

U.S. Environmental Protection Agency, Region 10



Program Evaluation Report

Oregon Department of Environmental Quality
State Fiscal Year 2000

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Executive Summary

On June 30, 2000, the Oregon Clean Water State Revolving Fund (CWSRF) assistance portfolio consisted of 129 loans with a balance (including deobligations) of \$326,815,290. Most CWSRF assistance thus far has been used for facility plans or construction of wastewater treatment projects, of which 95 have initiated operations. During state fiscal year (SFY) 2000, approximately \$15 million in new principal repayments, interest payments, and fund interest came into the Fund to support new project activity. During SFY00 DEQ continued implementing a revised method of operating the fund that allowed it to “sign” all available funds. DEQ completed binding commitments for slightly over \$18.1 million. The principal strengths in Oregon’s CWSRF include:

1. An experienced and competent staff in both DEQ’s central office and its regional offices is carrying out the program. The Department’s ability to carry out the program effectively and deal expeditiously with pending issues should be improved considerably through the very recent hiring of a new Clean Water Revolving Fund Coordinator, Larry McAllister.
2. The program’s use of a cash flow model to determine the volume of new loans that can be safely completed each calendar quarter 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.
3. 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.
4. The program continues to use effective loan portfolio management practices to minimize the potential for borrowers to default on their loans.
5. The program has made significant improvements towards MBE/WBE compliance.
6. Finally, EPA would especially like to recognize the incredible job Rick Watters has done to not just maintain, but improve, the CWSRF program in Oregon. During the past three years the CWSRF program has had four different statewide Program Managers and months at a time without any statewide Program Manager. During this time Rick has consistently provided EPA with any information requested, made changes to the program based on recommendations, brought the program into compliance with MBE/WBE requirements, and managed to turn Oregon into the fastest paced CWSRF program in Region X.

The Environmental Protection Agency's review also found a few issues where additional action by Oregon DEQ would be appropriate.

1. During the past several years EPA has been reviewing three or four project files during the annual Performance Evaluation Visit. The majority of problems we've found are a result of inadequate records management. The issue of file maintenance has become quite problematic as several documents and certifications have been found to be missing. There does not appear to be any uniformity as to which documents, certifications, checklists, and other records are kept in the file. Adequate records Management is an important part of the program, a grant condition, and something that DEQ agreed to in the Oregon CWSRF Operating Agreement (dated 4/30/95) page 12. DEQ must standardize its file maintenance procedures and ensure that all project officers are maintaining the proper documents in the file until the repayment period ends.
2. Oregon has historically limited its CWSRF to making loans to finance publicly owned wastewater treatment works projects. As in many other states, nonpoint sources such as agriculture and urban/suburban runoff are significant contributors to the state's water quality problems and, in many cases, are the primary causes for streams being listed as water quality limited under §303(d) of the Clean Water Act. EPA recommends that Oregon develop a new nonpoint source water pollution abatement strategy and work with the Environmental Finance Center (EFC) or an Environmental Advisory committee, as needed, to allow a broader range of potential water pollution abatement projects.
3. The Oregon CWSRF program has historically guaranteed projects automatic increases for life, regardless of total project cost, once a project has obtained an initial CWSRF loan. While this practice had no adverse impacts when the program couldn't spend all its money, the past couple of years have shown fewer and fewer new projects funded due to the number of existing projects requiring increases. EPA would like to suggest DEQ reevaluate the decision to always provide automatic increases to existing projects and consider additional information such as the size or wealth of a community, a community's ability to go to the bond market for some of the necessary funding, the total amount of money necessary to complete a project, or other such considerations.

Introduction

This Program Evaluation Report (PER) summarizes the results of an annual performance review of the Oregon Clean Water State Revolving Fund (CWSRF) conducted by the U.S. Environmental Protection Agency (EPA), Region 10 for State Fiscal Year 2000 (SFY00). The review is based on several critical elements:

1. The SFY00 Annual Report submitted by the Oregon Department of Environmental Quality (DEQ) for the fiscal year ending June 30, 2000;
2. The Clean Water State Revolving Fund Intended Use Plan for SFY99 and SFY00 for the Oregon Clean Water State Revolving Fund;
3. The SFY99 Performance Evaluation Report (PER) sent to Oregon DEQ September 2000;
4. An EPA review of Oregon CWSRF related documents in the EPA grant files maintained by the EPA Regional Office and of data maintained in EPA's National Information Management System (NIMS) with the assistance of the states;
5. A review by DEQ staff of the draft of this report;
6. A review of the DEQ project files for four CWSRF loans managed out of the DEQ Northwestern, Western, and Southwestern Regional Offices;
7. An on-site review (the Program Evaluation Visit [PEV]) held from April 23 - 26, 2001 during which the EPA staff reviewed and discussed program issues with the staff of DEQ.

Scope of the Review

The annual review examined the performance of the Oregon Clean Water State Revolving Fund during State Fiscal Year 2000. We reviewed the legal, managerial, technical, financial and operational capabilities and performances of the program. We paid specific attention to DEQ's compliance with the terms of the Operating Agreement, grant conditions, certifications and assurances, adherence to specific proposals, progress towards stated goals and objectives, and the number of projects necessary to eliminate equivalency requirements. We also focused on the pace of the program, Intended Use Plan development, future administration of the program, fund perpetuity, the efforts of the program to improve its ability to make loans for nonpoint source water quality projects and estuary management related projects, and file reviews of the Albany, Aurora, Gold Beach, and Sisters Hardship Grant project files.

DEQ Program Summary

The State of Oregon received its initial capitalization grant in 1989, and its tenth and most recent grant on March 1, 2000 for \$15,161,256. Through June 30, 2000, the CWSRF has received a total of \$191,297,030. The program funding is summarized as follows:¹

Grant ID No.	Amount	Cash Draws as of June 30, 1999	Cash Draws during SFY 2000	Total Cash Draws as of June 30, 2000	Available Balance as of June 30, 2000
CS-00410001-89	10,655,073	10,655,073		10,655,073	-
CS-00410001-90	11,021,373	11,021,373		11,021,373	-
CS-00410001-91	23,183,622	23,183,622		23,183,622	-
CS-00410001-92	21,949,191	21,949,191		21,949,191	-
CS-00410001-93	21,712,581	21,712,581		21,712,581	-
CS-00410001-94	13,472,415	13,472,415		13,472,415	-
CS-00410001-95	13,914,054	13,914,054		13,914,054	-
CS-00410001-96	22,791,123	22,201,207	589,916	22,791,123	-
CS-00410001-97	7,011,959	5,924,502	967,639	6,892,141	119,818
CS-00410001-98	15,211,548	-	14,603,086	14,603,086	608,462
CS-00410001-99	15,212,835	-	14,604,322	14,604,322	608,513
CS-00410001-00	15,161,256	-	14,554,806	14,554,806	606,450
Totals	191,297,030	144,034,018	45,319,769	189,353,787	1,943,243

The Oregon CWSRF operates as a direct loan program. As of the end of SFY00, it had made binding commitments totaling \$326,815,290 for 119 projects. All of this amount has been committed to Clean Water Act §212 projects such as wastewater treatment projects and combined sewer overflow control projects. Of these 119 projects, 95 with a value of \$142,179,537 have completed construction and initiated operations as of the end of SFY00. Fifteen additional projects were under construction as of the end of SFY00. The remaining 9 projects had not started construction as of the end of SFY00.

The fund reserves up to 10% of the available funds on an annual basis for facility planning loans. It also reserves up to 15% of the available funds on an annual basis for loans to small communities, defined as those with populations of less than 5,000.

Facility planning loans are offered for a five-year term at a rate that is one-half of the current average rate for state and local bond issues. Design and construction loans are offered with maturities of five to twenty years at a rate that is two-thirds of the average rate for state and local bond issues.

¹ Source: SFY00 Annual Report, IFMS report.

