

CLEAN WATER STATE REVOLVING FUND

ANNUAL REPORT

STATE OF OREGON
DEPARTMENT OF ENVIRONMENTAL QUALITY

FOR THE FISCAL YEAR 2006:
JULY 1, 2005 THROUGH JUNE 30, 2006

Prepared by:

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is presented to introduce the annual financial statements of the Oregon Clean Water State Revolving Fund (CWSRF) for the year ended June 30, 2006, and is intended to supplement these financial statements and provide the users of these statements with pertinent financial information about the program, in an easy to read format. The Department of Environmental Quality (DEQ) CWSRF loan program is responsible for the content of these financial statements. The MD&A provides financial statement readers with a summary of the information presented in the financial statements, discussion of pertinent policies, procedures and issues, and any additional information CWSRF management feels is useful to the financial statement reader.

The Clean Water State Revolving Fund Loan Program

The CWSRF provides low interest loans to public entities for projects that protect the quality of Oregon's waters. To provide additional capital for the program DEQ receives an annual grant from the U.S. Environmental Protection Agency (EPA). The 2006 grant was in the amount of \$9,892,200. This grant must be matched with State funds in the amount of 20 percent of the federal grant, or \$1,978,440 for 2006. These funds, combined with repayments on existing loans and investment interest earnings, totaled approximately \$57,000,000 for State fiscal year 2006. CWSRF loan interest rates can range from zero percent to the market rate, as authorized by State statute (ORS 468.440). Loan repayments are re-loaned to Oregon communities for completion of new projects, resulting in the "revolving" nature of the program. As of June 30, 2006 the Oregon CWSRF has loaned a total of \$595,165,372 to Oregon communities to help protect the quality of our water.

Net Assets of the CWSRF

Net assets are required, by GASB 34, to be reported including the amount of capital assets owned by the entity, less any debt incurred to obtain those capital assets. The Oregon CWSRF has no capital assets and no related debt, consequently the amount of net assets reported includes no such amounts. The total amount of reported net assets as of June 30, 2006 is \$381,782,763. The June 30, 2005 financial statements reported net assets of \$351,440,783. The increased net assets is the result of repayments received from borrowers, new federal grant funds received and investment interest earnings on the fund.

Net assets as of June 30, 2006 include all amounts earned and retained in the program (similar to retained earnings in a private enterprise), all grant funds received from EPA, and all amounts paid into the CWSRF by the State of Oregon as grant match.

Income During Fiscal Year 2006

Net operating income of the CWSRF for fiscal year 2006 was \$12,838,260. Operating income includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans, interest earned on balances held with the State Treasurer's Office, and fees collected from borrowers. Related expenses include payroll costs, amounts paid for services and supplies, and amounts paid for Indirect Cost, which is used by the DEQ to pay for centralized services, such as budgeting and accounting. Net operating income for fiscal year 2005 was \$9,941,535.

The program has incurred no losses as a result of borrower defaults. If borrowers experience financial hardship DEQ is willing to work to accommodate their needs, while ensuring the integrity of the CWSRF. Borrowers are required to review and adjust their sewer rates (or other revenues pledged as the source of loan repayment) periodically, to ensure their ability to pay all their operating costs and debt service.

Net operating income increases the amount of net assets in the program. Other increases to net assets include amounts actually received from the EPA grant, and amounts contributed as grant match by the State of Oregon. In 2006 the amount of federal grant funds received was \$17,503,720. No state matching funds were contributed during the year because all amounts necessary to match federal grants awarded through June 30, 2006 were previously deposited to the CWSRF.

The CWSRF loan program is allowed to use 4% of its federal grant funds to cover the cost of administering the program. However, Oregon has chosen to use the entire amount of its federal grants to make loans. To pay for the program administrative costs the Oregon program charges its borrowers an annual loan fee. The total amount of loan fees collected during fiscal year 2006 was \$1,076,173. These amounts are not deposited into the loan fund, but are held outside the fund for payment of administrative costs.

Changes in Cash Position

During fiscal year 2006 CWSRF cash increased by \$5,722,914, as can be seen on the Statement of Cash Flows. Total loan repayments received from borrowers was \$30,226,938, including principal and interest. Loan fees collected totaled \$1,076,173. Interest credited to the CWSRF account with the State Treasurer's Office totaled \$3,461,233. Administrative expenses paid to employees, vendors, and for Indirect Cost totaled \$854,918. Cash received from EPA grant funds totaled \$17,156,450, and matching funds provided by the State of Oregon totaled \$0. Loan disbursements to borrowers totaled \$40,893,006. Funds paid by the CWSRF loan program for debt service on State match bonds was \$4,671,983. These amounts compose the change in cash balance and can be seen on the Statement of Cash Flows.

The projected amount of disbursements for fiscal year 2007 is approximately \$71,000,000, which would help to reduce the amount of cash held by the program. Actual changes in the program's cash balance will depend on the timing of projects funded by the CWSRF and the related pace of requests for loan disbursements.

Business Decisions Affecting the CWSRF

Many states around the country increase the amount of immediately available loan funds by issuing revenue bonds, backed by the CWSRF program revenues, and loan those bond proceeds. This "leveraging" of the program provides more loan funds in the short term, however it places a strain on program resources in future years as the program must repay the bonds. Oregon has considered leveraging its program, however we have made the decision not to leverage at this time.

It is anticipated that during the state fiscal year 2007 we will consider making changes to certain Oregon Administrative Rules (OAR) that govern this program. We will consider making certain changes to the financial requirements of our loans as well as changes that we believe will make CWSRF funds more accessible and more flexible for our borrowers. These rule changes were not completed during fiscal year 2006.

What's Ahead For 2007

The amount of federal capitalization grant awarded to Oregon's CWSRF loan program is declining, reflecting the declining amounts authorized in EPA's congressionally approved budget. The 2007 proposed budget for EPA includes a further reduction in the amount of funding for this program. If appropriated by Congress at the proposed level, the amount of Oregon's fiscal year 2007 grant would be approximately \$8 Million, a reduction of 20%. As the level of federal funding decreases, so does the amount of CWSRF funds available to make loans, both in the current year and in future years.

A Change in State Matching Funds

State matching funds continue to be raised through the sale of short term general obligation bonds, repaid from funds earned by the CWSRF.

Conclusion

This MD&A is intended to provide a summary of the financial condition of the CWSRF loan program and should be read in conjunction with the remainder of this report. The financial statements, footnotes and supplemental information provided in this annual report provide a detailed analysis of the program's financial position and results of operations.

Questions about the Oregon CWSRF loan program should be directed to the Oregon DEQ, CWSRF Coordinator, 811 S.W. 6th Avenue, Portland OR 97204.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund Loan Program
Statement of Net Assets
 June 30, 2006

ASSETS	SRF	Administration	Total
Current			
Cash and Cash Equivalents	87,161,984	5,670,663	92,832,647
Loan Interest Receivable	4,347,075	0	4,347,075
Investment Interest Receivable	0	0	0
Due From EPA	347,270	0	347,270
Loans Receivable	23,146,120	0	23,146,120
Total Current Assets	115,002,449	5,670,663	120,673,112
Non-Current			
Loans Receivable, net of Current Portion	276,924,483	0	276,924,483
Deferred Expenses	191,860	0	191,860
Total Non-Current Assets	277,116,343	0	277,116,343
Total Assets	392,118,792	5,670,663	397,789,455
Liabilities			
Current			
Accounts Payable	0	4,065	4,065
Payroll Payable	0	62,366	62,366
Construction Costs Payable	3,336,877	0	3,336,877
Due To Other Funds	0	533	533
Bond Interest Payable	192,851	0	192,851
Bonds Payable	650,000	0	650,000
Total Current Liabilities	4,179,728	66,964	4,246,692
Non-Current Liabilities			
Bonds Payable	11,760,000	0	11,760,000
Total Non-Current	11,760,000	0	11,760,000
Total Liabilities	15,939,728	66,964	16,006,692
Net Assets			
Restricted	376,179,064	5,603,699	381,782,763
Total Liabilities and Net Assets	392,118,792	5,670,663	397,789,455

The accompanying notes are an integral part of these financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund Loan Program
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006

