWSRF Fund earned 1.27% Rate of Return on investments. Although the SFY04 ROI is low in historical terms, this rate is consistent with other states investment returns for SFY2004. (range of ROI for SFY04 for other states in Region 10 was 0.95% to 1.36%).	Rates of investment return are calculated values using data from financial statements. Telephone call inquiry to the OR Treasury, Investment Division provided value for overall state SFY05 rate of return on investments.	
5	Are State accounting procedures adequate for managing the SRF?	<u> X </u> <u> </u> <u> </u>	Internal controls include clear separation of duties for loan servicing, disbursement processing, and receipt and posting of loan payments.	<u> </u>	Accounting procedures manual
a.	Do the State's accounting procedures include internal control procedures for state-purchased equipment?	<u> </u> <u> </u> <u> X </u>	No purchases of equipment were made during SFY04 or SFY05. All existing equipment that are CWSRF program capital assets have been fully depreciated.	<u> X </u>	Annual Report , page 11 , Sec. 5 Fixed Assets
6	Are loan recipients providing single audits?	<u> X </u> <u> </u> <u> </u>	Loan agreement(s) specify that borrower's are subject to the requirements of the Single Audit Act as applicable, and that Oregon DEQ will notify the borrower of the sources of funds (for determining Single Audit requirements threshold) at the end of each fiscal year. ODEQ staff keep a spreadsheet to track the receipt of audits from loan recipients.	<u> X </u>	Project file loan agreements.
a.	Is the State reviewing the loan recipient audits and resolving issues?	<u> X </u> <u> </u> <u> </u>	Staff review loan recipient audits. Staff may call borrower, or the auditor directly if quesitons or issues arise as a result of audit.	<u> </u>	Staff Interviews

			Loan agreement(s) specify that borrower's will keep project accounts in accordance with generally accepted government accounting standards, with GAAP, and with State Minimum Standards for Audits of Municipal Corporations. Note that OR law does allow for entities to use cash basis accounting which is not in accordance with GAAP - so there is no specific ensurance that all loan recipients are adhering to GAAP accounting requirements. The loan agreement also specifies that borrower's will provide copies of annual audits and/or full accounting of projects. Staff provided a copy of the spreadsheet used to track receipt of borrower's annual audited financial statements.	
b. Does the State ensure that assistance recipients are adhering to GAAP accounting requirements?		X		Loan Agreement(s) section with heading "Borrower's Financial Records".
2.6 Assistance Terms				
1	Are the terms of assistance consistent with program requirements?	X	Loan agreement(s) in project files specify: dedicated source of repayment, interest rates between zero and market rate,	IUP X Loan Agreements Repayment transactions
a.	Are interest rates charged between 0% and market rates? (except as allowed for principal forgiveness)	X	Oregon State Law ORS 468.440 stipulates the range of interest that CWSRF loans are charged. The range is from 25% to 65% of the municipal bond rate, depending upon repayment period (term) of the loan. Review of project loan files confirmed that in fact rates are within that range.	
b.	Do principal repayments start within one year of project completion and end within 20 years, for all non-extended term projects with non-extended loan repayment terms?	X	Loan Project files reviewed provide the following supporting documentation to answer this question: Gresham loan # R39187 loan agreement specifies loan repayments to begin no later than 1 year after project completion and payments end within 20 years. Deschutes loan #R39187, repayment began approx. 7 mos after loan agreement was signed.	Project Files reviewed: Gresham loan # R39187, Deschutes loan #R39187 and loan agreement documents.
c.	Does the program use extended terms or principal forgiveness to the extent it is allowable? (If so report the percentage of project funding in these categories.)		X	Oregon does not offer extended terms or principal forgiveness in its CWSRF program.
2	Does the State periodically evaluate the terms of assistance offered relative to the supply and demand for funds and the long-term financial health of the fund?	X	Staff and mangement , including the ODEQ Regional SRF Project Officers, meet regularly, approx. every 3 or 4 months, to discuss projects, pending and current applications, and water quality project financing demand. One by -product of these meetings is identification of elements that may need adjusting in the program's policies, procedures and planning.	

2.7 Use of Fees

1 Does the program assess fees on their borrowers?	<u>X</u>	<p>IUP Loan Agreements Repayment transactions <u>X</u> Annual Report, page 12, Section 7</p>
a. What is the fee rate charged and on what basis (e.g., percentage of closing amount, principal outstanding, principal repaid, etc.)?		<p>Loan fees are assessed on all loans originating after 1992. The fees charged are a 1.5% loan origination fee, and an annual fee of 0.5% on loan balances. In May 2003, rule changes eliminated the 1.5% loan origination processing fee, therefore only the annual 0.5% fee on loan balances is currently charged.</p>
b. Are fees being used in accordance with program requirements?	<u>X</u>	<p>Oregon Department of Justice interpretation of Oregon Revised Statutes is that fees collected by the CWSRF program deposited into the Water Pollution Control Administration Fund be used exclusively for administration of the CWSRF program.</p> <p>Staff interviews and e-mail follow-up on Feb13, 2006 with Rick Watters. Citation of Oregon Revised Statutes is ORS 468.431</p>
2 Does the State periodically evaluate the use of fees relative to loan terms to set appropriate total charges to borrowers and assess long-term funding needs to operate the program?	<u>X</u>	<p>The Oregon Environmental Quality Commission approved changes in May 2003, whereby the 1.5% loan origination fee was eliminated. Also, the OR CWSRF does not charge fees on planning loans, to encourage Oregon communities to complete more planning.</p> <p>2005 Annual Report , pages 13-14 narrative on loan fees</p>
3 Does the State have procedures for accounting and reporting on its use of fees?	<u>X</u>	<p>Loan fees collected and those included in loan payments are identified and accounted for as program income. Program income is further identified as having been earned during the grant period, or after the grant period as applicable. Fees collected are deposited to a separate OR State Treasury account (Account # 660 in fund # 2520). Additional reporting detail for the fee account/ program income may be recommended for SFY2006.</p> <p>Staff interviews and supporting documentation in Financial Statements and in Annual Report.</p>