The costs of administering the CWSRF are paid for with money drawn from the Fund. The Clean Water Act allows states to use money from the Fund up to an amount equal to 4% of the cumulative EPA capitalization grant awards. Through the end of SFY00, Oregon had used \$5,780,900 or 3.0% of the total EPA capitalization grants awarded to date. In SFY00, Oregon used \$742,913 for administrative purposes. Beginning with loans signed after December 31, 1992, DEQ started assessing a one-time loan origination fee of 1.5% of the loan amount and an annual loan servicing fee equal to 0.5% of the outstanding balance on the loan. The origination fee is due as a part of the first loan payment, which consists of this fee plus all loan interest that has accrued during project construction. The annual loan servicing fee commences with the second loan payment, which is when principal repayments begin. These loan fees are accumulating in a separate account, which will be used to pay program administrative costs after federal capitalization grants have ended. As of the end of SFY00, this account held a balance of \$1,355,000.

The grantee has been the Oregon Department of Environmental Quality (DEQ). The State's 20 percent match is provided from the proceeds of state bond sales. Historically these "match bonds" have been amortized with Oregon State Lottery revenues.

SFY99 PER Update

Based upon our review, in the SFY99 PER we recommended the following improvements to the CWSRF:

1. *During the FY98 program review (PEV), FY98 performance evaluation report (PER), and the FY99 PEV, EPA stated that Oregon was not fulfilling its MBE/WBE obligations. Loan recipients and contractors must show proof that they have pursued all Six Affirmative MBE/WBE Steps (40 CFR 31.36(e)). Oregon must list the Six Affirmative Steps and the Fair Share Goals explicitly in all of its loan documents and construction manuals and insure that Loan Recipients include them in their bid documents.*

During SFY00 DEQ updated the loan agreement and construction manual to explicitly state the six affirmative goals and list websites where applicants and contractor can find MBE/WBE companies. Rick Watters, the OR CWSRF Financial Analyst, has instructed regional project officers to spend more time dealing with communities and explaining the MBE/WBE requirements to them. DEQ is close to attaining full compliance with the Federal MBE/WBE requirements.

2. *During the past several years EPA has been reviewing three or four project files during the annual Performance Evaluation Visit. The majority of problems we've found are a result of inadequate records management. The issue of file maintenance has become quite problematic as several documents and certifications have been found to be missing. There does not appear to be any uniformity as to which documents, certifications, checklists,*

and other records are kept in the file. Adequate records Management is an important part of the program, a grant condition, and something that DEQ agreed to in the Oregon CWSRF Operating Agreement (dated 4/30/95) page 12. DEQ must standardize its file maintenance procedures and ensure that all project officers are maintaining the proper documents in the file until the repayment period ends.

During the PEV, EPA and DEQ discussed DEQ's file management problem. DEQ committed to prepare a uniform file management system that all regional project managers would be able to follow. The file management system will detail all documents, forms, certifications, and other related paperwork that must remain in the project file until such time as the loan has been fully repaid.

- 3. Oregon has historically limited its CWSRF to making loans to finance publicly owned wastewater treatment works projects. As in many other states nonpoint sources such as agriculture and urban/suburban runoff are significant contributors to the state's water quality problems and, in many cases, are the primary causes for streams being listed as water quality limited under §303(d) of the Clean Water Act. EPA recommends that Oregon develop a new nonpoint source water pollution abatement strategy and work with the State Legislature to modify the state's legislation, as needed, to allow a broader range of potential water pollution abatement projects.*

Oregon did not make any loans to nonpoint source or estuary management projects during the fiscal year. DEQ proposed an amendment to House Bill 2149 which would allow CWSRF money to "pass through" a public entity to a private entity. The proposed amendment was never scheduled for a legislative hearing. Though DEQ had made arrangements to work with Bill Jarocki and Paul Woods of the Environmental Finance Center (EFC) during SFY2000, it appears the departure of Tom Meek, the CWSRF Program Manager, adversely impacted that endeavor. The EFC and DEQ had planned to establish a committee to look into and establish CWSRF policy changes so that nonpoint source and estuary management projects may be funded. The EFC is still willing to work with DEQ on this issue and EPA hopes this collaborative effort may yet occur.

Review of Financial Management Practices

The Clean Water Act, the CWSRF program regulations at 40 C.F.R. 35.3100 et. seq. and the Operating Agreement include a series of requirements that speak to how a Clean Water State Revolving Fund program manages the funds that are under its care. This portion of the report discusses how the CWSRF has addressed those requirements.

Acceptance of Grant Payments, 40 C.F.R. 35.3135(a)

For SFY00, the State agreed to accept grant payments in the increments shown in the table below. This table also shows the quarterly cash draws from the EPA Automated Clearinghouse Payment System (EPA-ACH).²

TABLE 2: PAYMENTS				
Federal Period	Grant Payments	Cumulative Grant Payments	Quarterly Cash Draws	Cumulative Cash Draws
FY99 Q4	15,317,966	168,529,357	15,013,599	158,950,030
FY00 Q1	15,187,045	183,716,402	15,349,990	174,300,020
FY00 Q2	7,580,628	191,297,030	2,526,271	176,826,291
FY00 Q3	-	191,297,030	12,429,909	189,256,200
Period Totals	38,085,639		45,319,769	

The entire payment schedule, including past payments for all grant awards, is included in Attachment I.

State Match, 40 C.F.R. 35.3135(b)

As noted in the program summary, above, the state contributes match from the proceeds of state bond sales. The table below summarizes the match contributions that Oregon has made to its CWSRF, including the contributions made during SFY99. The table demonstrates that Oregon continues to be “current” in contributing the amount of matching funds required by the Clean Water Act.³

TABLE 3: STATE MATCH COMPLIANCE						
	Total Federal Payments at 6/30/99	Total Match at 6/30/99	Match %	Total Federal Payments at 6/30/00	Total Match at 6/30/00	Match %
Period Totals	145,711,391	29,142,278	20%	191,297,030	38,259,407	20%

Binding Commitments, 40 C.F.R. 35.3135(c)

The Clean Water Act requires that one year after a CWSRF has taken a payment for its fund, it must have completed cumulative binding commitments for new loans in an amount equal to 120% of the cumulative grant payments. As of 30 June 1999, DEQ had taken grant payments totaling \$153,211,391. As of 30 June 2000 (one year later), it had completed binding commitments for \$326,815,290 in projects or 213% of the prior year’s cumulative payments. Approximately \$18.1 million in binding commitments were completed in SFY00.

² Source: Clean Water State Revolving Fund (CWSRF) National Information Management System (NIMS) data.

³ Source: SFY 2000 Annual Report.

The following figures show DEQ's performance with regard to binding commitments over the years.⁴ Cumulative results are shown in Attachment I.