	<u>SRF</u>	<u>Administration</u>	<u>Total</u>
Operating Revenues			
Loan Interest	9,676,472	0	9,676,472
Investment Earnings	3,461,233	215,887	3,677,120
Loan Fees	0	1,076,173	1,076,173
Total Operating Revenues	<u>13,137,705</u>	<u>1,292,060</u>	14,429,765
 Operating Expenses			
Bond Interest	690,903	0	690,903
Other Bond Costs	45,684	0	45,684
Salaries and Benefits	0	633,039	633,039
Services and Supplies	0	100,336	100,336
Indirect Costs	0	121,543	121,543
Total Operating Expenses	<u>736,587</u>	<u>854,918</u>	1,591,505
 Operating Income	<u>12,401,118</u>	<u>437,142</u>	12,838,260
 Nonoperating Revenues (Expenses)			
EPA Grants Received	17,503,720	0	17,503,720
State Match Contributions	0	0	0
Total Nonoperating Revenues (Expenses)	<u>17,503,720</u>	<u>0</u>	17,503,720
 Change in Net Assets	29,904,838	437,142	30,341,980
 Net Assets, Beginning of Year	346,274,226	5,166,557	351,440,783
 Net Assets, End of Year	<u>376,179,064</u>	<u>5,603,699</u>	381,782,763

The accompanying notes are an integral part of these financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund Loan Program
Statement of Cash Flows
For the Year Ended June 30, 2006

	2006
Cash Flows From Operating Activities:	
Cash received from loan interest repayments	8,672,505
Cash received from loan principal repayments	21,554,434
Cash disbursed to borrowers	(40,893,006)
Cash received from loan fees	1,076,173
Interest payments on bonds	(726,983)
Cash received from Treasury interest credits	3,677,120
Cash payments to:	
Vendors	(99,493)
Employees	(618,540)
Indirect Cost	(130,746)
Net Cash Provided by Operating Activities	(7,488,536)
Cash Flows From Noncapital Financing Activities	
Net Cash Provided by Noncapital Financing Activities	0
Cash Flows From Capital and Related Financing Activities	
Funds Received From EPA	17,156,450
Funds Received From The State of Oregon	0
Proceeds From Sale of Bonds	0
Principal payments on match bonds	(3,945,000)
Net Cash Provided by Capital and Related Financing Activities	13,211,450
Cash Flows From Investing Activities	
Net Cash Used in Investing Activities	0
Increase (Decrease) in Cash and Cash Equivalents	5,722,914
Cash and Cash Equivalents, Beginning of Year	87,109,733
Cash and Cash Equivalents, End of Year	92,832,647
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	12,838,260
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase/Decrease in loan interest receivable	(1,003,968)
Increase/Decrease in loans receivable	(22,232,078)
Increase/Decrease in construction costs payable	2,893,506
Increase/Decrease in accounts payable	350
Increase/Decrease in payroll payable	14,499
Increase/Decrease in amount due to other funds	(8,710)
Total adjustments:	(20,326,796)
Net cash provided by operating activities	(7,488,536)

NOTES TO FINANCIAL STATEMENTS

1. **Organization of the Fund**

The Oregon Clean Water State Revolving Fund (the Fund) was established pursuant to Oregon Revised Statutes 468.423 – 468.440. The purpose of the SRF is to provide low interest loans to local governments for constructing wastewater treatment facilities, implementing nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 20 years, and all repayments, including interest and principal, must be credited to the State Revolving Fund.

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

The ODEQ charges the Fund for staff time spent on SRF activities, and the Fund pays those expenses from the Administration fund. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund. The rate of indirect cost is negotiated annually with the EPA. Employees charging time to the Fund are covered by the benefits available to Oregon State Employees. The Fund is also charged indirect costs through the cost allocation plan for general state expenses.

The Fund financial statements, footnotes, and required supplemental information are presented for the U.S. Environmental Protection Agency. The Fund is included in the Oregon general purpose financial statements as a special revenue fund which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements for the Fund are presented as an enterprise fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All

assets and liabilities associated with the operations of the Fund are included on the balance sheet. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

All monies of the Fund are deposited with the Oregon Treasurer's Office which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash. Investment interest earnings on these deposits are received by the Fund on a monthly basis. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as further discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

The loans are funded by Federal capitalization grants, State matching funds, general obligation bonds, loan repayments and fund earnings. The SRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time, a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the final disbursement, repayment begins with an interest only payment. Full repayment must be received by the Fund within 20 years. There is no provision for uncollectible accounts, as all repayments are current, and program management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

3. Cash and Cash Equivalents

All cash in the Fund is deposited with the State Treasurer who is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Fund's share of the investment income is based on the average daily balance for the period and is credited to the Fund monthly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost, which approximates fair market value. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Market Value</u>
Not subject to categorization:		
Deposited with State Treasurer's Office	<u>\$ 92,832,647</u>	<u>\$ 92,832,647</u>

4. **Loans Receivable**

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate. Interest rates vary depending on the length of the loan, the type of loan, and program rules. Prior to 1995 rates were either zero percent or three percent, depending on the length of the repayment period. Between 1995 and 2003 the interest rate for facilities planning was one-half the bond rate, and the interest rate for design and construction was the greater of two-thirds the bond rate or the bond rate minus two percent. In May of 2003 interest rates were modified to be based on loan terms. Rates range from 25% of the bond rate for 5 year loans to 65% of the bond rate for 20 year loans. Recipients make semiannual or, in some cases, annual payments, generally starting six months after project completion. Details of loans receivable as of June 30, 2006 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Outstanding Balance</u>
Completed projects	\$380,933,127	\$ 0	\$236,987,762
Projects in progress	<u>214,232,245</u>	<u>154,316,625</u>	<u>59,864,844</u>
Totals	<u>595,165,372</u>	<u>154,316,625</u>	<u>296,852,606</u>
Less amounts due within one year			23,146,120
Loans receivable, June 30, 2006			\$273,706,486

Loans mature at various intervals through June 1, 2028. The scheduled minimum principal repayments in future years are as follows:

Year ending June 30:	<u>Amount</u>
2007	\$ 23,146,120
2008	16,864,863
2009	19,229,101
2010	19,970,988
2011	20,319,695
Thereafter	<u>197,321,839</u>
Total	<u>\$296,852,606</u>

Loans to Major Local Agencies:

As of June 30, 2006, the Fund has made loans to 18 local governments that totaled \$10,000,000 or more, and in the aggregate, exceeded \$400,000,000. The outstanding balances of these loans represent approximately 68 percent of the total loans receivable, as follows:

<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding</u>	<u>Status *</u>
City of Albany	\$ 60,099,568	966,482	(1)
City of Ashland	23,920,068	\$20,702,256	Repayment
City of Brookings	13,100,000	11,469,084	Repayment
City of Corvallis	21,963,693	17,486,916	Repayment
City of Dallas	14,880,000	11,473,703	Repayment
City of Eugene	25,592,592	1,317,731	Repayment
City of Florence	12,279,155	9,925,944	Repayment
City of Gresham	42,359,498	22,605,542	Repayment
City of Newport	20,228,883	17,863,330	Repayment
City of Ontario	13,971,689	7,580,620	Repayment
City of Portland	33,791,673	12,566,276	(1)
City of Prineville	18,267,286	14,833,106	(1)
City of Redmond	21,138,406	5,326,450	(1)
Rogue Valley Sewer	10,771,968	1,600,148	(1)
City of Salem	19,799,805	5,253,437	(1)
City of Tillamook	11,282,872	2,702,488	(1)
City of Warrenton	11,516,249	8,188,120	(1)
City of Woodburn	<u>30,349,671</u>	<u>24,468,830</u>	Repayment
TOTAL	<u>\$ 405,313,076</u>	<u>\$ 196,330,463</u>	

5. Fixed Assets

The only fixed assets are equipment. During fiscal year 2005 there were no purchases of equipment, and the existing CWSRF loan program capital assets have been fully depreciated.

6. Bonds Payable

In July 2003 EPA allowed the SRF to use Fund assets to pay the principal and interest on \$23,765,000 of general obligation bonds that were previously issued by the State to provide the 20 percent state matching funds as required by the Clean Water Act. The details of such bonds at June 30, 2006 are as follows:

State Match Bonds:

	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
Series 1997A, General Obligation Pollution Control Bonds Interest of 3.8% to 5.0% due semi- Annually, principal due annually to November 1, 2017.	\$5,700,000	\$ 350,000	\$5,350,000
Series 2000A, General Obligation Pollution Control Bonds Interest of 4.15% to 5.50% due semi- Annually, principal due annually to August 1, 2020.	<u>\$6,710,000</u>	<u>\$ 300,000</u>	<u>\$6,410,000</u>
Totals	<u>\$12,410,000</u>	<u>\$ 650,000</u>	<u>\$11,760,000</u>

7. Federal Grants and State Match

The Fund is capitalized by Capitalization Grants for SRF from the EPA. These grants have been awarded annually, beginning in federal fiscal year 1989. The State of Oregon must also contribute an amount equal to 20 percent of the federal capitalization amount, as discussed below. As of June 30, 2006, EPA has awarded capitalization grants in the amount of \$272,473,412 to the State of Oregon, of which \$268,820,391 has been drawn for loans and administrative expenses. The following summarizes the capitalization grant awards, amounts drawn on each grant as of the balance sheet date, and balances available for loans and administrative costs:

	Grant Amount	Total Draws As of June 30, 2005	2006 Draws	Total Draws as of June 30, 2006	Grant Funds Available June 30, 2006
1989-2004	\$ 251,316,671	\$ 251,316,671	\$ 0	\$ 251,316,671	\$ 0
2005	12,172,941	0	12,172,941	12,172,941	0
2006	8,983,800	0	5,330,779	5,330,779	3,653,021
Totals	<u>\$ 272,473,412</u>	<u>\$ 251,316,671</u>	<u>\$17,503,720</u>	<u>\$ 268,820,391</u>	<u>\$ 3,653,021</u>

Prior to 1993 Oregon's matching contribution was provided through appropriation of State general fund resources. Beginning in 1993 state matching funds were provided by issuing General Obligation Pollution Control Bonds. Between 1993 and 2003 Oregon issued \$29,980,000 in state match bonds and transferred the proceeds plus interest to the SRF as state match. In July 2003 EPA allowed the SRF to assume \$23,765,000 of previously issued bonds, and principal and interest payments on those bonds to be paid from interest earnings of the SRF. Activity on bonds assumed by the SRF since July 2003 is as follows:

Bond Issue	Balance Transferred July 1, 2003	Principal Paid 2004	Principal Paid 2005	Principal Paid 2006	Balance June 30, 2006
1993A	1,865,000	1,865,000			0
1994A	3,965,000	280,000	3,685,000		0
1995B	3,755,000	210,000	220,000	3,325,000	0
1997A	6,660,000	305,000	320,000	335,000	5,700,000
2000A	7,520,000	255,000	270,000	285,000	6,710,000
	<u>\$23,765,000</u>	<u>\$ 2,915,000</u>	<u>\$ 4,495,000</u>	<u>\$ 3,945,000</u>	<u>\$ 12,410,000</u>

Interest paid on bonds transferred to the SRF was approximately \$745,000 in 2004, \$897,000 in 2005, and \$726,983 in 2006.

Since July 2003 Oregon has issued bonds to provide state match, with all principal and interest on such bonds being paid by the SRF. The details of such bonds are as follows:

Bond Issue	Issued	Principal Paid 2004	Principal Paid 2005	Balance June 30, 2006
2003C	\$ 3,000,000	\$ 3,000,000		\$ -
2004A	6,000,000		6,000,000	\$ -
	<u>\$ 9,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ -</u>

The effect on the state matching funds previously contributed by the State are as follows:

	June 30, 2006
Oregon State Matching Contribution	\$ 47,277,572
Reduce state match for transfers from bond fund	<u>(26,429,045)</u>
State Match, Adjusted	\$ <u>20,848,527</u>

8. Loan Fees

In order to support administration and project management costs, loan fees are assessed on all loans originating after 1992. A loan origination fee of 1.5 percent is assessed at the beginning of the repayment period, and an annual fee of 0.5 percent is assessed on the outstanding balance. The fees are deposited to an account outside the Fund and will be used only for administrative and project management costs.

In May 2003 the Environmental Quality Commission (EQC) approved changes to the program's administrative rules. One of the approved changes is the elimination of the 1.5% loan processing fee that has been charged on all loans. This fee is no longer charged. Also, fees on planning loans will not be assessed, in order to encourage Oregon communities to complete more planning.

9. Contingencies, Related Parties, and Subsequent Events

Contingencies

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. The State maintains insurance for all risks of loss which is included in the indirect costs allocated to the Fund.

In previous years the State of Oregon has been named in suits against CWSRF borrowers, by citizens either claiming unlawful sewer rate increases or unlawful debt. These suits have been decided in favor of our borrowers and the State of Oregon, and we are unaware of any such contingencies in existence at this time.

Related Parties

There are no related party transactions with or related amounts receivable from management of the Fund.

Subsequent Events

No events occurred subsequent to the balance sheet date that came to our attention which require adjustment to, or disclosure in, the financial statements.

SUPPLEMENTAL INFORMATION

The following schedules provide additional information that may be useful to the financial statement reader. These schedules provide data about future program activity, loan security provisions, and certain U.S. Environmental Protection Agency requirements.

The table below shows the capitalization funding of the Clean Water State Revolving Fund since its inception through June 2006. It shows federal capitalization grants awarded by EPA and state matching funds, as well as how funds are allocated between loans and fund administration.

CWSRF CAPITALIZATION

Federal Fiscal Year	Capitalization Grant Award	20% State Match	Administrative Allowance (4% of Grant)	Net Available for Loans
1989	10,655,073	2,131,015	(426,203)	12,359,885
1990	11,021,373	2,204,275	(440,855)	12,784,793
1991	23,183,622	4,636,724	(927,345)	26,893,001
1992	21,949,191	4,389,838	(877,968)	25,461,061
1993	21,712,581	4,342,516	(868,503)	25,186,594
1994	13,472,415	2,694,483	(538,897)	15,628,001
1995	13,914,054	2,782,811	(556,562)	16,140,303
1996	22,791,123	4,558,224	(911,645)	26,437,702
1997	7,011,959	1,402,392	(280,478)	8,133,873
1998	15,211,548	3,042,310	(608,462)	17,645,396
1999	15,212,835	3,042,568	(608,513)	17,646,890
2000	15,161,256	3,032,251	(606,450)	17,587,057
2001	15,026,517	3,005,303	(601,061)	17,430,759
2002	15,059,979	3,011,996	(602,399)	17,469,576
2003	14,962,068	2,992,414	(598,483)	17,355,999
2004	14,971,077	2,994,215	(598,843)	17,366,449
2005	12,172,941	2,434,588	(486,918)	14,120,611
2006	8,983,800	1,796,760	(359,352)	10,421,208
Totals	\$272,473,412	\$54,494,683	(\$10,898,937)	\$316,069,158

This table documents the planned schedules for active loans, and also lists the loan terms for each of these loans. This table provides an estimate of future demand on the State Revolving Fund.