2.8 Assessment of Financial Capability and Loan Security

1 Does the State have procedures for assessing the financial capability of assistance recipients? (CW only)	<u>X</u>	<p>Loan applications require information on borrower's financial position including 3 yrs. audited financial statements, copy of budget, user charge system, and information on sewer bonds. This information is reviewed as part of the application process.</p> <p><u>X</u> Financial Capability Review Procedures <u>X</u> Loan applications Project Files</p>
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2	Are the financial capability policies and procedures being followed? (CW only)	<u> X </u>	Discussion during on-site review with staff confirmed the loan application requirements that include financial capability assessments. If an applicant's financial position does not pose an unreasonable level of portfolio risk, the loan is made and the program relies on terms contained within the loan agreement (those requiring sufficient rates and debt coverage).	<u> X </u> Financial Capability Review Procedures <u> </u> Loan approval documentation <u> </u> Project Files
3	Does the state have procedures for assessing the technical, financial, and managerial capability of assistance recipients? (DW only)	<u> </u>		<u> </u> Capability Review Procedures <u> </u> Loan applications <u> </u> Project Files
4	Are the technical, financial, and managerial review procedures being followed? (DW only)	<u> </u>		<u> </u> Capability Review Procedures <u> </u> Loan approval documentation <u> </u> Project Files
5	Do assistance recipients have a dedicated source of revenue for repayment or, for privately-owned systems, adequate security to assure repayment?	<u> X </u>	For POTW projects, the loan application requires information on sewer rates and debt service, and loan agreement specifies that sewer revenue be pledged to paying the loan amounts. For the one NPS project file reviewed, both the rates for services charged (e.g. services of the weed-eating goats), and a promissary note for the full amount of the loan were pledged as repayment sources.	<u> X </u> Financial Capability Review Procedures <u> </u> Loan approval documentation <u> X </u> Project Files <u> X </u> Loan Application
6	Do assistance recipients have access to additional funding sources, if necessary, to ensure project completion?	<u> </u>	Loan agreement(s) specify that "If the Loan Amount is not sufficient.... borrower shall pay at its own expense from its own funds etc....". However, this loan agreement language is not a guarantee that the assistance recipients have access to additional funding.	<u> X </u> Project Files

2.9 Financial Management

1	<input checked="" type="checkbox"/>	Is the SRF program's financial management designed to achieve both short- and long -term financial goals?	OR includes good discussion of program financial goals and management in the annual report. Program staff and management are cognizant of financial factors affecting program performance for both short term and longer term objectives.	<input checked="" type="checkbox"/> Annual / Biennial Report <input checked="" type="checkbox"/> Staff interviews
a.	<input checked="" type="checkbox"/>	Do the Financial Indicators show progress in the program in funding the maximum amount of assistance to achieve environmental and public health objectives?	OR CWSRF program continues to rank high in terms of Return on Federal Investment (152.3% SFY04; 158.6% SFY05) and loans executed as a percent of funds available (105.6% SFY04, 107.7% SFY05).	
2	<input checked="" type="checkbox"/>	Does the State have a long-term financial plan to direct the program?	OR CWSRF program manages loan volume, interest rates and fees in such a way as to perpetuate the program's financial viability.	
a.	<input checked="" type="checkbox"/>	Was financial modeling used to develop the plan?	Program staff uses a spreadsheet model to project the impact of different variables (e.g. interest rates, fees, cap grants, etc)and / or decisions that affect program performance. EPA Financial Analyst used results from the EPA Financial Planning Model (FPM) to inform discussion about long-term planning held during the annual review visit.	
b.	<input checked="" type="checkbox"/>	Is the plan periodically reviewed and updated?	Staff and management , including the ODEQ Regional SRF Project Officers, meet regularly, approx. every 3 or 4 months, to discuss projects, pending and current applications, and water quality project financing demand. One by -product of these meetings is identification of elements that may need adjusting in the program's policies, procedures and planning.	
c.	<input checked="" type="checkbox"/>	Does planning address types of assistance and terms, use of leveraging, and transfers or cross-collateralization between programs?	Planning has primarily focused on types of assistance and terms. The OR CWSRF program has decided not to leverage its loan program at this time nor are there any immediate plans for transfers between SRF programs	
3	<input checked="" type="checkbox"/>	Are funds disbursed to assistance recipients in a timely manner?	Average time between the original date of the ODEC disbursement request form (the LGIP), and transaction (electronic transfer, or warrant) of funds to the loan recipient was 11.5 days for the 8 project loan disbursements reviewed as part of the annual review visit.	Disbursement files , on-site annual review transaction testing, and financial system accounting records.

4	Has the State resolved any issues related to loan restructuring, the potential for defaults, and the timeliness of loan repayments?	<u> X </u>	Staff has worked with borrowers and restructured loan repayment in one or two cases. Also staff maintains communications with borrowers where rate structure may be insufficient to meet on-going debt service and encourages the borrower to implement the changes needed in rates.	Staff discussion.
5	Are net bond proceeds, interest earnings, and repayments being deposited into the fund?	<u> X </u>	Annual report and financial statements report on the amounts deposited into the Fund from each of these sources. Accounting statement provided by the OR State Treasury banking system verified deposit of the proceeds from the 2004A bond sale (\$5,994,000.) into the SRF account (Treasury account # 585).	Annual Report, Financial Statements, and OR State Treasury, banking system statements.
6	If the State leverages, is its leveraging activity consistent with the accepted leveraging structure?	<u> </u>		
7	Are leverage and state match bond documents consistent with SRF regulations?	<u> X </u>	State Match bonds only. These are consistent with SRF regulations and have concurrence from HQ.	Bond documents in EPA Region 10 files and copies of EPA HQ correspondence documenting concurrence.