Figure 1

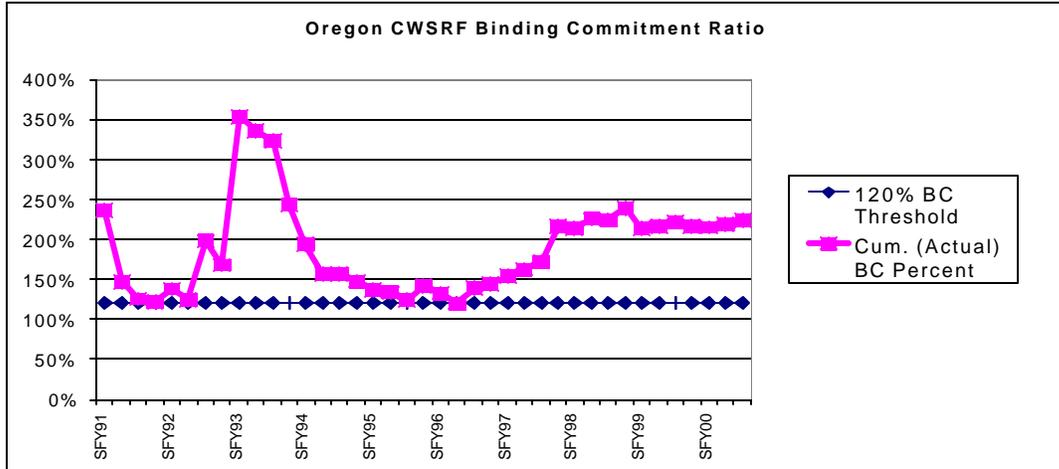
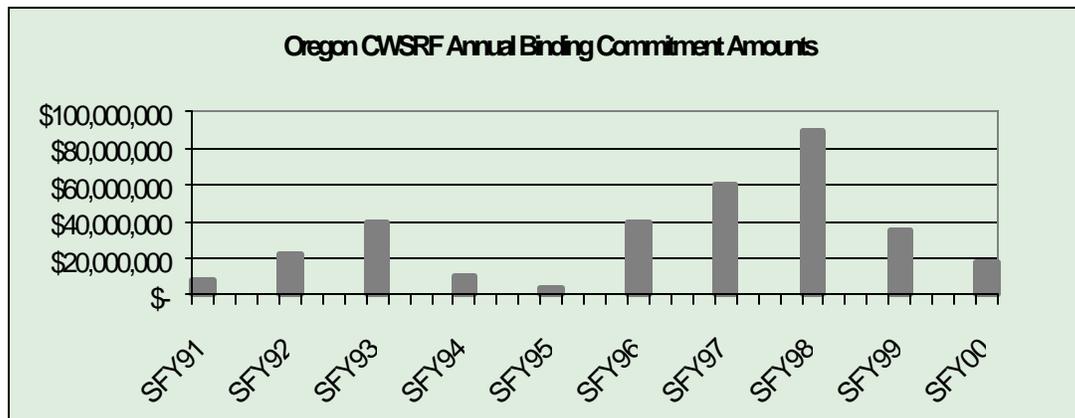


Figure 2



Timely and Expedient Use of Funds, 40 C.F.R. 35.3135(d)

The Clean Water Act and the CWSRF program regulations require that states use the funds available to their CWSRFs in a timely and expeditious manner. This requirement is aimed at (a) getting projects under construction and completed quickly and (b) insuring that revenues accruing to the funds (repayments and interest

⁴ Source: CWSRF NIMS

earnings) are committed to new projects within a reasonable period of time. During SFY00, Oregon made cash draws from the EPA-ACH for project and administrative assistance totaling \$45.3 million, drawing (using) all its remaining CWSRF federal funds except for the 4% administrative portion. Oregon has now begun to fund CWSRF projects with “revolved” money from repayments and interest.

One manner in which to track EPA-ACH expenditures is as a percentage of capitalization grants awarded. As of June 30, 2000, the CWSRF had only \$2 million in awarded but undrawn Federal funds (compared to \$16 million a year prior). This equates to this program having expended roughly 99% of capitalization grants awarded.

Another dimension to the timely expenditure of funds requirement is the overall pace of the program, i.e., how fast does a revolving fund commit and expend not only first round funds but second and subsequent rounds as well. As shown in Table 4 below, as of June 30, 2000, the State had \$78,913,502 in loan principal repayments, loan interest payments, and interest earnings invested in the Oregon Treasury investment pool.⁵ This amount continues to accrue and provide financing beyond what has been provided through capitalization grants.

TABLE 4: CUMULATIVE LOAN COLLECTIONS AND INTEREST EARNINGS ON INVESTMENTS AS OF JUNE 30, 2000				
	Principal	Interest (Loans)	Interest (Fund)	Total
Through SFY99	43,737,185	9,612,719	10,561,791	63,911,695
SFY00	8,408,931	3,221,102	3,371,774	15,001,807
Total	52,146,116	12,833,821	13,933,565	78,913,502

In addition, the tables below portray the Oregon CWSRF's performance with regard to two program pace measures.⁶

TABLE 5: PACE OF LOAN ISSUANCE			
	Through SFY98	Through SFY99	Through SFY00
Total Project Assistance Provided*	273,227,743	308,673,483	326,815,290
Total Project Funds Available**	237,601,820	248,952,130	301,172,914
Pace of Loan Issuance Ratio (Oregon)	115%	124%	109%
Pace of Loan Issuance Ratio (U.S.)	86%	86%	89%

* This is virtually the same as Total Binding Commitments, except that this definition is intended to include adjustments due to refinancing of short-term and long-term debt.

** In this case, equal to cumulative federal and state contributions, plus repayments of loan principal and interest and interest earned on the fund balance.

⁵ Source: CWSRF NIMS

⁶ Source: CWSRF NIMS

TABLE 6: PACE OF CONSTRUCTION			
	Through SFY98	Through SFY99	Through SFY00
Total Project Disbursements***	111,135,696	169,215,985	249,157,967
Total Project Funds Available	237,601,820	248,952,130	301,172,914
Pace of Construction Ratio (Oregon)	47%	68%	83%
Pace of Construction Ratio (U.S.)	70%	72%	74%

*** This line describes disbursements for project assistance only (administration disbursements are not included).

Perpetuity, 40 CFR 35.3100 (a)

SRF programs are to be designed and operated so that the SRF will continue to provide assistance for water pollution control activities in perpetuity. The financial statements presented in the SFY98 and SFY99 CWSRF Annual Reports and various other state and EPA-generated reports were analyzed in an effort to assess the financial integrity and ability to operate in perpetuity. Based on that analysis, the Oregon CWSRF appears to be complying with the perpetuity requirements of the SRF program, i.e. the corpus of capitalization grants and State match funds deposited into the CWSRF continue to be maintained and should be available for future projects.

Ratio Analysis

Management of the CWSRF has little control over earnings rates from investments. It does, of course, control overall earnings to the extent that funds remain in investments (rather than being revolved out as new loans). Table 7 demonstrates that for the past three years the Oregon CWSRF has maintained a return rate on cash deposited with the State Treasurer that is roughly consistent with the NIMS Upper Quartile (UQ) return rate of similar CWSRF programs around the country.⁷ This is of particular importance when reviewing the results from the next table, which shows the loan yield.

TABLE 7: INVESTMENT YIELD					
Fiscal Year	Investment Earnings	Rate of Return	NIMS UQ	NIMS Median	NIMS LQ
SFY98	2,840,725	5.7%	5.4%	4.7%	3.9%
SFY99	3,259,021	5.1%	4.8%	4.3%	3.6%
SFY00	3,371,774	5.8%	5.3%	4.8%	3.9%

Table 8 below compares the yield on the loan portfolio for the past two years to the annual increases in construction costs measured by the Engineering News Record Construction Cost Index (CCI), as well as the loan yields from similar CWSRF programs in the NIMS database.⁸ The yield for SFY00 was virtually unchanged from that of SFY99, but failed to keep pace with the CCI. In future years

⁷ Source: NIMS data.

⁸ Source: NIMS data, annual reports, CCI data (adjusted to SFY)

CWSRF staff will need to carefully balance the desire to provide low cost financing with the need to protect Fund perpetuity.

TABLE 8: LOAN YIELD							
SFY	Loan Interest Earnings	Avg. Loans Outstanding	Rate of Return	CCI*	NIMS UQ	NIMS Median	NIMS LQ
1998	1,907,566	71,697,439	2.7%	2.1%	3.1%	2.7%	1.6%
1999	1,964,364	102,376,103	1.9%	2.1%	3.4%	2.6%	1.9%
2000	3,221,102	164,200,348	2.0%	2.8%	3.3%	2.7%	1.8%

Another method of evaluating management of funds is to look at the growth rate of the Oregon CWSRF Fund. In table 9 below, the growth rate for the past two years is compared to similar program data from NIMS.⁹ As can be seen the growth rate for both SFY98, SFY99, and SFY00 exceeds even the NIMS UQ. This would seem to allay some of the concern raised by the previous table. In other words, while the loan yield failed to keep pace with the CCI, the Fund itself is growing from strong earnings on investments, and growing at a more robust pace than other similar CWSRF programs around the country.

