

U.S. Environmental Protection Agency, Region 10



Program Evaluation Report

Oregon Department of Environmental Quality
State Fiscal Year 1999

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Executive Summary

On June 30, 1999, the Oregon Clean Water State Revolving Fund (CWSRF) assistance portfolio consisted of 152 loans with a balance (including deobligations) of \$308,673,483. Most CWSRF assistance thus far has been used for facility plans or construction of wastewater treatment projects, of which 86 have initiated operations. As of the end of state fiscal year (SFY) 1999, approximately \$10 million in new principal repayments, interest payments, and fund interest was available to support new project activity. During SFY99 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 \$36.2 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 considerable through hiring a new Clean Water Revolving Fund Coordinator, Mr. Meek.
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 continues to use effective loan portfolio management practices to minimize the potential for borrowers to default on their loans.

The Environmental Protection Agency’s (EPA) review also found several issues where additional action by Oregon DEQ would be appropriate:

1. During the FY98 program evaluation 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.

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.
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.

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 1999 (SFY99). The review is based on several critical elements:

1. The SFY99 Annual Report submitted by the Oregon Department of Environmental Quality (DEQ) for the fiscal year ending 30 June 1999;
2. The Clean Water State Revolving Fund Intended Use Plan for SFY98 and SFY99 for the Oregon Clean Water State Revolving Fund;
3. The financial audit of the Oregon Clean Water State Revolving Fund for the SFY98;
4. The SFY98 Performance Evaluation Report (PER) sent to Oregon DEQ on June 3, 1999;

5. 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;
6. A review by DEQ staff of the draft of this report;
7. A review of the DEQ project files for four CWSRF loans managed out of the DEQ Northwestern, Western, and Southwestern Regional Offices;
8. An on-site review (the Program Evaluation Visit [PEV]) held from 17 April 2000 through 20 April 2000 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 1999. 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 Bandon, St. Helens, Bear Creek, and Monument 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 April 30, 1998 for \$15,211,548. Through June 30, 1999, the CWSRF has received a total of \$160,922,939. The program funding is summarized as follows:¹

¹ Source: SFY99 Annual Report, SFY98 Individual Entity Audit Report, IFMS report.

TABLE 1: PROGRAM SUMMARY					
Grant ID No.	Amount	Cash Draws	Availability	Match	Total Capital
CS-00410001-89	10,655,073	10,655,073	-	2,131,015	12,786,088
CS-00410001-90	11,021,373	11,021,373	-	2,204,275	13,225,648
CS-00410001-91	23,183,622	23,183,622	-	4,636,724	27,820,346
CS-00410001-92	21,949,191	21,949,191	-	4,389,838	26,339,029
CS-00410001-93	21,712,581	21,712,581	-	4,342,516	26,055,097
CS-00410001-94	13,472,415	13,472,415	-	2,694,483	16,166,898
CS-00410001-95	13,914,054	13,914,054	-	2,782,811	16,696,865
CS-00410001-96	22,791,123	22,143,844	647,279	4,558,225	27,349,348
CS-00410001-97	7,011,959	5,924,502	1,087,457	1,402,392	8,414,351
CS-00410001-98	15,211,548	-	15,211,548	3,042,310	18,253,858
Totals	160,922,939	143,976,655	16,946,284	32,184,588	193,107,527

The Oregon CWSRF operates as a direct loan program. As of the end of SFY99, it had made binding commitments totaling \$313,711,470 for 126 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 136 projects, 79 with a value of \$99,364,343 have completed construction and initiated operations as of the end of SFY99. 22 additional projects were under construction as of the end of SFY99. The remaining 25 projects had not started construction as of the end of SFY99.

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.

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 SFY99, Oregon used \$5,037,987 or 3.1% of the total EPA capitalization grants awarded to date. In SFY99, Oregon used \$754,851 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 SFY99, this account held a balance of \$725,298.

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.