NOTE re: Cash Draw Transactions tested- **eight** loan project cash draws and **two** administrative cost cash draws were tested as part of the SFY04 / SFY05 annual review visit. Total federal dollars involved were **\$3,883,419** (\$3,724,936 project loan draws plus \$158,483 admin draws). See Financial Elements 2.3 _5 and 2.3_6.

ATTACHMENT II - FILE REVIEWS

DESCHUTES SOIL AND WATER CONSERVATION DISTRICT; R27610

Project Name	Loan Agreement 12/3/03	Deschutes SWCD - Caprine Restoration Services
Project Loan Number	Loan Agreement 12/3/03	R27610
Date of Loan	Loan Agreement 12/3/03	12/3/03
Project Description	Loan Agreement 12/3/03	Capitalize and expand the Deschutes SWCD Caprine Restoration Services activities. This service uses goats to eliminate noxious weeds, thereby reducing the reliance on chemical weed killers and reducing the risk of water contamination from chemical runoff.
Amount of Loan	Amendment #1 11/12/04 Loan Agreement 12/3/03	Amount same, completion date changed to June 1, 2005. \$250,000
Need for Project	Preliminary Application 2/28/03	Areas that are infested with invasive weeds suffer high levels of erosion and stream sedimentation. Vegetation management practices in the watershed along streams and canals have the potential to produce high levels of pollution due to herbicide runoff. Heavy loads of brush fuels in Oregon watersheds are also under threat of catastrophic wild fire and subsequent washouts and landslides during spring rains. Caprine Restoration Services provides a proven restoration system to restore erosion and the threat of wild fire in Oregon watershed while greatly reducing or eliminating the threat of herbicide pollution to the waters of the state.

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Loan Terms (rate/amortization period)	Loan Agreement 12/3/03	<p>Interest rate: 1.23% per annum. Interest will accrue at 1.23% per annum from the date that a disbursement hereunder is mailed or delivered to the Borrower or deposited into an account of the Borrower. Loan Fee: 0.5% of the Outstanding Loan Amount will be due annually beginning with the second payment. Repayment Period: Five (5) years after the Completion Date. Terms of Repayment: An interest-only payment six months after the Completion Date and thereafter semi-annual payments of principal and interest. When all disbursements have been made, the DEQ shall determine the Final Loan Amount and shall prepare a final repayment schedule which shall fully amortize the Outstanding Loan Amount over the remaining repayment period. This final repayment schedule shall replace the preliminary payment schedule attached to the loan agreement.</p>
Type of assistance under §603(d)	Loan Agreement 12/3/03	Direct loan to Deschutes SWCD. SWCD in turn loaned amount to Caprine Restoration Services (CRS), a nonprofit established for this projects.
Financial Capability Assessment/Repayment Source Evaluation	<p>Credit Analysis Worksheet & Ratios 12/3/03</p> <p>Loan Agreement 12/3/03</p>	<p>Excellent spreadsheet!!! Could be used as model for other states</p> <p>Pledge:</p> <p>(1) The Loan shall be payable from the general fund of the Borrower and shall be a full faith and credit obligation</p>

Item Description	What, Where & How Met	Explanation of requirement (if needed)
<p>Financial Capability Assessment/Repayment Source Evaluation Cont.</p>	<p>Loan Agreement 12/3/03 Cont.</p>	<p>of the Borrower which is payable from any taxes which the Borrower may levy within the limitations of Article XI of the Oregon Constitution.</p> <p>(2) In addition, in order to secure repayment of the principal of and interest on and all amounts due under the Loan, the Borrower hereby grants to the State a security interest in, and irrevocably pledges and assigns, all of its right, title and interest in and to that certain loan agreement dated <u>11/25/03</u> between Borrower and Caprine Restoration Services ("CRS"), that certain promissory note dated <u>11/25/03</u> issued by CRS and made payable to Borrower in the original principal amount of \$250,000, that certain security agreement dated <u>11/25/03</u> executed by CRS in favor of Borrower and all other documents, instruments and agreements related thereto and the Account (as defined below) and any proceeds therefrom (collectively "Collateral"). The Collateral pledged pursuant to this paragraph and hereafter received by the Borrower shall immediately be subject to the lien of such pledge without physical delivery or further act, and the lien of the pledge of the Collateral shall be superior to all other claims and liens whatsoever, except as provided in paragraph 5 below, to the fullest extent permitted by ORS 288.594...</p>

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Financial Capability Assessment/Repayment Source Evaluation Cont.	Loan Agreement 12/3/03 Cont.	<p>(3) The Borrower shall establish, and during the term of this Agreement maintain, a segregated deposit account ("Account"). The Borrower shall deposit all Net Revenues of the Program into this Account.</p> <p>(4) The Borrower shall not incur any obligations payable from or secured by a lien on and pledge of the Collateral or any part thereof that is superior to or on a parity with the Loan.</p> <p>(5) Notwithstanding the requirements of paragraph 4 above, loans made in the future by State to the Borrower that are secured by the Collateral shall have a lien on such Collateral on a parity with the Loan.</p> <p>(6) The Borrower shall cause CRS to charge rates and fees in connection with the operation of its caprine restoration services program which, when combined with other gross revenues, are adequate to generate revenues net of operating and maintenance expenses each fiscal year at least equal to one hundred five percent (105%) of the annual debt service due in the fiscal year on Borrower's loan to CRS. If in any fiscal year CRS fails to collect fees to meet this requirement, the Borrower shall cause CRS to adjust fees and assure future compliance.</p>
Loan Security Provisions	Loan Agreement 12/3/03	See above