Borrower	Loan Number	Date Loan Signed	Start Date	Completion Date	Loan Amount	Term (Yrs)	Interest Rate	One-Time Fee	Annual Fee
Albany	R10511	6/26/2003	7/1/2006	7/1/2009	35,183,559	20	3.14%	0.0%	0.5%
Albany	R10512	6/9/2005	7/1/2006	7/1/2009	19,713,950	20	2.90%	0.0%	0.5%
Arlington	R11491	5/11/2005	9/15/2004	8/31/06E	887,200	2	1.11%	0.0%	0.0%
Astoria	R11790	11/12/2002	4/1/2003	6/1/06E	3,640,000	20	3.14%	0.0%	0.5%
Astoria	R11791	12/17/2004	12/17/2004	12/07E	2,300,000	20	3.06%	0.0%	0.5%
Bunker Hill S.D.	R19151	10/17/2005	10/17/2005	10/06E	133,362	20	2.81%	0.0%	0.5%
Burns	R19400	9/25/1997	2/1/1999	11/06E	2,350,000	20	3.69%	0.0%	0.5%
Charleston S.D.	R21920	12/17/2004	8/27/2004	6/06E	425,750	20	3.06%	0.0%	0.5%
Charleston S.D.	R21921	3/17/2005	7/1/2005	9/06E	100,150	20	2.92%	0.0%	0.5%
Coburg	R23040	3/20/2002	7/1/2002	9/30/06E	550,000	5	2.63%	0.0%	0.5%
Coburg	R23042	10/10/2005	10/10/2005	10/06E	2,710,690	20	2.81%	0.0%	0.5%
Coquille	R24292	7/14/2003	7/14/2003	6/06E	195,000	5	1.12%	0.0%	0.0%
Cottage Grove	R24573	1/21/2004	8/2/2004	4/06E	9,755,000	20	3.10%	0.0%	0.5%
Dufur	R29521	3/12/2002	5/28/2003	5/31/06E	454,421	20	3.51%	0.0%	0.5%
East Fork I.D.	R30141	1/5/2005	1/5/2005	3/08E	1,500,000	20	2.92%	0.0%	0.5%
Farmers I.D.	R32240	3/18/2004	2/10/2004	3/06E	3,000,000	5	1.19%	0.0%	0.5%
Farmers I.D.	R32241	7/27/2004	7/27/2004	6/06E	3,800,000	20	3.23%	0.0%	0.5%
Harbor S.D.	R41420	4/18/2005	4/06E	11/06E	500,000	20	2.90%	0.0%	0.5%
Hines	R44631	11/27/2002	12/1/2002	6/06E	1,559,349	20	3.14%	0.0%	0.5%
Lakeside	R54436	2/24/2005	12/27/2004	6/06E	2,111,150	2	1.18%	0.0%	0.0%
Lebanon	R56200	3/2/2006	3/06E	1/08E	3,442,000	20	2.93%	0.0%	0.5%
Maywood Park	R63960	5/1/2002	5/1/2004	12/31/06E	30,000	5	2.66%	0.0%	0.5%
Miles Crossing	R65230	2/9/2001	6/22/2001	12/06E	360,000	5	2.82%	0.0%	0.5%
Modoc Point	R65950	4/6/2005	4/05E	6/06E	32,000	20	2.90%	0.0%	0.5%
Molalla	R66100	12/29/2005	1/06E	7/07E	2,670,000	20	2.80%	0.0%	0.5%
Mosier	R67170	5/10/2006	5/06E	12/07E	1,200,000	20	2.87%	0.0%	0.5%
Myrtle Creek	R67980	6/29/2001	7/1/2001	4/1/2004	8,797,397	20	3.43%	0.0%	0.5%
Netarts	R68681	7/26/2005	9/21/2005	2/07E	3,750,000	20	2.81%	0.0%	0.5%
Portland	R74163	9/19/2003	9/19/2003	6/13E	2,326,248	20	1.00%	0.0%	0.5%
Portland	R74164	9/19/2003	9/19/2003	6/11E	6,404,380	20	1.00%	0.0%	0.5%
Portland	R74165	9/19/2003	9/19/2003	12/06E	3,652,129	20	1.00%	0.0%	0.5%
Portland	R74167	12/1/2004	12/04E	11/06E	4,272,068	20	1.00%	0.0%	0.5%
Portland	R74168	12/1/2004	12/04E	11/06E	1,482,454	20	1.00%	0.0%	0.5%
Portland	R74169	12/1/2004	12/04E	12/08E	1,149,012	20	1.00%	0.0%	0.5%
Powers	R74351	3/30/2004	4/04E	5/06E	550,000	20	3.10%	0.0%	0.5%
Prairie City	R74420	9/26/2000	2/18/2002	8/30/2002	1,056,720	20	3.85%	1.5%	0.5%
Prineville	R74682	6/18/2004	6/18/2004	9/06E	10,858,360	20	2.94%	0.0%	0.5%
Rainier	R75261	4/21/2004	4/04E	6/06E	230,000	5	1.13%	0.0%	0.0%
Rainier	R75262	6/2/2006	6/06E	3/07E	800,000	20	2.87%	0.0%	0.5%
Redmond	R76072	6/30/2004	11/04E	11/07E	10,183,559	20	2.94%	0.0%	0.5%
Reedsport	R76210	12/17/2004	4/05E	1/08E	6,800,000	20	3.06%	0.0%	0.5%
Riddle	R77400	1/6/2006	3/06E	3/07E	788,500	5	1.08%	0.0%	0.0%
Rockaway Beach	R78281	6/30/2004	7/04E	6/06E	2,700,000	20	2.94%	0.0%	0.5%
Rogue Valley	R78495	5/25/2006	5/06E	6/07E	5,200,000	20	2.87%	0.0%	0.5%
St. Helens	R80161	8/19/2003	8/2003E	12/2006E	2,053,000	15	2.69%	0.0%	0.5%

Salem	R80211	7/1/2005	7/05E	2/06/E	8,850,000	20	2.81%	0.0%	0.5%
Salem	R80212	2/27/2006	3/06E	12/06E	6,881,608	20	2.93%	0.0%	0.5%
Spray	R86740	9/13/2004	9/04E	7/06E	610,000	2	1.24%	0.0%	0.0%
Stayton	R87590	3/14/2005	3/05E	10/06E	4,382,000	20	2.92%	0.0%	0.5%
Sweet Home	R89751	4/1/2005	4/05E	4/07E	2,000,000	20	2.92%	0.0%	0.5%
Tillamook	R91563	4/11/2003	4/11/03E	12/31/03E	500,000	20	3.19%	0.0%	0.5%
Tillamook	R91565	6/3/2005	6/05E	6/06E	300,000	5	1.11%	0.0%	0.0%
Tillamook	R91566	8/24/2005	8/05E	9/06E	268,000	20	2.81%	0.0%	0.5%
Tillamook	R91567	4/21/2006	5/06E	6/08E	8,000,000	20	2.87%	0.0%	0.5%
Umatilla County	R93055	3/21/2005	3/05E	11/06E	336,000	20	2.47%	0.0%	0.5%
Vale	R93223	6/2/2005	6/05E	10/06E	2,710,356	5	1.10%	0.0%	0.0%
Vernonia	R93641	6/2/2005	6/05E	3/07E	500,000	5	1.11%	0.0%	0.0%
Vernonia	R93642	3/2/2006	3/06E	12/07E	7,307,991	20	2.93%	0.0%	0.5%
Warrenton	R94942	7/23/2003	7/03E	6/06E	1,200,000	20	2.91%	0.0%	0.5%
Warrenton	R94943	6/28/2004	7/1/2004	12/06E	10,000,000	20	2.94%	0.0%	0.5%
Westport S.S.D.	R96240	8/24/2005	8/05E	12/06E	112,250	20	2.81%	0.0%	0.5%
Winchester Bay SD	R97640	11/23/2005	12/05E	12/07E	2,324,005	5	1.08%	0.0%	0.0%
Yachats	R99100	6/17/2005	6/05E	2/08E	5,900,000	20	2.90%	0.0%	0.5%

Total	\$233,839,618								
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(1) Dates followed by an "E" are estimates.

The CWSRF loan program accepts different security for repayment of loans, including bonds, sewer revenues and other sources of revenue. We also accept different security positions, including parity and subordinate positions, as appropriate. The table below offers a summary of our security provisions, as of June 30, 2006 (these amounts are the outstanding principal balance receivable plus accrued interest):

G.O. Bonds	\$ 6,010,197 (2.0% of total)
Special Assessment Bonds	0 (0.0% of total)
REVENUE-SECURED LOANS:	
First Lien	164,567,320 (54.7% of total)
Parity with Other Loans	35,237,486 (11.7% of total)
Subordinate to Other Loans	18,791,308 (6.2% of total)
Parity with Revenue Bonds	29,616,665 (9.8% of total)
Subordinate to Revenue Bonds	<u>46,857,828</u> (15.6% of total)
TOTAL:	\$301,080,804

Following is a summary of loan activity during fiscal year 2006 and program administrative expense, demonstrating compliance with the federal requirement (at 40 CFR §35.3135(c)) that we execute binding commitments in an amount equal to or greater than 120% of all federal grant payments within one year of those payments, on a cumulative basis.

Total loans at 6/30/2005	\$528,019,075
Total Admin. Exp. Pd. From Grants	8,863,620
Total Commitments:	536,882,695
Federal Payments (thru 2004)	236,345,594

FISCAL YEAR 2006 ACTIVITY

Loans	67,146,297
Admin. Expense Pd. From Grants	0
Federal Payments (prior yr.)	21,057,547
Cumulative Total Loans:	\$595,165,372
Cum. Total Admin. Exp. Pd. From Grants:	8,863,620
Total Commitments:	604,028,992
Cum. Total Fed. Payments	257,403,141

Commitments as a percentage of federal payments (cumulative): 235%

The following schedule lists all new loans executed during the fiscal year, and all loan increases and decreases processed during the fiscal year, by calendar quarter. Also included is the project’s priority ranking from the Project Priority List, for new loans, as well as indication of whether new loans will be required to comply with the federal “cross-cutter” laws, and an indication of whether the project was issued a Categorical Exclusion or was required to complete an Environmental Review.

1st Quarter (July 2005 – September 2005):

Loan #	Borrower	Action	Ranking	Amount	Cross-Cutters?	ER/CE?
10512	City of Albany	Increase	N/A	2,191,129		
32241	Farmers Irrigation Dist.	Increase	N/A	800,000		
68681	Netarts-Oceanside Sanitary Dist	New	75	3,000,000	YES	CE
78281	City of Rockaway Beach	Increase	N/A	200,000		
80211	City of Salem	New	129	8,850,000	YES	N/A
91566	City of Tillamook	New	4	268,000	YES	CE
96240	Westport Sewer Service Dist.	New	125	112,250	YES	CE
SUBTOTAL				15,421,379		

2nd Quarter (October 2005 – December 2005):

11790	City of Astoria	Increase	N/A	880,000		
19151	Bunker Hill Sanitary Dist.	New	78	133,362	YES	ER
23042	City of Coburg	New	56	2,710,690	YES	EA
66100	City of Molalla	New	113	2,670,000	YES	CE
93641	City of Vernonia	Increase	N/A	235,640		
97640	Winchester Bay Sani Dist	New	12	2,324,005	YES	ER
SUBTOTAL:				8,953,697		

3rd Quarter (January 2006 – March 2006):