SFY98 PER Update

Based upon our review, in the SFY98 PER we recommended the following improvements to the CWSRF:

1. *Early in 1997, DEQ submitted a proposed alternative State Environmental Review Process (SERP) pursuant to 40 C.F.R. §35.3140(c). EPA has indicated that it would be able to approve this process when it is officially submitted by DEQ. DEQ needs to complete the process of amending its procedures manual so that it may officially submit the alternative SERP to EPA for its approval. DEQ has committed to completing this work by 15 July 1999.*

Due to staffing shortages, nothing was done with the SERP during SFY99. However, during SFY2000, the originally proposed SERP was presented to a review committee. Following committee approval, the SERP had a 30-day public review and comment period. A final SERP submittal was received by EPA on November 3, 1999. On November 17, 1999, EPA provided official approval of the SERP and the Procedures Manual in which it is contained.

2. *The Oregon CWSRF has made very few loans to finance nonpoint source and estuary management projects, even though both these types of projects are eligible under the Clean Water Act. This is particularly troubling, given that many of Oregon's streams are water quality limited due to nonpoint source "inputs." Given these circumstances:*
 - *We urge DEQ to take expeditious action to resolve the legal, regulatory and policy issues that are impeding the program's ability to make loans for these types of projects.*
 - *We also recommend that, while these issues are being resolved, DEQ proceed with an effort to develop and implement an Integrated State Priority System so that all eligible projects can compete on an equal footing based on their water quality and aquatic habitat benefits for loans from its Clean Water Revolving Fund.*
 - *Finally, we suggest that Oregon take a hard look at the Washington state system of using one solicitation and project ranking system to award both CWSRF loans and grants under the Clean Water Act 319 nonpoint source grants program to determine whether this would be an appropriate path to follow in Oregon.*

Oregon did not make any loans to nonpoint source or estuary management projects during the fiscal year. Currently DEQ has a "place holder" for the next legislative session and hopes to resolve the legal and regulatory issues that impede its ability to fund Clean Water Act §319 and §320 projects. DEQ has also made arrangements to work with Bill Jarocki and Paul Woods of the Environmental Finance Center (EFC) during SFY2000. The EFC and DEQ will work to establish a committee to look into and establish CWSRF policy changes so that nonpoint source and estuary management projects may be funded. EPA hopes to see CWA §319 and §320 projects funded from the FY2002 IUP.

- 3. DEQ must list the MBE/WBE Six Affirmative Steps and the Fair Share Goals in their loan documents and in-turn require that the Loan Recipients include them in their bid documents.*

Attachment III, EPA Guidance for Utilization of S/M/WBE in Procurement Under Assistance Agreements, of the FY98 PER was a six page document containing EPA guidance related to procurement, bid protests, bidder responsibility, bidder responsiveness, and bidding documents. It does not appear that DEQ has changed any of its MBE/WBE practices during the fiscal year.

During the PEV, EPA and DEQ discussed this issue extensively and broadened the topic to include all environmental and socioeconomic cross-cutters that apply to funds made directly available by the federal government. DEQ committed to updating all loan documents, engineer checklists, and the construction manual provided to all loan recipients. By the time this document is published DEQ will be updating its construction manual and will only be waiting for EPA to provide the necessary insert clearly stating all applicable cross-cutters to make it complete and in compliance."

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 SFY99, 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

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

TABLE 2: PAYMENTS				
Federal Period	Grant Payments	Cumulative Grant Payments	Quarterly Cash Draws	Cumulative Cash Draws
FY98 Q4	3,500,000	142,199,432	7,613,909	102,669,570
FY99 Q1	3,511,959	145,711,391	13,414,062	116,083,632
FY99 Q2	-	145,711,391	15,974,227	132,057,859
FY99 Q3	-	145,711,391	11,976,159	144,034,018
Period Totals	7,011,959		48,978,357	

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 6/30/98	Total Match at 6/30/98	Match %	Total Federal Payments at 6/30/99	Total Match at 6/30/99	Match %
Period Totals	138,699,432	27,739,886	20%	145,711,391	29,142,268	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 1998, DEQ had taken grant payments totaling \$138,699,432. As of 30 June 1999, it had completed binding commitments for \$313,711,470 in projects or 226% of the prior year's cumulative payments.