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Facility Plan available/Approved	NA	Loan is for NPS project (goats instead of pesticides)
Plans & Specs Approval	NA	Loan is for NPS project (goats instead of pesticides)
Bid Advertisement and Approval	NA	Loan is for NPS project (goats instead of pesticides)
MBE/WBE Compliance	NA	No Federal money used. All disbursements from repayment funds.
Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]	NA	Watters letter sent to Deschutes SWCD on October 20, 2004, "Enclosed for signature are two sets of Clean Water State Revolving Fund loan number R27610 Amendment Number 1, which extends the completion date of the project to June 1, 2005."
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Eligible Categories [§201(g)(1)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Infiltration/Inflow §201(g)(3) [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Recreation & Open Space [§201(g)(6)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
CSO Funding Limitations [§201(n)(1-2)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Capitol Financing Plan [§201(o) [equivalency]]	NA	Loan is for NPS project (goats instead of pesticides)
Water Quality Management Plans [§204(a)(1)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Operation and Maintenance [§204(a)(2)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
User Charge System [§204(b)(4)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Collection Systems [§211] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Cost Effectiveness [§218] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Davis Bacon Act [§512] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Environmental Review [§511(c)(1)] [equivalency]	NA	Loan is for NPS project (goats instead of pesticides)
Was the appropriate type of environmental review conducted	NA	Loan is for NPS project (goats instead of pesticides)
If another agency's environmental review was adopted, is the adoption process appropriately documented	NA	Loan is for NPS project (goats instead of pesticides)
Public Notice	NA	Loan is for NPS project (goats instead of pesticides)
Public Hearing	NA	Loan is for NPS project (goats instead of pesticides)
Was an appropriate range of alternatives evaluated	NA	Loan is for NPS project (goats instead of pesticides)
Were other environmental review considerations adequately addressed	NA	Loan is for NPS project (goats instead of pesticides)
Endangered Species Act	NA	Loan is for NPS project (goats instead of pesticides)
National Historic Preservation Act	NA	Loan is for NPS project (goats instead of pesticides)
Archeological & Historic Preservation Act	NA	Loan is for NPS project (goats instead of pesticides)
Wild & Scenic Rivers Act	NA	Loan is for NPS project (goats instead of pesticides)
Coastal Zone Management Act Compliance	NA	Loan is for NPS project (goats instead of pesticides)

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Coastal Barriers Resource Act	NA	Loan is for NPS project (goats instead of pesticides)
Farmland Protection Act	NA	Loan is for NPS project (goats instead of pesticides)
E.O. 11990 Wetlands Protection	NA	Loan is for NPS project (goats instead of pesticides)
E.O. 11888 Floodplain Management Act	NA	Loan is for NPS project (goats instead of pesticides)
Clean Air Act Compliance	NA	Loan is for NPS project (goats instead of pesticides)
Safe Drinking Water Act	NA	Loan is for NPS project (goats instead of pesticides)
Civil Rights Act	NA	Loan is for NPS project (goats instead of pesticides)
E.O. 11246	NA	Loan is for NPS project (goats instead of pesticides)
E.O. 12898 Environmental Justice	NA	Loan is for NPS project (goats instead of pesticides)
Small Business & Rural Communities Act	NA	Loan is for NPS project (goats instead of pesticides)
Uniform Relocation Act	NA	Loan is for NPS project (goats instead of pesticides)
Debarment & Suspension	NA	Loan is for NPS project (goats instead of pesticides)

Note: ODEQ did an EXCELLENT job reviewing disbursements for eligibility and working with Borrower when submitted costs were not anticipated and/or previously approved. High level of ODEQ oversight; special recognition to Elizabeth Hutchinson and Rick Watters for an excellent job on an unusual project.

CITY OF GRESHAM; R39187

CITY OF GRESHAM; R39187		
Project Name	Loan Agreement 8/1/97	City of Gresham - Wastewater Treatment Plant Expansion
Project Loan Number	Loan Agreement 8/1/97	R39187
Date of Loan	Loan Agreement 8/1/97	8/1/97
Project Description	1. Loan Agreement 8/1/97 2. Final Application 7/2/97	1. Wastewater treatment plant expansion phases I and Ia for design and construction of facilities and utilities for additional capacity and improved performance. 2. Wastewater Treatment Plant Expansion Phase I and Ia Design and Construction of facilities and utilities for additional capacity and improved performance due to anticipated population growth. The plant modifications will also set the standard for a logical long-term expansion program.
Amount of Loan	1. Amendment #4 6/7/02 2. Amendment #3 3/19/01 3. Amendment #2 7/10/00 4. Amendment #1 3/14/99 5. Loan Agreement 8/1/97	1. \$27,305,248 2. \$28,882,704 3. \$26,493,294 4. \$25,104,229 5. \$20,000,000
Need for Project	Preliminary Application 1/30/97	Enforcement activities/water quality violations – MAO and Dept. Orders or permit conditions mandating action. Discharges to the Columbia River, 303D listed
Loan Terms (rate/amortization period)	1. Amendment #4 6/7/02	1. Amendment: Article 1, Section (C) Loan Amount: 27,305,248. Article 1, Section (R) Amend the last sentence to read: "The Loan Reserve Requirement equals \$502,631."

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Loan Terms (rate/amortization period) cont.	Loan Agreement 8/1/97 cont.	1.5% of the Final Loan Amount will be due with the first repayment following the determination of the Final Loan Amount. Loan Servicing Fee: 0.5% of the outstanding principal will be due annually beginning with the second payment. The loan servicing fee shall be calculated based upon the Outstanding Loan Amount prior to the posting of the payment due on that date. Late Payment Fee: The Borrower agrees to pay immediately upon demand of the DEQ on or before the tenth day after such payment is due. This late fee shall also apply o any loan processing fee or loan servicing fee which is due on that loan payment due date. Terms of Repayment: Forty semi-annual payments beginning with an interest-only payment six months after project completion or November 1, 2001, whichever is earlier. When all disbursements have been made and the File Loan Amount is determined, a repayment schedule amortizing the loan over the remaining repayment period will be prepared.
Type of assistance under §603(d)	Loan Agreement 8/1/97	Direct loan - revenue secured loan pursuant to OAR 340-54-065(2)
Financial Capability Assessment/Repayment Source Evaluation	City Financial Statements attached to Final Application 7/1/97	All pertinent and necessary City and utility financial data available, nothing to say if/how this financial data was analyzed.
Loan Security Provisions	Loan Agreement 8/1/97	Pledge: The Borrower hereby pledges its Net Operating Revenues to pay the amounts due under this Loan Agreement. The pledge of the Net Operating Revenues shall be a lien subordinate only to the pledge of the Net Operating Revenues