TABLE 9: INTERNAL CAPITAL FORMATION						
Fiscal Year	Net Income	Prior Period Retained Earnings	Growth Rate	NIMS UQ	NIMS Median	NIMS LQ
SFY98	4,629,789	7,365,270	63%	56%	40%	33%
SFY99	6,157,194	11,995,059	51%	42%	35%	27%
SFY00	8,991,607	18,152,253	50%	41%	28%	22%

The EPA/States Workgroup has developed a set of six financial indicators, related to both program pace and fund perpetuity. The salient indicators for Oregon (one relates to leveraging and therefore is not included) are compiled on a quarterly basis by Oregon CWSRF financial analyst Rick Watters and shared with the Region. The indicators for SFY00 are presented in Table 10 and, as expected, appear to show only positives.

Underwriting

The steps that DEQ takes in reviewing the financial condition of each loan applicant could well be used as a model for other states. DEQ reviews each loan application and using the information contained within, completes two financial spreadsheets. One spreadsheet calculates a series of ratios (interest coverage, debt service safety margin, total assets to total liabilities, among others) and is used to compare the applicant to other borrowers. The second spreadsheet calculates the type of ratios that a bond rating agency would look at, such as the ratio of the unreserved general fund to general fund expenditures, the ratio of intergovernmental revenues to total revenues, debt coverage, ratio of accounts

⁹ Source: Annual Reports, NIMS data

receivable collection, population growth, unemployment rate, and per capita income, among others. These ratios are then compared to a standardized “score.”

TABLE 10: CWSRF EPA/STATE WORKGROUP FINANCIAL INDICATORS	
#1 Return on Federal Investment	
	Through SFY00
Total loan disbursements	251,313,450
Federal loan draws	184,235,353
Federal admin. draws	5,194,175
Return on Federal Investment Ratio	132.67%
#2 Percent of Signed Loans to Funds Available for Loans	
Amount of signed loan agreements	326,815,290
Cumulative cap grants	191,297,030
Cumulative state match	38,259,407
Loan principal repaid	52,417,123
Operating profit	
Loan interest	13,927,123
Investment interest	14,213,242
Administrative expense	(5,836,833)
Signed Loans to Funds Available Ratio	107.41%
#3 Percentage of Funds Disbursed to Signed Loans	
Total loan disbursements	251,313,450
Total signed loan agreements	326,815,290
Funds Disbursed to Closed Loans Ratio	76.90%
#4 Perpetuity of Fund	
Loan interest	12,833,822
Investment interest	13,933,565
Federal administration allowance	7,651,881
Actual administration costs	(5,784,380)
Fund Perpetuity Measure	28,634,888
#5 Estimated Subsidy	
Estimated market interest rate	5.45%
Average CWSRF loan rate	3.37%
Estimated Subsidy	38.2%

Rules of Cash Draw, 40 C.F.R. 35.3155(d) and 35.3160

During the fiscal year the State requested cash draws for \$45,319,769, for a cumulative total of \$189,256,200. The regulations require that cash disbursed to borrowers be drawn proportionately from the EPA capitalization grants and the state's matching contributions. The table below shows that DEQ continues to comply with this requirement.¹⁰

Table 11: PROPORTIONALITY			
	Through SFY98	Through SFY99	Through SFY00
Total Project Disbursements	111,135,696	169,215,985	249,157,967
Federal Cash Draws for Projects	90,674,938	138,911,649	183,475,300
Non Federal Portion of Disbursements	20,460,758	30,304,336	65,682,667
Federal Cash Draws as a % of Disbursements	81.59%	82.09%	73.64%

Table 11 also provides an example of the importance of the “additional” source of financing available to the CWSRF, and how Oregon is beginning to tap into it more fully. As you can see, the percentage of cash draws from the ACH for project disbursements declined dramatically in SFY00, indicating that the reliance on loan repayments, interest payments, and investment interest as a source for additional loans is increasing. Further evidence of this is found by looking at the disbursements for loans during SFY00 of nearly \$80 million; only \$44.5 million of which were federal cash draws.

Outlay Management, 40 C.F.R. 35.3155(b)

EPA HQ no longer requires annual estimates of cash outlays. The “driver” now for tracking cash draws is the quarterly payment schedule that accompanies each capitalization grant application. States are allowed to make cash draws up to the ceiling each quarter, and need to revise the payment schedule if draws will be higher than the payment ceiling. At no time in its history, including SFY00, has Oregon’s program ever exceeded the quarterly payment schedule.

Generally Accepted Accounting Principles (GAAP), 40 C.F.R. 35.3135(h)

The states are required to use Generally Accepted Accounting Principles in maintaining the financial records for their Clean Water State Revolving Funds. Oregon’s CWSRF is included in the Single Audit Act audit conducted by the Oregon State Division of Audits. However, consistent with the SRF audit strategy whereby SRF programs that do not conduct a separate annual audit are subject to periodic audits by the EPA Office of Inspector General (OIG), an OIG audit was performed for the period ending June 30, 1998. In addition, the OIG has contacted Oregon to conduct another audit, likely to occur in calendar year 2001.

¹⁰ Source: CWSRF NIMS

Review of Project Management Practices

The Clean Water Act and the CWSRF program regulations also contain a series of requirements that address how Clean Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. Our review of those aspects of the Oregon CWSRF program for SFY00 is discussed in this section of the Program Evaluation Report.

Field Inspections and File Review

During the on-site review, project files for Albany (R-10510), Aurora (R-11860), Gold Beach (R-37810), and the Sisters Hardship Grant (R-85050) were reviewed. In addition to observations noted later in this report, the following is a brief summary of the file reviews for these projects.

City of Albany, R10510

On April 28, 1992 the City of Albany received a loan of \$5,837,776 at 3% interest for the North Albany Health Hazard Area Sewer Project. The final revised loan, as amended, was for \$5,202,059. The North Albany Health Area Sewer Project consists of the construction of 28,100 linear feet of interceptor sewers, 57,600 linear feet of collector sewers, and the disconnection and demolition of the Riverview Heights Subdivision sewage treatment facility. The sewers to be constructed will provide sanitary sewage collection service to the Health Hazard Area and the adjacent Country Villa Subdivision by connecting these areas to the existing City of Albany sewage collection system. Collected wastewater will be transported to the Albany treatment facility for treatment and disposal.

The project was funded with an EPA grant, CWSRF Loan, CDBG grant, and local assessments. The Army Corps of Engineers was responsible for administering the EPA grant. Initiation of Operations took place on November 30, 1992, and the SRF Construction Certification Form was completed on December 15, 1993.

This project is one of the projects submitted by DEQ as having fulfilled equivalency requirements. All necessary procedures were taken and documentation present. Project counts for equivalency.

City of Aurora, R11860

January 1996 the City of Aurora received a loan of \$90,000, later amended to \$50,000, for an Engineering Feasibility Study and a Facility Plan for wastewater collection and treatment in a community currently served by private septic systems. Septic tanks and private drainfields were the sole means of wastewater disposal in

and around Aurora. Although the incidence of reported septic tank malfunctions had not yet led to a decision by the DEQ to impose a municipal wastewater system on the City of Aurora, and no such imposition was anticipated during the next few years, the incidence of septic system failure had been significant, and the DEQ had notified at least one commercial business in the City to provide improved wastewater treatment.

The purpose of the wastewater facilities planning process had been to identify cost-effective sewer collection, treatment, and discharge facilities and to formulate a process through which the City could afford to implement the planned improvements.