Approximately \$36.2 million in binding commitments were completed in SFY99, based on \$34 million in project funds available. This shows how DEQ's use of its cash flow model has increased the pace of the CWSRF to the point where the program no longer contains any uncommitted funds. This is a **fantastic** achievement by the Oregon CWSRF staff!!! The following figures show DEQ's performance with regard to binding commitments over the years.⁴ Cumulative results are shown in Attachment I.

³ Source: SFY98 annual report

⁴ Source: CWSRF NIMS

Figure 1

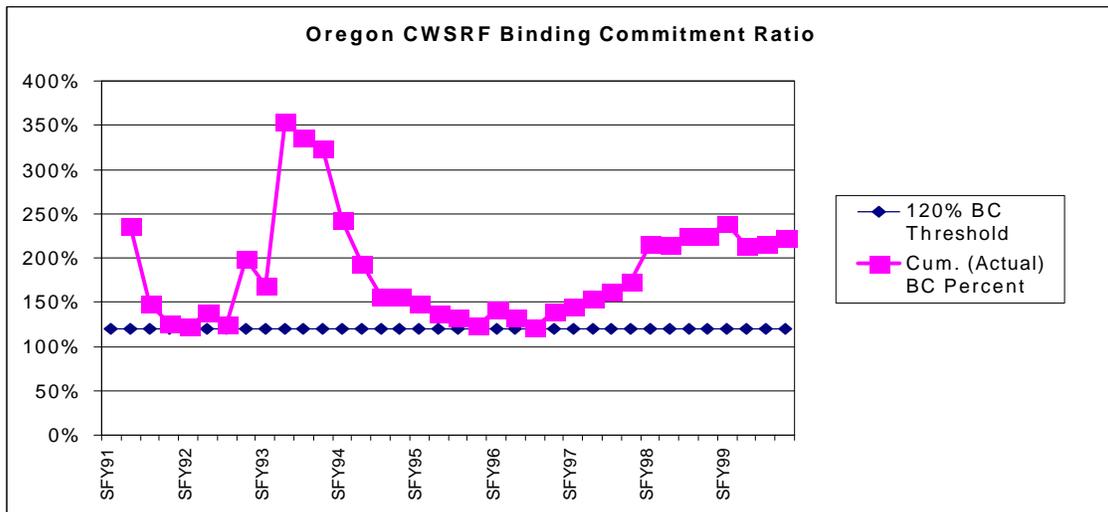
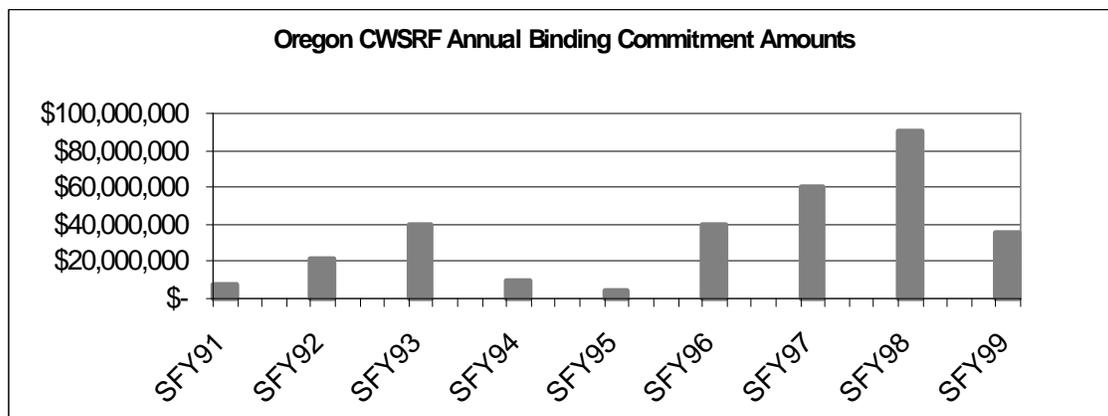


Figure 2



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 earnings) are committed to new projects within a reasonable period of time. During SFY99, Oregon made 70 cash draws for project and administrative assistance totaling \$48.9 million from the EPA-ACH.