Item Description	What, Where & How Met	Explanation of requirement (if needed)
<p>Loan Security Provisions cont.</p>	<p>Loan Agreement 8/1/97 cont.</p>	<p>which secure the repayment of Series 1986 Bonds and the Series 1993 Bonds (including any and all Parity Obligations, as defined in the 1993 Bond Resolution). The Borrower covenants with the DEQ and any assignee of this Agreement that the Borrower shall not issue any other obligations which have a pledge or lien on the Net Operating Revenues which is superior to or on parity with the pledge herein granted without the written permission of the DEQ. Coverage Requirement: Until the loan is repaid in full, the Borrower covenants with the DEQ to maintain sewer rates sufficient to meet the requirements...with a debt service coverage factor of 135%. Loan Reserve Requirement: The Borrower covenants with the DEQ and any assignee of this Loan Agreement that the Borrower shall establish and maintain a Loan Reserve Account...shall be an amount that equals 25% of the average annual debt service as shown on the repayment schedule. Until the Final Loan Amount is calculated, the Loan Reserve Requirement equals \$371,292.</p>
<p>Facility Plan Avail/Approvd</p>	<p>No Facility Plan Available</p>	
<p>Plans & Specs Approval</p>	<p>Mann letter - Conditional Approval of Gresham WWTP Expansion Project, File No. 35173 10/6/98</p> <p>No P&S Available</p>	<p>"We have reviewed and approved plans and specifications for the Upper Plant expansion, as designed by Brown and Caldwell, with participation by staff from KCM, in accordance with OAR 340-52."</p> <p>Conditions of Approval: The city is cautioned that the following conditions are mandatory. If the city does not concur with any of these conditions, then the project should not be undertaken until the objection is resolved.</p>

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Bid Advertisement and Approval	1. Santner letter – Concurrence in Award Contract 1/12/99 2. Bid Tabulation 3. Bid Review Checklist 4. <i>Daily Journal of Commerce</i> 11/17/98 5. <i>Engineering News-Record</i> 11/9/98 6. <i>The Skanner</i> 10/28/98 7. <i>The Sunday Oregonian</i> 10/18/98	1. "The Department has reviewed the bid materials submitted for the above referenced construction project. All documentation has been found to be in order. The Department concurs in award of the contract to Slayden Construction, Inc., as recommended in the Bid Review Checklist." 2. Bid tabulation detailing all components or five bids received. 3. DEQ bid review checklist submitted by City of Gresham and reviewed by Richard Stantner. 4. Invitation to Bid Wastewater Treatment Plant Expansion CIP# 3100 was published in the entire issue of said newspaper for <u>Two</u> time(s) in the following issues: November 10 and 17, 1998 5. Notice of Invitation to Bid City of Gresham Wastewater Treatment Plant Expansion CIP# 3100 6. Notice of Invitation to Bid City of Gresham Wastewater Treatment Plant Expansion CIP# 3100 as it was published in regular issues (and not in supplement form) of said newspaper once each week for a period <u>1</u> weeks, consecutively, commencing on the <u>28</u> day of <u>Oct</u> 1998 and ending on the <u>28</u> day of <u>Oct</u> both dates inclusive. 7. Notice to Contractors Pre-Qualification Requirement City of Gresham Wastewater Treatment Plant Expansion CIP# 3100
MBE/WBE Compliance	1. Slayden Construction, Inc. S/W/MBE Good Faith Effort Requirements for Gresham WWTP	1. Documents "good faith efforts" – cover letter for binder documents Slayden's actions to (1) The bidder solicits qualified small, minority, and women's business whenever they are potential sources; (2) The bidder makes use of the services and assistance of the Small Business Administration and the

Item Description	What, Where & How Met	Explanation of requirement (if needed)
MBE/WBE Compliance cont.	<p>Expansion Project no. 3100 (bound document) 12/31/98</p> <p>2. Sworn Statement Compliance with Small, Women, and Minority Business Utilization Requirements</p>	<p>Minority Business Development Agency of the US Department of Commerce as appropriate; (3) If the bidder awards subagreements, the bidder shall require the subcontractors to take the affirmative action steps described above. AMAZING!!! Contains S/W/MBE Phone Log, S/W/MBE Letters, and Sub Bid Ads.</p> <p>2. Signed & dated 12/16/98 with bid documents</p>
Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]	<p>1. Certification of Performance for POTW</p> <p>2. SRF Loan Construction Certification Form</p>	<p>1. Signed and dated 1/30/03. "The Borrower, having access to and control of all the necessary data, and having monitored the construction of this project, hereby certifies, in accordance with OAR-340-54-0060, that the project built under this loan meets the performance and operational requirements applicable to the projects and the specifications which the projects was planned, designed, and built to achieve and which have been approved in writing by the Oregon Department of Environmental Quality."</p> <p>2. Initiation of Operations signed and dated on 1/31/02</p>
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Eligible Categories [§201(g)(1)] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Reclaim, Reuse [Alternative management	No P&S Available	Equivalency requirements already fulfilled

Item Description	What, Where & How Met	Explanation of requirement (if needed)
techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]		
Infiltration/Inflow §201(g)(3) [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Recreation & Open Space [§201(g)(6)] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
CSO Funding Limitations [§201(n)(1-2)] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Capitol Financing Plan [§201(o) [equivalency]]	No P&S Available	Equivalency requirements already fulfilled
Water Quality Management Plans [§204(a)(1)] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Operation and Maintenance [§204(a)(2)] [equivalency]	No O&M Manual Available	Equivalency requirements already fulfilled
User Charge System [§204(b)(4)] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Collection Systems [§211] [equivalency]	No P&S Available	Equivalency requirements already fulfilled