The Aurora Wastewater Facilities Improvement Project was targeted as a pilot study for an unusual approach to constructing a completely new wastewater collection, treatment, and discharge system. Using a format called the Small Towns Environment Program developed at the Rensselaerville Institute in Rensselaerville, New York, and with the assistance and support of the Oregon Department of Environmental Quality, the City of Aurora developed an approach to the construction of portions of its wastewater facilities that will include the use of volunteers and City employees.

City of Gold Beach, R-37810

On July 25, 1991 the City of Gold Beach received a loan of \$137,669 at 3% interest for the Myrtle Acres/East Quarry Road Project. The Myrtle Acres Project consists of design and construction of a gravity sewer system including services, monitoring, and other appurtenance in the Myrtle Acres and East Quarry Road areas of the City. The project addresses an existing health hazard problem associated with failing septic systems in the Myrtle Acres area.

The project began with an EPA Construction Grant and was completed with a CWSRF Loan. The Army Corps of Engineers was responsible for administering the EPA Construction Grant. Initiation of Operations took place on October 12, 1990, and the one-year performance certification was issued September 19, 1991.

DEQ's regional project manager, Joseph Edney, conducted exemplary oversight of this project. This project can serve as a superb example of environmental and social cross-cutting review and MBE/WBE documentation that should be present in all project files. The Gold Beach project is one of the projects submitted by DEQ as having fulfilled equivalency requirements. All necessary procedures were taken and documentation present. Project counts for equivalency.

City of Sisters Hardship Grant/Loan, R-85050

The City of Sisters, Oregon received both an Oregon Water Pollution Control Revolving Fund loan (for \$42,080) and an EPA Clean Water Revolving Fund Hardship Grant (for \$238,455) to plan and design a community wastewater collection, treatment and disposal system. The system the town is building includes collection, a pump station, aeration ponds, and land application of the treated effluent.

A substantial piece of the puzzle that community leaders and project planners had to solve to keep the project reasonably affordable was the land acquisition. The piece of property chosen for the wastewater treatment plant was 160 acres of land owned by the USDA Forest Service. Initially planners thought that the Forest Service could simply transfer the land to the community under the Townsite Act, saving the community a large sum of money. Indeed, the city's mayor made two trips to Washington, D.C. to present the city's case before congressional hearings on the issue. Reimbursement for the costs of these two trips, totaling more than \$5,000, was requested and paid for by payments from both the CWSRF loan and the hardship grant. After review by EPA Region 10 and EPA HQ, these costs are determined unallowable, and the city must pay back this amount to the Oregon CWSRF.

In addition, under the regulations governing the CWSRF, the acquisition of land is allowable only if it is integral to the treatment process. By extension, this would include activities related to the acquisition of land, including land appraisals and environmental assessments. By the narrow definitions of CWSRF-eligible treatment processes, the land acquisition for treated waste storage lagoons is not CWSRF-eligible, even though the liner for such a lagoon, and the land application of treated effluent from such a lagoon are both CWSRF-fundable. Because of this eligibility issue, the following amounts also need to be repaid to the Oregon CWSRF by the City of Sisters:

For the land appraisal, a total of \$1,181 should be paid back, based on the following calculation. Sisters paid Bancroft Appraisal \$15,750 to appraise two possible sites, so half of the appraisal cost or \$7,875 is assigned to the site eventually chosen. Of that 160 acre site, 24 acres (15%) were to be used for a wastewater storage lagoon. This portion of the land acquisition costs are ineligible. Therefore, 15%, or \$1,181 must be repaid.

For the costs of preparing the EA, the same proportional logic applies, with the difference that the EA was conducted only for the 160 acre parcel. Therefore, 15%, or \$4,500 of the costs of the EA are also disallowed and must be repaid.

The total amounts to be repaid to the Oregon CWSRF from this project are:

Travel to Washington D.C.	\$5,136
Land Appraisal	\$1,181
Environmental Assessment	\$4,500
Total	\$10,817

Environmental Reviews, 40 CFR 35.3140

Early in 1997, DEQ submitted a proposed alternative State Environmental Review Process (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.

One of EPA's file review responsibilities is to ensure adherence to all applicable Environmental Cross-Cutters. The results of that inquiry follow. A comprehensive Environmental Assessment (EA) was performed for the Albany project by Oregon DEQ on August 15, 1990. EPA issued a Finding of No Significant Impact (FONSI) on August 30, 1990 and provided a 30 day public response period. The EA reported public meetings had been held from May through November 1989 and three additional public meetings related to the Facilities Plan were held on April 18, 1990, June 12, 1990, and June 26, 1990. The EA addressed all the applicable environmental cross-cutters.

No Environmental Assessment was found in the Aurora Facilities Plan project file.

DEQ conducted an EA for the Gold Beach project in July 1989. Both EPA and DEQ reviewed the EA and EPA issued a FONSI on August 18, 1989. When a Facilities Report was submitted to DEQ for the project, DEQ informed the city that more information was required and that no funds would be available until an Infiltration/Inflow (I/I) study was completed as the I/I problem was putting a tremendous stress on the system. The I/I Analysis was completed on February 1, 1991 and the Facilities Plan approved on February 21, 1991 (though four addendums were subsequently required). All applicable environmental cross-cutters were addressed.

The City of Sisters contracted with the Deschutes National Forest to have an EA conducted, which resulted in the issuance of a FONSI. DEQ accepted the EA on May 4, 1999 when approving the Facility Plan.

MBE/WBE Commitment and Reporting, 40 CFR 35.3145(d)

Oregon submitted EPA Forms 5700-52A, *MBE/WBE Utilization under Federal Grants, Cooperative Agreements and Other Federal Assistance*, for those projects undergoing procurement activity as follows¹¹:

TABLE 13: EPA FORMS 5700-52 SUBMITTED							
Federal Period	Total Procurement	\$ of MBE Activity	% of MBE Activity	\$ of WBE Activity	% of WBE Activity	Submitted to EPA	Amended
4Q FY99	\$ 20,560,165	\$ 282,673	1.37%	\$ 488,820	2.38%	16-Nov-99	18-Feb-00
1Q FY00	\$ 23,672,062	\$ 329,746	1.39%	\$ 946,016	4.00%	18-Feb-00	10-May-00
2Q FY00	\$ 13,973,591	\$ 172,355	1.23%	\$ 774,773	5.54%	10-May-00	9-Aug-00
3Q FY00	\$ 14,815,158	\$ 399,784	2.70%	\$ 619,535	4.18%	9-Aug-00	
Total	\$ 73,020,976	\$ 1,184,558	1.62%	\$ 2,829,144	3.87%		

During SFY99, and again in SFY00, DEQ was late in submitting all of its quarterly reports. Pursuant to C.F.R. §35.3145(e) MBE/WBE Reporting Requirements, “the State must submit an MBE/WBE Utilization Report within **30 days** after the end of each Federal fiscal quarter during which the State or its subrecipients award any sub-agreements.” While DEQ’s MBE/WBE reporting was submitted in a timelier manner during SFY00, forms 5700-52A has still never be submitted to EPA within the 30 day period.

MBE/WBE percentage goals are negotiated annually and identified in each capitalization grant. They are based on “equivalency funds,” which (for purposes of this analysis in the post-equivalency period) is an amount equal to the capitalization grants. The FY00 capitalization grant award included MBE/WBE goals based upon the availability assessment the State conducted. During SFY00 the goals for MBE/WBE utilization were as follows: 4.69% MBE Construction, 1.40% MBE Services, 6.64% WBE Construction, and 2.10% WBE Services. Based on the quarterly reports submitted, EPA is unable to ascertain which MBE and WBE goals Oregon may have met, if any, for the fiscal year. Future quarterly reports must show the procurement activity in the construction **or** services categories as well as between MBE and WBE.