23040	City of Coburg	Increase	N/A	100,000		
29521	City of Dufur	Increase	N/A	4,421		
56200	City of Lebanon	New	125	3,442,000	YES	ER
74420	City of Prairie City	Increase	N/A	11,720		
77400	City of Riddle	New	128	788,500	YES	N/A
80212	City of Salem	New	114	6,881,608	YES	N/A
93642	City of Vernonia	New	47	7,307,991	YES	ER
SUBTOTAL:				18,536,240		

4th Quarter (April 2006 – June 2006):

10512	City of Albany	Increase	N/A	8,622,045		
23041	City of Coburg	Decrease	N/A	-2,710,690		
46610	City of Hubbard	Decrease	N/A	-123,877		
67170	City of Mosier	New	120	1,200,000	YES	
68681	Netarts-Oceanside Sani. Dist	Increase	N/A	750,000		
75262	City of Rainier	New	6	800,000	NO	N/A
78495	Rogue Valley Sewer Serv	New	58	3,000,000	YES	N/A
78495	Rogue Valley Sewer Serv	Increase	N/A	2,200,000		
83120	City of Shady Cove	Decrease	N/A	-2,497		
91567	City of Tillamook	New	4	8,000,000	YES	ER
94943	City of Warrenton	Increase	N/A	1,500,000		
94943	City of Warrenton	Increase	N/A	1,000,000		
SUBTOTAL:				24,234,981		
ANNUAL TOTAL:				67,146,297		

Implementation of the By-Pass Concept

The Oregon CWSRF loan program uses a concept known as the “By-Pass” procedure to help ensure a reasonable pace of new loans. This concept simply means that projects ready to proceed will be awarded a loan agreement, assuming there are funds available, provided there are no higher ranked projects also ready to proceed at the same time. This prevents a theoretical situation where we would have to wait for the highest ranking projects to ask for loan agreements, which could take years or even never occur, before offering loans to the lower ranking projects.

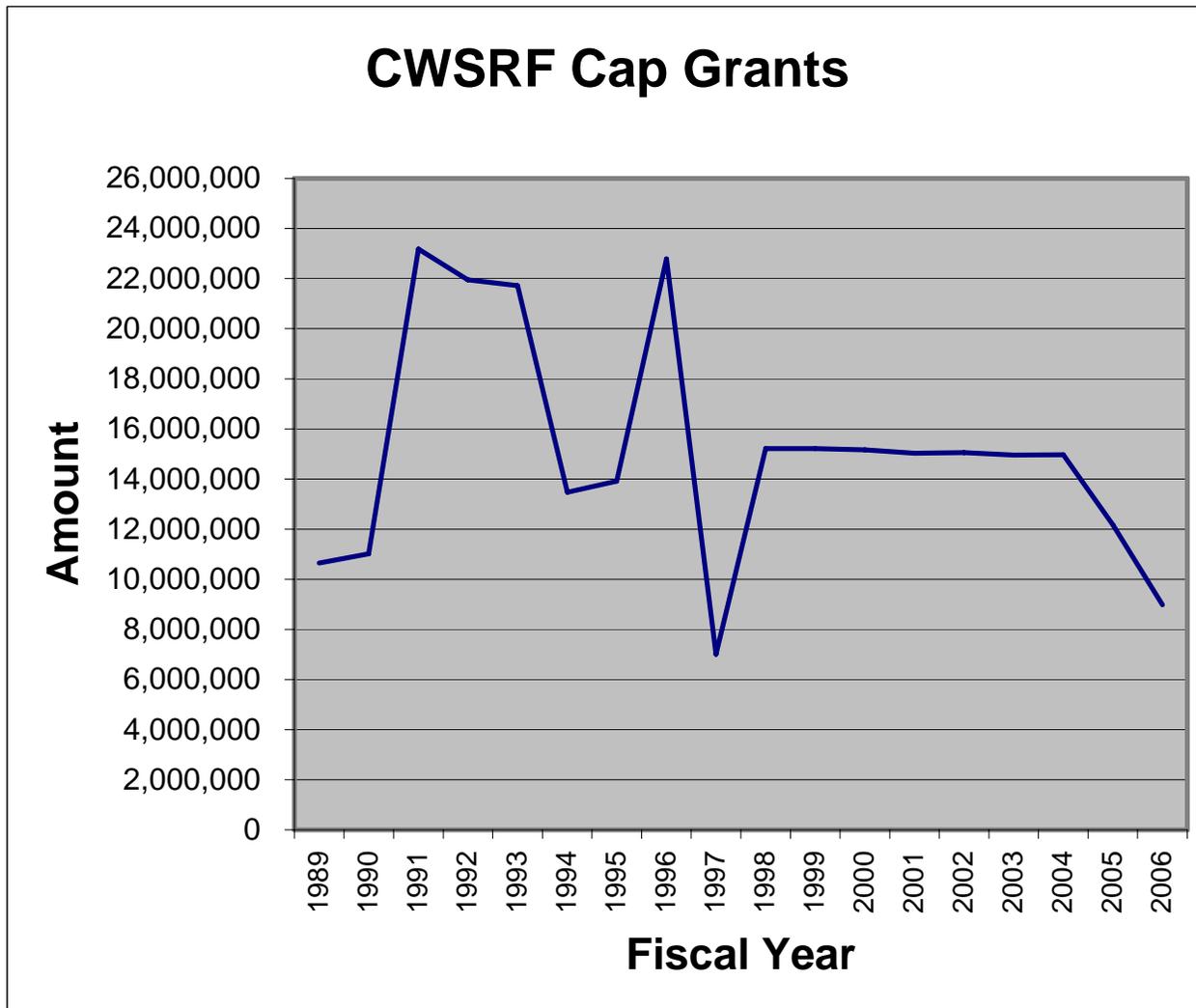
It could be argued that all of the new loans executed during FY 2006 were a result of implementation of the By-Pass concept, since the highest ranking projects on the Priority List (Coquille, Canyonville and the Tillamook County Commission Development Dept.) did not request loan agreements. In fact, as of the issuance date of this Annual Report those three projects still have not requested loans. Clearly, if Oregon refused to honor requests from projects ready to proceed, the pace of the loan program would stagnate and perhaps even halt. This is how, for example, the City of Riddle, ranked #128 out of 129 (IUP 2006 Update #1), was able to execute a loan in January 2006.

The following schedule shows the availability of federal funds according to the grant payment schedules, the actual transfer of state matching funds, and compliance with the requirement (at 40 CFR §35.3135(b)) that the cumulative state match transfers equal at least 20% of the cumulative federal grant payments available.

Federal Grant Payments thru 2005	\$251,316,671	
State Match Payments thru 2005	54,613,955	
Match as a percentage of fed. Grants:	21.73%	
Fiscal Year 2006 Activity		
Grant Payments ('05 & '06 Grants)	21,156,741	
Match Payments	0	
Cumulative Totals:		
Grant Payments	\$272,473,412	
Match Payments	54,613,955	
Match payments as a percent of federal Payments:	20.04%	

Please note that the above amount of match reported here is slightly lower than previously reported. This is the result of a reconciliation of CWSRF records to DEQ Business Office records. The difference was \$34,836, and has no impact on Oregon's compliance with the matching requirement.

The following graph illustrates the federal capitalization grants awarded to the CWSRF loan program since its inception:



The following schedule summarizes the FY 2005 disbursements, administrative expense and federal grant draws. It also documents the pace of the program, by indicating the ratio of federal funds drawn to total funds utilized over the life of the program.

TOTALS AT 6/30/2005

Total loan disbursements	\$398,527,313
Total administrative expense	9,992,642
Total funds utilization:	408,519,955
Total federal grant draws	251,316,671
Grant draws as a percent of total funds utilization:	61.5%