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Cost Effectiveness [§218] [equivalency]	No P&S Available	Equivalency requirements already fulfilled
Davis Bacon Act [§512] [equivalency]		Project signed after Oct. 94
Environmental Review [§511(c)(1)] [equivalency]	FONSI issued in 1987	REGULATIONS NOT FOLLOWED The environmental regulations at 40 CFR 35.3140(b)(3)(iii) state, "reaffirm or modify a decision contained in a previously issued categorical exclusion (CE), EA/FNSI or EIS/ROD following a mandatory 5 year environmental reevaluation of a proposed project;" and 40 CFR 35.3140(b)(4)(i) states "The State must provide public notice when a CE is issued or rescinded, a FNSI is issued but before it becomes effective, a decision issued 5 years earlier is reaffirmed or revised, and prior to initiating an EIS."
Was the appropriate type of environmental review conducted		No, previously issued FONSI from 1987 was not reaffirmed or modified.
If another agency's environmental review was adopted, is the adoption process appropriately documented		No
Public Notice		
Public Hearing		
Was an appropriate range of alternatives evaluated		No, previously issued FONSI from 1987 was not reaffirmed or modified.

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Were other environmental review considerations adequately addressed		No, previously issued FONSI from 1987 was not reaffirmed or modified.
Endangered Species Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
National Historic Preservation Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
Archeological & Historic Preservation Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
Wild & Scenic Rivers Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
Coastal Zone Management Act Compliance		Not coastal community
Coastal Barriers Resource Act		Not coastal community
Farmland Protection Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
E.O. 11990 Wetlands Protection	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
E.O. 11888 Floodplain Management Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
Clean Air Act Compliance	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.
Safe Drinking Water Act	NO EA available	No, previously issued FONSI from 1987 was not reaffirmed or modified.

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Civil Rights Act		Loan signed in 1997, 4700-4 form required to be mailed to EPA and EPA did not request copy in file until 2002.
E.O. 11246	Signed 12/16/98	
E.O. 12898 Environmental Justice	NA	Loan was signed in 1997, prior to EPA's EJ requirements
Small Business & Rural Communities Act	See above MBE/WBE Section	
Uniform Relocation Act		
Debarment & Suspension	Signed Certification 12/16/98	
OR Specific - Consistency with local comprehensive plan		
OR Specific - Certification of Non-segregated facility	Signed 12/16/98	
OR Specific - Certification regarding lobbying activities	Signed 12/16/98	
OR Specific - Certificate of Independent Price Determination	Signed 12/16/98	
OR Specific - Disclosure of Lobby Activities	Signed 12/16/98	
OR Specific - Non-collusion Affidavit	Section 00320 Non-Collusion Affidavit	

CITY OF WALDPOR; R39187

Project Name	Loan Agreement 4/21/03	City of Waldport - Wastewater System Improvements
Project Loan Number	Loan Agreement 4/21/03	R94344
Date of Loan	Loan Agreement 4/21/03	4/21/03
Project Description	Loan Agreement 4/21/03	South Waldport Sewer Improvements, including modifications to the Ocean Hills pump station and associated force main; eliminate hydraulic overload of the Red River sewer main; reduce the hydraulic load to the City's Grade School pump station; eliminate the operation of the Township 13 pump station. The Loan is to provide short-term, interim financing for this project, and will be paid by the City with the proceeds of long-term financing to be obtained from the U.S. Rural Utilities Services (R.U.S.)
Amount of Loan	1. Amendment #1 5/16/03 2. Loan Agreement 4/21/03	1. \$1,221,700. No changes to amount or terms of loan, amendment adds Articles 6(A)(9), 6(A)(10), 6(A)(11), and 6(A)(12) which are project/program specific requirements. 2. \$1,221,700
Need for Project	Preliminary Application 2/19/03	The South Waldport Sewer Improvements are intended to correct deficiencies with the Ocean Hills pump station and associated force main, eliminate hydraulic overload of the Red River sewer main, reduce the hydraulic load to the city's Grade School pump station, and eliminate the operation of the Township 13 pump station. The improvements propose to eliminate several of the existing deficiencies currently identified within the city's existing wastewater collections system, to remove a conveyance limitation at the Grade School pump station, and to provide the opportunity

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Need for Project cont.		for conveying additional sewage to the city's wastewater treatment plant. The purposed of the reclaimed water pipe installation is for future conveyance of treated effluent to the Crestview Hills Golf Course for turf irrigation.
Loan Terms (rate/amortization period)	Loan Agreement 4/21/03	Interest rate: 3.23% per annum. Interest will accrue at 3.23% per annum from the date that a disbursement hereunder is mailed or delivered to the Borrower or deposited into an account of the Borrower. Interest will accrue from the date of disbursement to the date of payment using a 365/366 day year and actual days elapsed Loan Processing Fee: There is no loan processing fee on this loan. Loan Servicing Fee: There is no loan servicing fee on this loan. Late Payment Fee: The Borrower agrees to pay immediately upon demand by the DEQ a late fee equal to five percent (5%) of any payment (including any loan processing fee or loan servicing fee) which is not received by the DEQ on or before the tenth (10 th) calendar day after such payment is due hereunder. Terms of Repayment: Principal and interest will be paid upon disbursement to the City of long-term loan funds by R.U.S.
Type of assistance under §603(d)	Loan Agreement 4/21/03	Direct loan - Short-term interim financing for R.U.S. grant and loan package (see above for more detail)
Financial Capability Assessment/Repayment Source Evaluation		No financial data collected. Loan to be repaid from RUS project reimbursement. Adequate legal coverage in loan agreement.