Table 14 has calculations concerning the CWSRF’s historical MBE/WBE progress and goals, as of the end of the fiscal year, for each capitalization grant in accordance with program guidance.¹²

¹¹ Source: EPA Forms 5700-52A

¹² Source: EPA Forms 5700-52A

TABLE 14: MBE/WBE ACHIEVEMENTS						
Year	Procurement	MBE Awards	MBE %	WBE Awards	WBE %	Overall %
FY 89	\$9,442,891	\$521,155	5.52%	\$441,467	4.68%	10.19%
FY 90	\$9,874,134	\$1,119,105	11.33%	\$1,256,414	12.72%	24.06%
FY 91	\$10,570,433	\$1,042,577	9.86%	\$1,748,760	16.54%	26.41%
FY 92	\$18,546,952	\$1,842,275	9.93%	\$449,230	2.42%	12.36%
FY 93	\$20,142,036	\$16,000	0.08%	\$232,300	1.15%	1.23%
FY 94	\$12,887,466	\$0	0.00%	\$10,361	0.08%	0.08%
FY 95	\$13,427,071	\$149,235	1.11%	\$1,007,128	7.50%	8.61%
FY 96	\$20,597,379	\$146,882	0.71%	\$324,523	1.58%	2.29%
FY 97	\$6,591,374	\$436,834	6.63%	\$555,694	8.43%	15.06%
FY 98	\$14,581,920	\$0	0.00%	\$408,726	2.80%	2.80%
FY 99	\$14,604,322	\$329,746	2.26%	\$946,016	6.48%	8.74%
FY00	\$14,554,806	\$399,784	2.75%	\$619,535	4.26%	7.00%
Totals	\$14,466,661	\$345,948	2.39%	\$856,345	5.92%	8.31%
Goals (weighted)		\$ 986,771	6.82%	\$ 708,095	4.89%	5.90%
Relationship to Goals		-\$640,823	-4.43%	\$148,250	1.02%	2.41%

The State has fallen 4.43% (\$640,823) short of its MBE goal and exceeded its WBE goal by 1.02% (\$148,250) based on capitalization grants FY89 through FY00 rather than procurement activity limited to the State Fiscal Year. At the end of the fiscal year, procurement activities still remained for projects listed under the FY00 award. For all State programs receiving EPA funds from FY89 through FY95, MBE/WBE fair share goals were negotiated as one non-program specific overall State goal. For example, the CWSRF did not meet the MBE goal of 8% for any year while the State as a whole met its overall 12% goal every single year. Since FY95, MBE/WBE goals have been negotiated directly with the OR CWSRF program. With the exception of the MBE goals for the FY90-FY92 grants and the WBE goals for the FY90-FY91 and FY97-FY98 grants, the program has been unable to meet its goals.

One of EPA's file review responsibilities is to ensure adherence to all applicable Socio-Economic Cross-Cutters, including MBE/WBE/SBRA requirements. The results of that inquiry follow. The North Albany Sewer Project loan agreement, Term Sheet 3.5(a), Appendix E, and Addendum #2 all documented how both the loan recipient and contractors could comply with the MBE/WBE requirements. However, no clear elucidation of the required six steps was found in the project file.

No MBE/WBE documentation was found in the Aurora project file.

The Gold Beach loan agreement Appendix E, a letter to the city controller, and bid documents included in the Plans and Specifications documented compliance with the MBE/WBE regulations. All applicable certificates were signed and present in the file. The file was well documented for all MBE/WBE matters related to the winning bid, including a comparison of all bids received. The Gold Beach project is a model of MBE/WBE oversight!

Other Federal Authorities, 40 CFR 35.3145(a)

Oregon no longer requires that all CWSRF projects meet each of the 16 specific statutory requirements provided in Section §602(b)(6) of the Clean Water Act, Equivalency Requirements. Though the State of Oregon has twice requested that EPA formally release the CWSRF program from the Equivalency Requirements, EPA has not yet done so as four of the nine projects submitted as equivalency projects have been found to lack the appropriate documentation. The four projects that have **not** been accepted as having met equivalency requirements are: Bandon R-12911, Oregon City R-70650, St. Helens R-801060, and Vernonia R-93640. The five cities that have been submitted and **accepted** as having met equivalency requirements are: Albany R-10510, Gold Beach R-37810, Ontario R-70610, Siletz R-84460, and Tri-City Service District R-92262.

Every CWSRF loan agreement includes language agreeing to comply with Federal cross-cutting requirements. Compliance with appropriate cross-cutting requirements is a checklist item monitored by regional project managers. All projects assisted with funds made directly available by the capitalization grants must comply with cross-cutters. A discussion of environmental cross-cutters and MBE/WBE is found earlier in this report. For the remaining cross-cutters, a review of the Albany file found all applicable Equal Employment Opportunity language within the documents, all Socio-Economic Cross-Cutting requirements met, and all signed certifications present except for Form 4700-4. DEQ used a bid review checklist to verify compliance with applicable administrative cross-cutting federal authorities.

The Aurora project file had the standard loan language requiring adherence to the Federal cross-cutting requirements. One point of concern, a copy of Form 4700-4 could not be found in the file.

A review of the Gold Beach file found all applicable Equal Employment Opportunity language within the documents, all Socio-Economic Cross-Cutting requirements met, and all signed certifications present except for Form 4700-4. DEQ used a bid review checklist to verify compliance with applicable administrative cross cutting federal authorities.

The project file for the City of Sisters contained documentation of the requirement for adherence to the various socio-economic cross-cutting authorities in the CWSRF loan application, as well as in a copy of an application for assistance from RUS. However, a copy of the Form 4700-4 was not found in the file.

Recipient Accounting, 40 CFR 35.3135(l)

Prospective loan recipients must produce financial statements from the past three years, and once the loan is approved, they are required to submit financial statements annually. In addition, loan recipients that expend at least \$300,000 in federal funds during a fiscal year are required to have a financial audit performed in accordance with OMB Circular A-133, "Audits of State, Local Governments and Non-

Profit Organizations.” Those audit reports are submitted to DEQ for review by CWSRF staff and are included in the scope of the review of the annual major program audit of the CWSRF loan program by the Oregon State Division of Audits.

Eligible Activities, 40 C.F.R. 35.3115, 3120 and 3125

The Clean Water Act requires that Clean Water State Revolving Funds limit themselves to providing any of seven specific types of financial assistance. Those seven types of assistance include:

1. Making loans at or below market rates of interest to finance water pollution control projects;
2. to buy or refinance the debt obligation of municipalities and intermunicipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred after March 7, 1985;
3. to guarantee, or purchase insurance for, local obligations where such action would improve credit market access or reduce interest rates;
4. as a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the fund;
5. to provide loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies;
6. to earn interest on fund accounts; and
7. for the reasonable costs of administering the fund and conducting activities under this title, except that such amounts shall not exceed 4 percent of all grant awards to such fund under this title.

To date, the CWSRF has provided low-interest loans to public entities for the planning and construction of publicly-owned treatment works. Although the Clean Water Act allows loans to be made for projects that implement the state's nonpoint source water pollution control strategy, developed pursuant to §319 of the Clean Water Act, Oregon has not yet expanded its program to include such loans.

In 1996 the Environmental Protection Agency, after extensive consultation with the states, issued the Clean Water Revolving Fund Funding Framework. The Funding Framework provides guidance on the processes that states should use to expand the range of projects that they finance with loans from their Clean Water State Revolving Funds. In February 1998, the Environmental Protection Agency and the U.S. Department of Agriculture issued the Clean Water Action Plan, a plan aimed at continuing the nation's progress at restoring the quality of its waters. One of the

essential elements of the Clean Water Action Plan is that EPA wants to see the Clean Water Revolving Funds used to finance the resolution of nonpoint source water quality problems around the country. One of the “Key Actions: identified in the Plan states that:

“EPA will work with states to increase the number and dollar amount of loans made through clean water revolving fund loan programs for priority projects to prevent polluted runoff, with the goal of increasing the percentage of funds loaned for this purpose to at least 10 percent (or \$200 million) by the year 2001. EPA will also work with the states toward the goal of increasing to 25 the number of states using integrated priority-setting systems by the year 2000.”