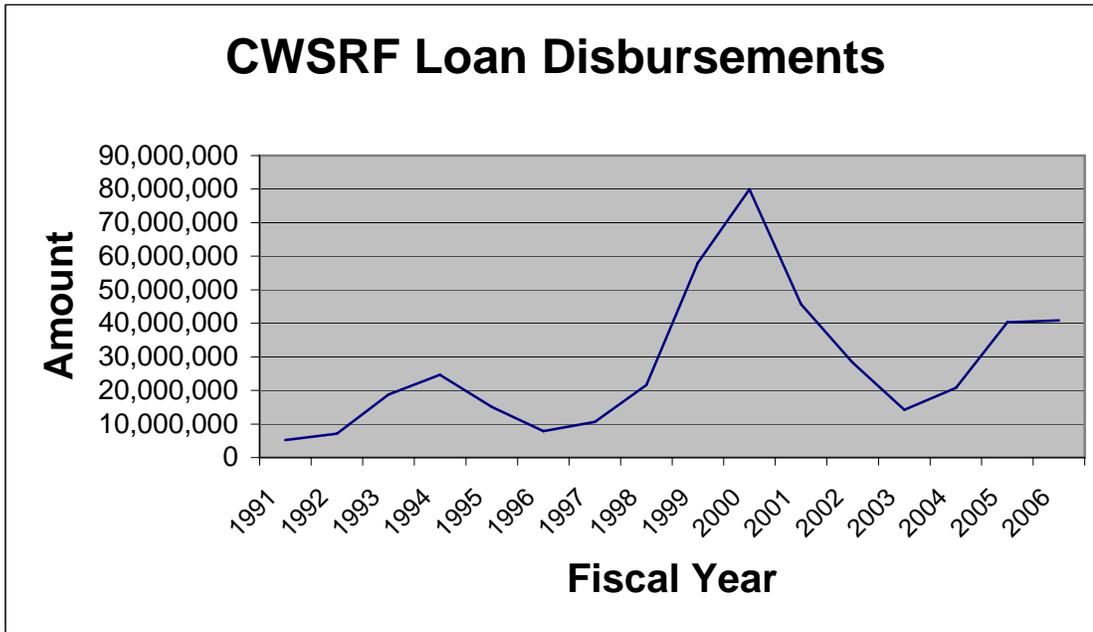
Fiscal Year 2006 Activity

Loan disbursements	40,893,006
Admin. Expense	854,918
Federal grant draws	17,503,720

Cumulative loan disbursements	\$439,420,319
Cumulative admin. expense	10,847,560
Cumulative total funds utilization	450,267,879
Cumulative federal grant draws	268,820,391

Grant draws as a percent of total funds utilization: 59.7%

The graph below illustrates the amount of loan disbursements processed during each fiscal year:

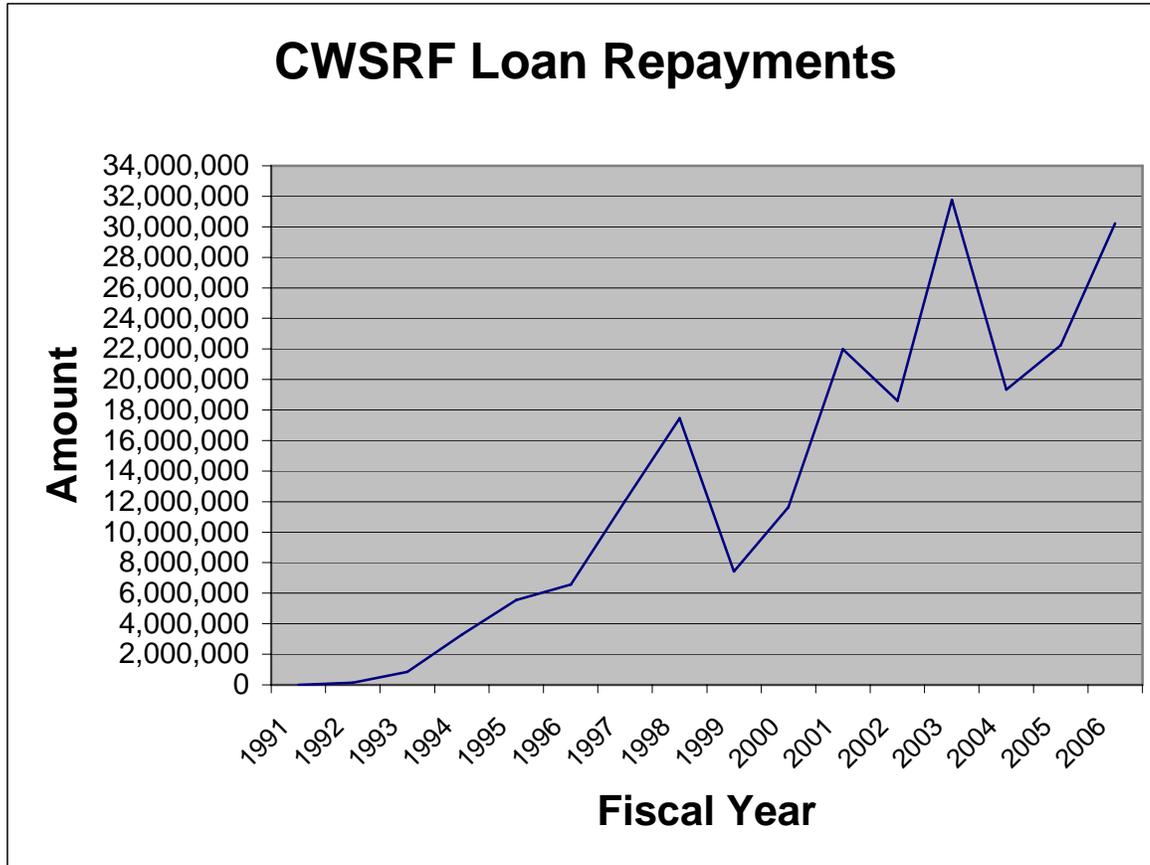


REFINANCING RULE EXCLUSION AND COMPLIANCE

The EPA rules define "refinancing" to include construction costs which have been incurred prior to the signing of the loan agreements. A cumulative exclusion amount of \$2,000,000 per year is available to offset these situations. When the cumulative exclusion is exceeded, payment of the "refinanced" costs will be made ratably over eight quarters. No loans were signed during fiscal year 2006 that financed construction costs that were already incurred.

	Refinancing Rule Exclusion
Exclusion Available as of 6/30/05	\$27,080,767
Plus FY 2006 Exclusion	2,000,000
Less FY 2006 Exclusion Used	0
Exclusion Available as of 6/30/06	\$29,080,767

The graph below illustrates the loan repayments (principal and interest) that the CWSRF loan program has received since its inception.



CWSRF FINANCIAL INDICATORS – FY 2006

The following schedule presents the Oregon CWSRF loan program success by documenting the calculation of six financial indicators as developed by the EPA/States Workgroup. These indicators attempt to show Oregon's progress toward funding as many water quality beneficial projects as possible while maintaining the program's equity in perpetuity.

ACTIVITY THRU JUNE 2006:**Indicator #1: Return on Federal Investment**

Shows the amount invested in water quality beneficial projects for each federal dollar invested (total loan disbursements/total federal draws (for loans and administrative costs))

(A) Total Loan Disbursements:	439,420,319
(B) Federal draws for loans:	259,956,771
(C) Federal draws for Admin:	8,863,620
(A)/(B+C)	163.46%

Indicator #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

(A) Amount of signed loan agreements:	595,165,372
(B) Cumulative Cap Grants:	272,473,412
(C) Cumulative State Match:	54,648,792
(D) Loan Principal Repaid:	142,686,593
(E) Operating Profit	
(1) Interest from loans:	66,451,806
(2) Interest from investments:	24,835,747
(3) Administrative Expense:	10,847,559
(F) Match Bond Payments from the SRF	22,748,505
(A)/(B+C+D+E1+E2-E3-F)	112.83%

Indicator #3: Percentage of Funds Disbursed to Closed Loans

Shows the amount of funds actually disbursed compared to the amount of signed loan agreements

(A) Total Loan Disbursements:	439,420,319
(B) Total Signed Loan Agreements:	595,165,372
A/B	73.83%

Indicator #4: Benefits of Leveraging

DOES NOT APPLY TO OREGON PROGRAM

Indicator #5: Perpetuity of Fund

Demonstrates whether the program is maintaining its contributed capital

(A) Interest on Loans	66,451,806
(B) Interest on Investments	24,835,747
(C) Fed. Admin. Allowance	10,898,936
(D) Actual Admin. Costs	10,847,559
A+B+C-D	91,338,930

A positive result indicates the Program is maintaining its capital base

Indicator #6: Estimated Subsidy - Current Fiscal Year

An estimate of the CWSRF interest rate subsidy, stated as a percentage of the market rate

(A) Estimated Market Int. Rate:	4.45%
(B) Average CWSRF Loan Rate:	2.80%
A-B	1.65%
(A-B)/A	37.1%

BINDING COMMITMENTS AND FUNDS AVAILABLE

EPA requires that the program execute binding commitments at least equal to the amount of funds available in the program, within one year of that fund availability. This schedule calculates the amount of funds available as of June 30, 2005, and compares that amount to the binding commitments executed as of June 1, 2006.