One manner in which to track EPA-ACH expenditures is as a percentage of capitalization grants awarded. As of June 30, 1999, the CWSRF still had \$16 million in awarded but undrawn Federal funds. This equates to this program having expended roughly 90% of capitalization grants awarded. This is a continuation of the positive trend in drawing down the "idle" cash in the ACH. EPA anticipates that due to the greatly enhanced pace of the program, during FY2000 Oregon may be the first Region 10 state to fully expend 100% of the federal capitalization grants awarded and truly begin revolving the fund by having to draw from the account holding principal and interest repayments.

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 of June 30, 1999, the State had \$63,911,695 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, 1999				
	Principal	Interest (Loans)	Interest (Fund)	Total
Through SFY98	38,257,707	7,661,654	7,302,770	53,222,131
SFY99	5,479,478	1,951,065	3,259,021	10,689,564
Total	43,737,185	9,612,719	10,561,791	63,911,695

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 SFY97	Through SFY98	Through SFY99
Total Project Assistance Provided*	183,266,581	273,227,743	308,673,483
Total Project Funds Available**	199,128,413	237,601,820	248,952,130
Pace of Loan Issuance Ratio	92%	115%	124%

* 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.

TABLE 6: PACE OF CONSTRUCTION			
	Through SFY97	Through SFY98	Through SFY99
Total Project Disbursements***	91,372,992	111,135,696	169,215,985
Total Project Funds Available	99,128,413	237,601,820	248,952,130
Pace of Construction Ratio	92%	47%	68%

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

⁵ Source: CWSRF NIMS

⁶ Source: CWSRF NIMS

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 SRY99 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 two years the Oregon CWSRF has maintained a return rate on cash deposited with the State Treasurer that is higher than 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%

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 Although the yield for SFY99 declined nearly a full percentage point from SFY98, the return has for the present at least, kept pace with the CCI and similar program data in NIMS. In future years 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%

⁷ Source: NIMS data, separate report by DEQ staff

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

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 and 99 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 is just barely keeping 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%

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 tracked on an ongoing basis by Oregon CWSRF financial analyst Rick Watters. The indicators for SFY99 are presented in table 10 below and 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 Region 10 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 the ratios of 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 receivable collection, population growth, unemployment rate, and per capita income, among others. These ratios are then compared to a standardized “score.”

⁹ Source: Annual Reports, NIMS data

TABLE 10: CWSRF EPA/STATE WORKGROUP FINANCIAL INDICATORS	
#1 Return on Federal Investment	
	Through SFY99
Total loan disbursements	169,215,985
Federal loan draws	139,885,929
Federal admin. draws	4,367,858
Return on Federal Investment Ratio	117.30%
#2 Percent of Signed Loans to Funds Available for Loans	
Amount of signed loan agreements	308,673,483
Cumulative cap grants	160,922,939
Cumulative state match	29,142,268
Loan principal repaid	43,737,186
Operating profit	
Loan interest	9,612,719
Investment interest	10,561,791
Administrative expense	(5,037,987)
Signed Loans to Funds Available Ratio	124.00%
#3 Percentage of Funds Disbursed to Signed Loans	
Total loan disbursements	169,215,985
Total signed loan agreements	308,673,483
Funds Disbursed to Closed Loans Ratio	54.82%
#4 Perpetuity of Fund	
Loan interest	9,612,719
Investment interest	10,561,791
Federal administration allowance	6,436,918
Actual administration costs	(5,037,987)
Fund Perpetuity Measure	21,573,441
#5 Estimated Subsidy	
Estimated market interest rate	5.35%
Average CWSRF loan rate	3.20%
Estimated Subsidy	40.2%

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

During the fiscal year the State requested 70 cash draws for \$48,978,357. They are listed in Attachment II. 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