Oregon has many streams that are listed under Clean Water Act §303(d) as being water quality limited due to nonpoint source related water pollution. Since the CWSRF is, by far, the largest source of financing available for water quality projects, an inability to make loans for nonpoint source water quality projects will seriously impair Oregon’s ability to successfully implement any Total Maximum Daily Loads (TMDLs), waste load allocations (WLAs) and watershed restoration plans or strategies that it and its political subdivisions develop to solve those water quality problems.

While Oregon’s CWSRF does not yet make loans for nonpoint source water quality projects, a commitment to do so in the future was made during SFY99. In this endeavor, they had enlisted the assistance of Bill Jarocki and Paul Woods of the Environmental Finance Center. Due to staffing changes at DEQ, this collaborative effort never began. EPA would like to encourage DEQ to consider contacting the EFC and attempting this project during the next fiscal year.

Intended Use Plan Development, 40 C.F.R. 35.3150

The FY00 Project Priority List (PPL) listed 99 community and project names with pre-application dollar requests of \$209,878,768. The IUP identified 21 projects with a total dollar value of \$18,057,743 that had anticipated binding commitments between July 1, 1999 and June 30, 2000. Contained within the IUP are project descriptions, discharge permit numbers/amounts, pre-application dollar requests, anticipated project schedules, and point scores. The IUP noted that an amount equal to 4% of the capitalization grant was to be used for administrative assistance. Ninety potential projects listed in the FY00 IUP were Section 212 projects, seven were Section 319 NPS projects, and two were Section 320 projects.

Of the above mentioned 21 projects listed in the FY00 PPL, only four new projects achieved binding commitments during the Period, while twelve existing projects received increases and ten decreases. Project priority ranking for the new projects which signed binding commitments during the Period are listed in Table 15.

TABLE 15: FY00 BINDING COMMITMENTS FOR NEW PROJECTS				
Borrower	Loan Number	Date Signed	Amount	Priority Rank
Waldport	R94342	5-Nov-99	\$25,000	9
OR WW II S.D.	R70655	18-Nov-99	\$90,000	
Wedderburn S.D.	R95510	22-Nov-99	\$40,000	83
La Grande	R54330	21-Jun-00	\$2,969,671	6
Total New Loans			\$3,124,671	

Achievement of Goals and Objectives

The State had three long-term and three short-term goals, it claimed accomplishment for all but one. The goals and objectives with EPA comments are listed below:

1. Long-Term Goal – To protect public health and the waters of the State by offering financial assistance for water pollution control projects. During SFY00, DEQ continued to offer financial assistance to Oregon communities and agencies that work on wastewater treatment facilities and stormwater management systems. Loan requests continue to exceed funds available for new loans by a wide margin. Although use of the Excel© cash flow model and quarterly funding of final applications has increased the amount of funds available during an application cycle, the number of applications and the size of projects have also increased. Rather than “catching up” with demand through available funds, demand continues to outstrip available funding. Only four new projects were able to be funded during the fiscal year as most of the available funds were used to increase the amount of existing loans.
2. Long-Term Goal – To provide financial assistance for the cost of complying with federal and state water quality mandates. All preliminary project applications for financial assistance are prioritized using four criteria. These criteria favor projects addressing water quality problems that are the focus of enforcement action by DEQ. The highest preference is given to projects affecting water bodies unable to handle increased pollution loads without violating water quality standards.
3. Long-Term Goal – To administer the State Revolving Fund to ensure its financial integrity, viability and perpetuity as a source of financial assistance. Program managers make conservative financial assumptions in calculating funds available for new loans, in assessing risk on new loans and in disbursing loan proceeds. The program includes conservative security terms in each new loan that include (a) a coverage requirement, (b) the establishment of a debt service reserve by the borrower and (c) a requirement that the borrower obtain

the Program's written permission to issue any debt that would be "superior" to the CWSRF loan. Investment earnings are at the market rate of interest. Earnings on the loan portfolio and on idle cash balances contribute significantly to program growth, adding over \$13.5 million to capital through SFY00.

1. Short-Term Goal – To clarify the objectives of the program—including target borrowers and target projects—and to restructure the priority system to address these objectives. For a large part of SFY00 Oregon did not have a statewide CWSRF Program Manager. This has hindered the program's ability to ascertain which changes it would like to enact and to work with the EFC to accomplish those changes. In May 2001, Larry McAllister was hired as the new statewide CWSRF Program Manager. Hopefully Larry will be able to build on his predecessors' work to modify the CWSRF in Oregon and provide opportunities for nonpoint source and estuary projects to be funded.
2. Short-Term Goal – To explore alternative financing methods to fund projects that are a high priority for the protection of public waters and public health, but which are located on private property or will be completed by non-public entities. Proposed state statute and rules to implement appropriate financing mechanisms for desirable projects. CWSRF staff proposed amendments to House Bill 2149 in an attempt to establish explicit language permitting public agencies to "pass through" CWSRF loan money to private borrowers. CWSRF staff also attempted to obtain explicit permission to establish a linked-deposit program. Neither measure was ever scheduled for a hearing at the legislature.
3. Short-Term Goal – To explore leveraging the fund through a variety of methods. Oregon CWSRF staff are considering several different leveraging options. One that looks particularly promising is called a "companion loan." DEQ has the authority to float bonds for companion loans. The debt service for these bonds would be covered by the General Obligation Fund. Rates for companion bonds would be higher than a traditional CWSRF loan but DEQ is considering ways to blend the rates together.

Reporting

Annual Report [40 C.F.R. 35.3135(j) & 35.3165]

A draft form of the Annual Report, dated November 7, 2000, was sent electronically to EPA on November 14, 2000. As a consequence of the statewide CWSRF Program Manager decision to leave the agency soon thereafter, a final Annual Report was never completed. The content and information provided in the

draft were very useful for EPA to understand the activities during the Period and to complete this review.

As a result of the Federal Government Performance and Results Act and also a year-long joint effort between EPA and the Environmental Council of the States, a set of “environmental indicators” gauging how Clean Water SRFs are achieving desired environmental progress was published March 2001.

EPA will work with DEQ to assure that these new environmental indicators are reported based upon the best available information and provide accurate and useful results.

Data Management [40 C.F.R. 35.3130(b)]

There are now two elements that consist of Clean Water SFY data management. The first involves project level data that is provided by the State to our office on a quarterly basis. Since DEQ no longer utilizes GICS, EPA is to be provided project level data on a spreadsheet, also done on a quarterly basis. The second element is Clean Water SRF NIMS which was completed by CWSRF staff during October of 2001.

Conclusions

The Oregon CWSRF continues to be a well managed and well-implemented program. EPA would especially like to recognize the incredible job Rick Watters has done to not just maintain, but improve, the CWSRF program in Oregon. During the past three years the CWSRF program has had four different statewide Program Managers and months at a time without any statewide Program Manager. During this time Rick has consistently provided EPA with any information requested, made changes to the program based on recommendations, brought the program into compliance with MBE/WBE requirements, and managed to turn Oregon into the fastest paced CWSRF program in Region X. Other program attributes are as follows:

1. An experienced and competent staff in both DEQ’s central office and its regional offices is carrying out the program.
2. The program uses a priority system in which the expected water quality benefits of the “candidate” project play a significant role in determining the project’s ranking on the State’s project priority list.
3. The program has completed binding commitments well over the minimum required in the Clean Water Act.
4. The program’s use of a cash flow model to determine the volume of new loans that can be safely completed each calendar quarter has allowed it to

significantly increase the number of active loans and should allow it to support a larger number of projects under construction at any one time.

5. 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.
6. The program continues to use effective loan portfolio management practices to minimize the potential for borrowers to default on their loans.
7. The program has made significant improvements towards MBE/WBE compliance.