FUNDS AVAILABLE AS OF JUNE 30, 2005:

Total Federal Cap Grants Awarded	Total State Match Contributed	Total Principal Repayments	Total Interest Repayments	Total Investment Interest	(1) Total Early Principal Repayments FY 02 - 05	Total Transfers From Fees Fund FY 02 - 05	TOTAL FUNDS AVAILABLE
263,489,612	50,263,335	121,132,159	57,779,301	21,164,698	11,480,117	3,000,000	505,348,988

TOTAL BINDING COMMITMENTS AS OF JUNE 1, 2006:

595,165,372

BINDING COMMITMENTS AS A PERCENTAGE OF FUNDS AVAILABLE FROM 2005:

117.8%

(1) We have 3 years to commit early principal payments

Early Principal Repayments, FY 2002 - 2005:

Boardman 16200	2,161 FY 04
Gold Beach 37810	65,392 FY 03
Gresham 39180	630,445 FY 03
Gresham 39181	1,258,879 FY 03
Gresham 39182	976,179 FY 03
Gresham 39183	757,136 FY 03
Gresham 39184	1,543,576 FY 03
Gresham 39185	1,949,811 FY 03
Gresham 39186	3,296,588 FY 03
Hines 44630	2,961 FY 04
RUSA 78860	271,251 FY 03
Waldport 94340	2,700 FY 02
Waldport 94340	5,300 FY 03
East Fork ID 30140	249,205 FY 05
RVSS 14000	347,533 FY 05
RUSA 78860	121,000 FY 05

11,480,117

PROGRAM INCOME

Program income is defined to be income earned by the CWSRF that is directly attributable to receipt of federal grant money. In the CWSRF loan program this applies to fees collected on loans originally disbursed from federal grant money. Program income can be collected during a grant period (the time a grant is considered active by EPA), or can be collected after a grant period (since loan repayment generally continues for 20 years). The following schedules show the amount of program income from fees collected during and after grant periods, for each capitalization grant, during fiscal year 2006:

1989 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$0

1990 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$0

1991 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$0

1992 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$3,297

1993 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$63,478

1994 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$40,138

1995 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$49,774

1996 Cap Grant

Program Income from Fees, earned during grant period: \$0

Program Income from Fees, earned after grant period: \$80,361

1997 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$23,686

1998 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$60,549

1999 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$47,329

2000 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$41,016

2001 Cap Grant

Program Income from Fees, earned during grant period: \$15,680
Program Income from Fees, earned after grant period: \$43,458

2002 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$19,400

2003 Cap Grant

Program Income from Fees, earned during grant period: \$2,593
Program Income from Fees, earned after grant period: \$36,577

2004 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$11,705

2005 Cap Grant

Program Income from Fees, earned during grant period: \$541
Program Income from Fees, earned after grant period: \$0

2006 Cap Grant

Program Income from Fees, earned during grant period: \$0
Program Income from Fees, earned after grant period: \$0

Total FY 2006 program income from fees, during grant period: \$18,814
Total FY 2006 program income from fees, after grant period: \$520,768
Total program income, during grant period, since program inception: \$1,924,338

Total program income, after grant period, since program inception: \$3,348,940

INCOME FROM LOAN FEES & PAYMENT OF ADMINISTRATIVE COSTS

CWSRF loan programs are allowed to pay for the costs of administering the program with up to four percent of the capitalization grant funds each year. If a state chooses not to use grant funds for that purpose it may “bank” the four percent and use it at a later time. Oregon has chosen, beginning in December 2004, to use 100% of its grant funds to make loans, and to pay the administrative costs of the program using the loan fee charged on all our design/construction loans (except interim loans).

During FY 2006 we collected \$1,076,173 in fee revenue from our borrowers. As can be seen above, this included \$539,582 in program income, most of which was earned after the corresponding grant period. All of the FY 2006 administrative costs were paid from loan fee revenues. Following is a summary of loan fee activity during the year:

Beginning Net Assets in Fees Fund (6/30/2005)	\$5,166,557
Fees received during FY 2006	1,076,173
Interest credited by Treasury Dept.	215,887
Administrative expense, FY 2006 (see income statement)	854,918
Ending Net Assets in Fees Fund (6/30/2006)	\$5,603,699

Total administrative expense since program inception is \$10,847,559. Until December 2004 all administrative costs of the program were paid using the four percent allowed from the Capitalization Grant. Total administrative expenses paid from cap grants to that date were \$8,863,620. Since December 2004 we have incurred an additional \$1,983,939 in administrative expense, which has been paid solely from the loan fees charged our customers. The \$1,983,939 paid from fee revenues is considered allocated as follows: 1) \$1,924,338 from program income earned during grant periods, and 2) \$59,601 from program income earned after grant periods.

ACHIEVEMENT OF PROGRAM GOALS

The long-term and short-term goals identified in the FY 2006 Intended Use Plan are listed below with a discussion of activities related to each.

Long Term Goals

Goal #1: To protect public health and the waters of the state by offering financial assistance for water pollution control projects.

The Oregon Clean Water State Revolving Fund (CWSRF) continues to protect public health and Oregon’s waters through its financial assistance program. During FY 2006, the CWSRF program signed 16 new loans with local governments for water pollution abatement projects in

the total amount of \$51,488,406. Amendments to 14 existing loans increased project funding by \$15,657,891, bringing total FY 2006 project assistance to \$67,146,297.

The following table shows the amount of new loans and total net loan funding provided in each year of the program (including loan decreases).

Fiscal Year	# of New Loans		\$ in New Loans and Amendments	
	This Year	Cumulative	This Year	Cumulative
1989-1991	4	4	\$7,421,676	\$7,421,676
1992	22	26	22,004,798	29,426,474
1993	25	51	39,393,294	68,819,768
1994	5	56	10,214,683	79,034,451
1995	7	63	3,925,367	82,959,818
1996	12	75	40,017,705	122,977,523
1997	20	95	60,289,058	183,266,581
1998	22	117	89,961,162	273,227,743
1999	9	126	35,445,740	308,673,483
2000	4	130	18,141,807	326,815,290
2001	6	136	15,707,776	342,523,066
2002	8	144	30,152,111	372,675,177
2003	12	156	34,511,307	407,186,484
2004	24	180	68,586,641	475,773,125
2005	23	203	52,245,950	528,019,075
2006	16	219	67,146,297	595,165,372

Goal #2: To provide financial support for water quality improvements to all waters of the State.

The CWSRF strives to help improve the quality of Oregon’s water without regard to geography, size of borrower or type of project (point source, nonpoint source or estuary). During FY 2006 we provided total assistance of \$67,146,297, which can be categorized as follows:

Point Source:	\$66,346,297
Nonpoint Source:	800,000
Estuary:	0
Northwest Region:	\$26,723,881
Western Region:	38,406,275
Eastern Region:	2,016,141

Goal #3: To administer the Clean Water State Revolving Fund to ensure its financial integrity, viability and perpetuity as a source of financial assistance.

Through FY 2006 the Program has not experienced default on any of its loans. This helps to ensure the long term viability of the CWSRF fund. Loan interest rates remain below the market rate to meet the program goal of providing low cost financing.

Investment earnings are at the market rate of interest and are managed by the State Treasurer, as required by Statute. Earnings on cash balances contribute significantly to program growth, adding over \$24.8 million to capital through FY 2006. During FY 2006 investment rates averaged approximately 4.1%, adding \$3.46 million to the fund.

The cash flow model used by the program continues to provide a financially sound tool to maximize the loans made to communities while balancing the different factors that affect the timing of projects and disbursement of funds. We will continue to utilize this tool to ensure all our borrowers will have financial assistance when needed.

The program also continues to receive federal capitalization grants on an annual basis, and the State must provide matching amounts for those grants. Consequently, the Fund continues to grow as a result of the infusion of this new capital each year. Net assets of the Fund increased by \$30,341,980, to \$381,782,763.

Short Term Program Goals

Goal #1: To continue to maintain the revolving nature of the Fund and to maintain an active pace of disbursements in conjunction with the receipt of new funds and loan repayments.

Outstanding loans increased by approximately \$19,300,000 during FY 2006, as loan disbursements outpaced the repayment of loan principal by our borrowers. However, the amount of available cash on deposit with the State Treasurer's Office remains at a high level, and we believe that the program can revolve with an increased amount of loan disbursements while still maintaining its financial integrity. Disbursements during FY 2006 totaled \$40,893,006. We will continue to use our cash flow model to assist in maximizing future financial assistance while maintaining the financial stability of the Fund.

Goal #2: To provide funding to local communities to the maximum extent possible within the constraints of sound financial management, law and regulation.

The CWSRF Loan Program provided approximately \$67 million in financial assistance to Oregon communities during FY 2006. This amount includes \$2,837,064 in loan reductions due to communities using less than the original loan amounts to complete their projects. Without considering the loan reductions during FY 2006, total assistance provided (through new loans and loan increases) was \$69,983,361. We are hopeful that demand for CWSRF loan funds will continue to be strong in coming years.

Goal #3: To increase the number of loans for both nonpoint source and estuary management projects.

New administrative rules approved by the Environmental Quality Commission during FY 2003 will make the CWSRF loan program more accessible to those entities trying to complete nonpoint source or estuary projects. Interest rates have been reduced, fees were reduced, the project scoring criteria was modified to make it more equitable for nonpoint source and estuary projects, and a new loan type, the “sponsorship option”, was introduced, all to encourage Oregon communities to assist in reducing nonpoint source pollution. During FY 2006 there was one increase to a nonpoint source project loan executed, totaling \$800,000.