Item Description	What, Where & How Met	Explanation of requirement (if needed)
<p>Loan Security Provisions</p>	<p>Loan Agreement 4/21/03</p>	<p>Pledge: The Borrower hereby irrevocably pledges the proceeds of long-term financing obtained from the U.S.R.U.S. to pay the amounts due under this Loan Agreement. The proceeds of long-term financing so pledged and hereafter received by Borrower shall immediately be subject to the lien of such pledge without physical delivery or further act, and the lien of the pledge shall be superior to all other claims and liens whatsoever, to the fullest extent permitted by ORS 288.165. Borrower represents and warrants that the pledge of proceeds of long-term R.U.S. financing hereby made by Borrower complies with, and shall be valid and binding from the date of this Agreement pursuant to ORS 288.165. The Borrower covenants with the DEQ and any assignee of this Agreement that except as otherwise expressly provided herein, the Borrower shall not issue any other obligations which have a pledge or lien on the proceeds of long-term R.U.S. financing superior to or on a parity with the pledge herein granted without the written permission of the DEQ. This Loan is a parity obligation with all other CWSRF loans between the DEQ and the Borrower. Coverage Requirement: None. Loan Reserve Requirement: None.</p>
<p>Facility Plan available/Approved</p>	<p>City of Waldport Lincoln County, Oregon – Wastewater Collection System Master Plan Project No. 8505.04 05/00</p>	<p>Master Plan available for review. NO ODEQ APPROVAL OF FACILITY PLAN</p>

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Plans & Specs available/Approval	Dzata letter - Approval of P&S for the S. Waldport San. Sewer Improvements and Ocean Hills Pump Station, SRF Loan No. R94344 3/3/05	"We have reviewed and approved final plans for this project received from Mr. Michael Dees, PE, of the Dyer Partnership, in Coos Bay, on January 18 th , 2005, per OAR 340-52." The following are a description of the project and conditions of approval (6 pages of detailed information for the municipality) NO P&S IN FILE
Bid Advertisement and Approval	NO BID DOCUMENTS IN FILE	
MBE/WBE Compliance	NO P&S IN FILE; NO INFORMATION RELATED TO MBE/WBE REQUIREMENTS IN FILE	Decision made for all short-term interim finance loans to not apply/require federal cross-cutting authorities.
Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]	Dzata letter - Approval of Final Performance Evaluation Standards (PES) for the Waldport Ocean Hills Pump Station. SRF Loan. No. R94344 1/20/06	We have reviewed and approved the Final PES for this project, received January 20, 2006. The plan was prepared by Mr. Michael Dees, PE, of the Dyer Partnership, in Coos Bay, Oregon. Sixth Month Progress Report - Please submit six months after the date of Initiation of Operation, a performance progress letter report summarizing the performance of the project in accordance with the approved evaluation standards. Next Step - The final performance evaluation report is due 10.5 months after the Initiation of Operation date. The project certification statement is due one year after Initiation of Operation.
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Eligible Categories [§201(g)(1)] [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE Master Plan indicates intention to build reuse conveyance to Golf Course
Infiltration/Inflow §201(g)(3) [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE Preliminary Application indicates 64% of project is I/I loan
Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency])		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE
Recreation & Open Space [§201(g)(6)] [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE
CSO Funding Limitations [§201(n)(1-2)] [equivalency]		EQUIVALENCY REQUIREMENTS MET
Capitol Financing Plan [§201(o) [equivalency]]		EQUIVALENCY REQUIREMENTS MET
Water Quality Management Plans [§204(a)(1)] [equivalency]		EQUIVALENCY REQUIREMENTS MET

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Operation and Maintenance [§204(a)(2)] [equivalency]		Project not yet complete. O&M manual required by ODEQ and community told of this requirement in several letters.
User Charge System [§204(b)(4)] [equivalency]		EQUIVALENCY REQUIREMENTS MET - Loan to be repaid with RUS money, ODEQ did not ascertain user charge system.
Collection Systems [§211] [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE
Cost Effectiveness [§218] [equivalency]		EQUIVALENCY REQUIREMENTS MET; NO P&S IN FILE
Davis Bacon Act [§512] [equivalency]		Project signed after Oct. 94
Environmental Review [§511(c)(1)] [equivalency] Environmental Review [§511(c)(1)] Cont.	Environmental Report - South Waldport Sewer Improvements Project No. 8505.06 04/01	Good environmental document generated containing environmental cross-cutter agency correspondence and supplemental biological assessment. NO ENVIRONMENTAL DECISION IN FILE. Adopted other agency determination???
Was the appropriate type of environmental review conducted	NO ENVIRONMENTAL DECISION IN FILE	Not sure what type of environmental review conducted. Nothing in file about ER or decision made, just copy of the Environmental Report that was submitted.
If another agency's environmental review was adopted, is the adoption process appropriately documented	NO ENVIRONMENTAL DECISION IN FILE	It's possible that R.U.S. issued FONSI. If so, the ODEQ either didn't adopt the determination or adopted it incorrectly since no evidence of this exists in file.
Public Notice		NO EVIDENCE OF THIS FOUND IN FILE
Public Hearing		NO EVIDENCE OF THIS FOUND IN FILE

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Was an appropriate range of alternatives evaluated	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	Yes. At least two, and as many as six, alternatives were evaluated for installation costs, environmental impact and maintenance costs.
Were other environmental review considerations adequately addressed	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	Yes. Biological Assessment contained in Environmental Document as Appendix C. Contacts from all pertinent agencies included in ED. Slight modification to construction season initially made after ESA consultation.
Endangered Species Act	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	NMFS & US Fish and Wildlife Service both contacted. NFMS responded in 1/22/01 letter that there is one listed species listed and one candidate species but that subject action would not occur within designated critical habitat for the listed Oregon Coast coho salmon. FWS indicated 23 species considered sensitive. Based on review of project, research, and site visit, Mr. Haight (Wildlife and Fish Consultant) found that the completion of the project will result in 1) no adverse effect for the nine species listed as threatened or endangered, 2) no adverse effect for the one identified candidate species, and no adverse effect for the 12 of the 13 species of concern. Consultation on this project excellent!
National Historic Preservation Act	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	OR SHPO contacted, responded with 2/13/01 letter that office had no data from any surveys in project area. Confederated Tribes of Siletz Indians contacted but never responded. No prehistoric or historic districts, sites, buildings, structures, or objects are known to be in the project area. Although no cultural resources have been identified in the project