Recommendations

The Environmental Protection Agency’s review also found a few issues where additional action by Oregon DEQ would be appropriate.

1. During the past several years EPA has been reviewing three or four project files during the annual Performance Evaluation Visit. The majority of problems we’ve found are a result of inadequate records management. The issue of file maintenance has become quite problematic as several documents and certifications have been found to be missing. There does not appear to be any uniformity as to which documents, certifications, checklists, and other records are kept in the file. Adequate records Management is an important part of the program, a grant condition, and something that DEQ agreed to in the Oregon CWSRF Operating Agreement (dated 4/30/95) page 12. DEQ must standardize its file maintenance procedures and ensure that all project officers are maintaining the proper documents in the file until the repayment period ends.
2. Oregon has historically limited its CWSRF to making loans to finance publicly owned wastewater treatment works projects. As in many other states nonpoint sources such as agriculture and urban/suburban runoff are significant contributors to the state’s water quality problems and, in many cases, are the primary causes for streams being listed as water quality limited under §303(d) of the Clean Water Act. EPA recommends that Oregon develop a new nonpoint source water pollution abatement strategy and work with the Environmental Finance Center (EFC), as needed, to allow a broader range of potential water pollution abatement projects.

3. The Oregon CWSRF program has historically guaranteed projects automatic increases for life, regardless of total project cost, once a project has obtained an initial CWSRF loan. While this practice had no adverse impacts when the program couldn't spend all its money, the few years have shown fewer and fewer new projects funded due to the number of existing projects requiring increases. EPA would like to suggest DEQ reevaluate the decision to always provide automatic increases to existing projects and consider additional information such as the size or wealth of a community, the communities ability to go to the bond market for some of the necessary funding, the total amount of money necessary to complete a project, or other such considerations.



Attachment I. Oregon CWSRF - Schedule of Binding Commitments, Payments and Maximum Cash Draws

Fiscal Year	Time Period	Payments	Cum. Payments	Cum. BCs (Required)	Cum. BCs (Actual)	Actual BC by SFY	(Actual)	Total Cum.	Cum. Cash Draws
							BC Percent	Payments (Max. Cash Draw)	
FFY90	Oct-Dec 89	1,717,600	1,717,600	-	-	-	-	1,717,600	-
	Jan-Mar 90	1,980,600	3,698,200	-	-	-	-	3,698,200	-
	Apr-Jun 90	2,200,000	5,898,200	-	-	-	-	5,898,200	-
SFY91	Jul-Sep 90	2,774,600	8,672,800	-	4,063,700	7,421,676	-	8,672,800	39,893
FFY91	Oct-Dec 90	910,180	9,582,980	2,061,120	4,063,700	-	237%	9,582,980	86,392
	Jan-Mar 91	2,877,276	12,460,256	4,437,840	5,446,900	-	147%	12,460,256	1,703,043
	Apr-Jun 91	2,383,557	14,843,813	7,077,840	7,421,676	-	126%	14,843,813	4,544,916
SFY92	Jul-Sep 91	2,845,112	17,688,925	10,407,360	10,641,519	22,004,798	123%	17,688,925	4,880,058
FFY92	Oct-Dec 91	1,775,123	19,464,048	11,499,576	13,254,603	-	138%	19,464,048	7,355,971
	Jan-Mar 92	1,006,264	20,470,312	14,952,307	15,539,813	-	125%	20,470,312	10,002,976
	Apr-Jun 92	813,008	21,283,320	17,812,576	29,426,474	-	198%	21,283,320	10,808,961
SFY93	Jul-Sep 92	7,493,126	28,776,446	21,226,710	29,770,974	39,393,294	168%	28,776,446	17,013,691
FFY93	Oct-Dec 92	7,300,000	36,076,446	23,356,858	68,805,571	-	354%	36,076,446	21,314,962
	Jan-Mar 93	8,200,000	44,276,446	24,564,374	68,812,268	-	336%	44,276,446	23,184,647
	Apr-Jun 93	6,300,000	50,576,446	25,539,984	68,819,768	-	323%	50,576,446	27,000,193
SFY94	Jul-Sep 93	4,983,622	55,560,068	34,531,735	69,907,154	10,214,683	243%	55,560,068	36,897,882
FFY94	Oct-Dec 93	4,200,000	59,760,068	43,291,735	69,957,154	-	194%	59,760,068	39,256,956
	Jan-Mar 94	2,300,000	62,060,068	53,131,735	69,282,404	-	156%	62,060,068	42,380,127
	Apr-Jun 94	4,749,191	66,809,259	60,691,735	79,034,451	-	156%	66,809,259	47,016,397
SFY95	Jul-Sep 94	-	66,809,259	66,672,082	82,085,388	3,925,367	148%	66,809,259	51,277,298
FFY95	Oct-Dec 94	8,000,000	74,809,259	71,712,082	81,850,689	-	137%	74,809,259	58,091,732
	Jan-Mar 95	8,000,000	82,809,259	74,472,082	82,961,689	-	134%	82,809,259	59,542,349
	Apr-Jun 95	5,712,581	88,521,840	80,171,111	82,959,818	-	124%	88,521,840	59,888,371
SFY96	Jul-Sep 95	2,000,000	90,521,840	80,171,111	94,493,523	40,017,705	141%	90,521,840	64,163,631
FFY96	Oct-Dec 95	4,000,000	94,521,840	89,771,111	99,707,523	-	133%	94,521,840	64,326,748
	Jan-Mar 96	4,000,000	98,521,840	99,371,111	99,877,523	-	121%	98,521,840	66,458,369
	Apr-Jun 96	7,472,415	105,994,255	106,226,208	122,977,523	-	139%	105,994,255	67,045,361
SFY97	Jul-Sep 96	4,000,000	109,994,255	108,626,208	131,148,171	60,289,058	145%	109,994,255	69,033,261
FFY97	Oct-Dec 96	4,000,000	113,994,255	113,426,208	145,848,171	-	154%	113,994,255	71,097,288
	Jan-Mar 97	5,914,054	119,908,309	118,226,208	160,237,014	-	163%	119,908,309	72,435,611
	Apr-Jun 97	1,483,400	121,391,709	127,193,106	183,266,581	-	173%	121,391,709	74,473,717
SFY98	Jul-Sep 97	2,640,900	124,032,609	131,993,106	237,742,458	89,961,162	216%	124,032,609	77,744,084
FFY98	Oct-Dec 97	14,666,823	138,699,432	136,793,106	244,242,104	-	214%	138,699,432	79,370,935
	Jan-Mar 98	-	138,699,432	143,889,971	270,385,743	-	225%	138,699,432	82,925,055
	Apr-Jun 98	-	138,699,432	145,670,051	273,227,743	-	225%	138,699,432	94,958,074
SFY99	Jul-Sep 98	3,500,000	142,199,432	148,839,131	296,705,782	35,445,740	239%	142,199,432	102,571,983
FFY99	Oct-Dec 98	3,511,959	145,711,391	166,439,318	295,934,649	-	213%	145,711,391	115,986,045
	Jan-Mar 99	-	145,711,391	166,439,318	299,624,815	-	216%	145,711,391	131,960,272
	Apr-Jun 99	7,500,000	153,211,391	166,439,318	308,673,483	-	223%	153,211,391	143,936,431
SFY00	Jul-Sep 99	15,317,966	168,529,357	170,639,318	308,304,194	18,141,807	217%	168,529,357	158,950,030
FFY00	Oct-Dec 99	15,187,045	183,716,402	174,853,669	313,793,761	-	215%	183,716,402	174,300,020
	Jan-Mar 00	7,580,628	191,297,030	174,853,669	319,486,883	-	219%	191,297,030	176,826,291
	Apr-Jun 00	-	191,297,030	183,853,669	326,815,290	-	213%	191,297,030	189,256,200