Goal #4: To make the CWSRF loan program more accessible to a wider range of water quality projects statewide.

The rule changes described under Goal #3 above were designed to help accomplish this objective. Also, CWSRF staff actively discuss our program with public agencies around the State, to promote the use of program funds for a variety of projects. During FY 2006 there was just one increase written for an existing nonpoint source loan, that being for an irrigation district.

During FY 2007 we anticipate additional activity in the nonpoint source loans. The City of Portland wishes to complete additional riparian revegetation around the City, and the City of Woodburn also wishes to complete similar work, and we have received a new application from an irrigation district in Central Oregon to remove irrigation water from open canals and deliver it in large diameter pipe.

Goal #5: To continue our participation with other state and federal programs in providing financial assistance to Oregon communities.

DEQ continues to work with other State agencies, in particular the Economic and Community Development Department (OECDD), as well as the federal Rural Utilities Service (RUS) to educate Oregon communities about the CWSRF Loan Program and its availability for finance of wastewater-related projects. A key component of this cooperation between the agencies is the One Stop Meetings, which allow local communities to meet with various State and Federal financing organizations to learn about the financing options that may be available for their projects. Our program intends to continue this partnership through FY 2007 and beyond.

LOAN PORTFOLIO AND ACTIVITIES

PROJECT SELECTION PROCEDURES

Letters of information and solicitation (in both paper and electronic form) are sent to all cities, service districts, and sanitary districts in the state annually. Any resulting completed applications are ranked and placed on the Priority List, based upon criteria in DEQ administrative rules.

As applications are received, they are funded in rank order if funds are available. When there are not enough funds for all of the projects that are ready to proceed, allocations of new funds are made on a competitive basis. The cash flow model is updated with the projected schedules for new loans to be sure that cash will be available when needed. During 2006 there were sufficient funds available to accommodate all requests for loans, so all applications for funds received either new loans or increases to existing loans. However, in FY 2007 we anticipate a demand for loans that will exceed the available supply of funds, which will necessitate an allocation of loans based on priority ranking.

The available funds are calculated annually in the Intended Use Plan considering all of the cash flow anticipated for the funding period. The maximum funding for any single borrower is calculated at 15% of the available funds (the maximum may be exceeded when no other requests for increases or unfunded applications are on hand). Reserve amounts are calculated as follows:

- (1) Small Community Reserve: 15% of available funds for communities with populations of 5,000 or less.
- (2) Facilities Planning Reserve: a maximum of \$3,000,000 will be available for facilities planning loans.
- (3) Expedited Loans Reserve: \$2,000,000, although this amount may be increased at the Department's discretion.

Increases for existing loans are funded first. After increases, applicable projects are funded from the reserves for Small Communities, Facilities Planning and Expedited Loans. The balance of available funds is used to finance all other projects that have completed applications in Priority List order. When the reserve funds have been depleted, Small Community, Facilities Planning and Expedited projects compete with all other projects for funding.

If more funds become available during the year based on the cash flow model, over and above the original available funds calculation, additional increases and new loans are funded in priority order.

PROJECT PRIORITY LIST CRITERIA

Projects are prioritized according to criteria set out in Oregon Administrative Rule. The citation for this portion of the rule is OAR 340-54-025, which is shown below.

Category 1: Proposed Project's anticipated benefit for water quality or public health

1A--(0 or 8 points)--Project addresses water quality or public health issue within a "special status" water body

1B--(0-6 points)--Project addresses noncompliance with water quality standards, a public health issue or effluent limits related to surface waters

1C--(0-6 points)--Project addresses noncompliance with water quality standards or a public health issue related to groundwater

1D--(0-12 points)--Project ensures that a source already in compliance maintains that compliance.

1E--(0-8 points)--Project improves or sustains aquatic habitat supporting state or federally threatened or endangered species

1F--(0-12 points)--Project incorporates wastewater reuse or a water quality-related conservation process

1G--(0-7 points)--Project improves water quality by mitigating any of the following pollutants: temperature, dissolved oxygen, contaminated sediments, toxics on the EPA Priority Pollutants List, bacteria or nutrients

1H--(0-5 points)--Project supports the implementation of a Total Maximum Daily Load (TMDL) allocation or action plan for a Ground Water Management Area

1I--(0-6 points)--Project addresses a water quality or public health issue involving "Persistent Bioaccumulative Toxics" (PBT's)

Category 2: Potential water quality or public health consequences of not funding the proposed project

2A--(0-5 points)--If the proposed project is not implemented, water quality standards are likely to be exceeded or existing exceedances are likely to worsen

2B--(0-5 points)--If the proposed project is not implemented, the resulting impact is likely to cause a public health problem

2C--(0-5 points)--A unique opportunity to implement the proposed project currently exists due to timing, finances or other limitations that would not allow this project to be implemented in the future

Category 3: Other considerations

3A--(0-3 points)--Project has significant educational or outreach component

3B--(0-3 points)--Project demonstrates innovative technology which is transferable

3C--(0-3 points)--Project is a partnership with other group(s), incorporating self-help, financial or in-kind support

3D--(0-5 points)--Project incorporates monitoring, reporting or adaptive management

3E--(0 or 1 point)--Project addresses or includes risk management, safety or security measures

3F--(0-minus 5 points)--Applicant's past performance with previous Department loans or grants such as, but not limited to, failure to satisfy match requirements of a grant, failure to complete the project or failure to submit any other required deliverable in a timely manner.

PROJECT INFORMATION

During FY 2006 15 projects, totaling \$60,516,216, were started and 8 projects, totaling \$9,835,050, were completed. During the same period there were 11 projects that required either an environmental review or received a categorical exclusion from such review. Five of those projects received categorical exclusions, five were required to complete environmental reviews, and one was required to complete a more extensive environmental assessment.

OTHER PROGRAM REQUIREMENTS

ENVIRONMENTAL REVIEW

Environmental review was completed on all Title II Equivalency projects. On these projects, DEQ reviewed all requests for categorical exclusions, environmental assessments and environmental impact statements submitted by CWSRF borrowers according to the requirements of the National Environmental Policy Act. After incorporation of any DEQ review comments, public comments were solicited through notices published in one statewide and one local newspaper of general circulation. Notices were also mailed directly to other state and federal agencies, and other interested parties.

In October 1999 the State's proposed Alternative Environmental Review Process was sent out for public review. In November 1999 the Procedures Manual, which includes the environmental

review process, was submitted to EPA for approval. EPA granted its approval of this document on November 17, 1999. The Procedures Manual is available on DEQ's web site, at the CWSRF Loan Program page: <http://www.deq.state.or.us/wq/wqgrant/wqgrant.htm>.

Environmental review of all projects signing loans after June 1997 has been consistent with this process. The core of the State Environmental Review Process (SERP) is the state's land use planning process. Additional requirements are addressed individually and through the facilities planning review process.

APPLICABLE FEDERAL AUTHORITIES AND LAWS

All State Revolving Fund projects receiving federal funds are required to comply with federal laws and authorities, as identified in the Initial Guidance of January 1988. Specific language agreeing to comply and a list of "cross-cutter" requirements is included in each loan agreement. Compliance is reviewed by each project officer. When all federal funds have been drawn and disbursed by the program, most of the federal "cross-cutter" requirements will be dropped from new loan agreements. In many cases, state laws provide similar requirements.

At the end of each fiscal year, all borrowers receiving disbursements during the year are sent a statement showing the funding sources of the disbursements. Compliance with the Single Audit Act and OMB Circular A-133 in the annual audit of the Borrower's financial statements is required if "first round" federal funds are "passed through" in loan disbursements. Our borrowers are considered to be Sub-Recipients for purposes of Circular A-133.

PUBLIC INVOLVEMENT

Public involvement is provided during development of the Intended Use Plan. Notices are sent to all Oregon jurisdictions, sanitary districts, and many engineering consultants of the opportunity to submit applications. All public agencies that submit CWSRF applications are sent excerpts of the draft Intended Use Plan, including the Priority List showing the project rankings. A public notice is published in the Daily Journal of Commerce and Business Journal notifying the general public of the document's availability for review. The complete draft Intended Use Plan is provided upon request. Public comments on the draft Project Priority List and Intended Use Plan are accepted during a thirty-day public review period, with revisions made as appropriate.

COMPLIANCE WITH TITLE II EQUIVALENCY REQUIREMENTS

Subsequent to June 30, 2005 Oregon has learned from EPA that the equivalency requirements have been met and Oregon is no longer responsible for requiring any CWSRF loan recipients to comply with these requirements.