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National Historic Preservation Act Cont.	South Waldport Sewer Improvements Project No. 8505.06 04/01 cont.	area, the contractor will be required to report any historical or archaeological artifact that is uncovered during excavation to the Project Engineer.
Archeological & Historic Preservation Act	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	OR SHPO contacted, responded with 2/13/01 letter that office had no data from any surveys in project area. Confederated Tribes of Siletz Indians contacted but never responded. No prehistoric or historic districts, sites, buildings, structures, or objects are known to be in the project area. Although no cultural resources have been identified in the project area, the contractor will be required to report any historical or archaeological artifact that is uncovered during excavation to the Project Engineer.
Wild & Scenic Rivers Act		NA – no designated Wild & Scenic Rivers in proposed project area.
Coastal Zone Management Act Compliance	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	The affected environment is the entire project area, which is located in Oregon’s coastal zone, as defined under the federally approved Oregon Coast Management Program. In response to a request for comments, Department of Land Conservation and Development (state’s designated coastal zone management agency pursuant to CZMA), DLCD staff stated that the City would need to ensure that the project design and actual project implementation are undertaken in a manner consistent with the policies of the Oregon Coastal Management Program (Valentine 2001). These policies include 1) statewide planning goals, where applicable, 2) acknowledged city or county comprehensive plans and land use regulations of affected jurisdictions, and 3) selected state authorities. Five mitigation measures related indicated.

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Coastal Barriers Resource Act	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	NA – Project area not located in Coastal Barrier Resource System.
Farmland Protection Act Farmland Protection Act Cont.	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	Page 3-2: There are no soil map units in the project area that are classified as Prime Farmland (Campbell 2001). There is no Prime Rangeland in the project area (Danks 2001). The proposed improvements and construction activities should have minimal negative impact on the identified Prime Forestlands (Campbell 2001). A conditional use permit will be required for installation of the gravity sewer line through the County's Timber Conservation area between the Township 13 Pump Station and the City's wastewater treatment plant (Sennewald 2001b).
E.O. 11990 Wetlands Protection	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	The proposed project is adjacent to a locally significant wetland/major marsh located on Patterson Creek and its tributaries (near Ocean Hills development). The proximity of the proposed project construction either adjacent to or within existing wetlands would require the use of erosion and sediment controls to prevent particulates from entering wetlands. Appropriate erosion and sediment controls would be specified in the Contract Documents for the proposed work. With the proposed project and considered alternatives, a Removal-Fill Permit from the U.S. Corps of Engineers and the Oregon Division of State Lands may be required for construction within wetlands.

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E.O. 11888 Floodplain Management Act	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	None of the improvements within the project area were identified to be within a 100-year or 500-year floodplain. The only areas of reported flooding within the project area is the middle branch of Patterson Creek, approximately 150 feet north from the beginning of the force main alignment from the Ocean Hills Subdivision to Range Drive. To prevent erosion, riprap would be placed over the fill (upstream and downstream sides) at the culvert crossing on the middle branch of the Patterson Creek. The surface of the right-of-way access, from Ocean Hills Subdivision and across the culvert crossing for a distance approximately 200+ feet, would be seeded and mulched or have imported aggregate placed for erosion protection.
Clean Air Act Compliance	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	Existing air quality is generally good within the project area. The proposed project will not directly produce any emissions that would affect air quality. Air quality may be locally impacted by dust and exhaust from heavy equipment. The contractor construction the improvements would be required to control dust by applying water or other dust control measures. The contractor would also be required to handling existing A/C pip shall be in conformance with the requirements of OR-OSHA, OAR 437, Division 3, Construction, and of the DEQ Asbestos Control Program.
Safe Drinking Water Act	Environmental Report – South Waldport Sewer Improvements Project No. 8505.06 04/01	Mr. Tom Charbonneau of the Oregon Health Division/Drinking Water Program was contacted on March 16, 2001 by telephone to clarify OAR 333-061-0050(10), Crossings-Sanitary sewers and water lines. Mr. Charbonneau indicated that a sewer line constructed of PVC or HDPE could be placed in Zone 2 as shown in

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		Figure 1 of OAR 333-061-0050(10).
Civil Rights Act		Decision made for all short-term interim finance loans to not apply/require federal cross-cutting authorities.
E.O. 11246		Decision made for all short-term interim finance loans to not apply/require federal cross-cutting authorities.
E.O. 12898 Environmental Justice	Environmental Report - South Waldport Sewer Improvements Project No. 8505.06 04/01	Environmental justice is evaluated to determine the potential impact of a proposed project that may pose disproportionately high and adverse human health or environmental effects to minority and low-income populations. Minority and low-income groups are not believed to live adjacent to the proposed sewer line alignments in greater concentrations that in other parts of the city. In summary, it does not appear that the proposed project raises any environmental justice issues.
Small Business & Rural Communities Act		Decision made for all short-term interim finance loans to not apply/require federal cross-cutting authorities.
Uniform Relocation Act		Decision made for all short-term interim finance loans to not apply/require federal cross-cutting authorities.
Debarment & Suspension		Decision made for all short-term interim finance loans to not apply/require federal cross-cutting authorities.
OR Specific - Consistency with local		NO EVIDENCE OF THIS FOUND IN FILE

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comprehensive plan		
Certification of Non-segregated facility		NO EVIDENCE OF THIS FOUND IN FILE
Certification regarding lobbying activities		NO EVIDENCE OF THIS FOUND IN FILE
OR Specific - Certificate of Independent Price Determination		NO EVIDENCE OF THIS FOUND IN FILE
Disclosure of Lobby Activities		NO EVIDENCE OF THIS FOUND IN FILE
Non-collusion Affidavit		NO EVIDENCE OF THIS FOUND IN FILE