	Through SFY97	Through SFY98	Through SFY99
Total Project Disbursements	91,372,992	111,135,696	169,215,985
Federal Cash Draws for Projects	70,686,884	90,674,938	138,911,649
State Portion of Disbursements	20,686,108	20,460,758	30,304,336
Federal Cash Draws as a % of Disbursements	77.36%	81.59%	82.09%

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

For FFY99 DEQ estimated drawing nearly \$89 million from the EPA-ACH. Actual draws during the period were just over \$56 million. Although cash draw projections were requested for the Federal Fiscal Year, State Fiscal Year projections and actual outlays are also shown below for comparison purposes.¹¹ Attachment II shows cash draws recorded by EPA's Integrated Financial Management System (IFMS) for SFY99.

Federal Period	State Forecast	Actual Outlays	% of Forecast
FY98 Q4	11,300,000	7,613,909	67%
FY99 Q1	16,470,387	13,414,062	81%
FY99 Q2	15,447,855	15,974,227	103%
FY99 Q3	25,946,853	11,976,159	46%
FY99 Q4	31,129,725	15,013,599	48%
Totals (FFY)	88,994,820	56,378,047	63%
Totals (SFY)	69,165,095	48,978,357	71%

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

The states are required to use Generally Accepted Government Accounting Principles in maintaining the financial records for their Clean Water State Revolving Funds. Oregon's CWSRF is audited under the Single Audit Act by the Oregon State Division of Audits. Also, 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 conducted last year for the period ending June 30, 1998. The OIG audit report, issued July 8, 1999, noted **no** material weaknesses with the internal control system and operations of the Oregon CWSRF.

¹⁰ Source: CWSRF NIMS

¹¹ 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 SFY99 is discussed in this section of the Program Evaluation Report.

Field Inspections and File Review

During the on-site review, project files for the City of Bandon Reserve Capacity; Sludge Improvements (R-12911), St. Helens Sewer Separation (R-80160), Bear Creek Valley (R-14001), and the Monument Hardship Grant (R-66390) 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 Bandon Reserve Capacity; Sludge Improvements, R-12911

During November 1992 the City of Bandon signed a loan with the CWSRF for \$1.5 million at 3% interest for the construction of a new secondary treatment plant including activated sludge treatment, sludge management, and disinfection compounds to comply with current NPDES conditions not being met.

This project is one of the projects submitted by DEQ as having fulfilled equivalency requirements. Unless the facility plan, one year certification, and documentation showing that the project was included in a section 208 plan and consistent with the State section 303(e) plan can be found this project will not be able to count towards fulfilling the equivalency requirement.

St. Helens Sewer Separation, R-80160

On December 15, 1992 the City of St. Helens received a loan of \$900,000 at 3% interest for the construction of storm sewers at fourteen locations within the city. The loan was amended twice, bringing the total loan amount to \$1.2 million. The work involved the excavation of rock primarily in existing street right-of-ways, installation of pipeline, and the construction of manholes and catch basins. The work was needed to eliminate bypassing of combined sewer and stormwater into the Columbia River.

Neither the facility plan nor the plans and specifications (P&S) were located in the files for EPA to review. A copy of the facility plan and the P&S should **always** be available when EPA reviews a file. Copies of clipped newspapers advertising the P&S for bidders were contained in the file, but the name(s) of the newspaper(s) and dates were not indicated.

During 1994 three inspections of the project were completed; on August 12, September 1, and September 26, 1994. The inspector noted that the Davis-Bacon Wage rates were posted and that the weekly payroll was submitted and reviewed. The one-year certification could not be found.

This project is one of the projects submitted by DEQ as having fulfilled equivalency requirements. Unless the facility plan, P&S, one year certification, and documentation showing that the project was included in a section 208 plan and consistent with the State section 303(e) plan can be found this project will not be able to count towards fulfilling the equivalency requirement.

Bear Creek Valley, R-14001

The Bear Creek Valley Sanitary Authority signed a CWSRF loan for \$2.5 million on September 18, 1996 to rehabilitate a 10-mile swath of leaking sanitary sewer lines installed in the 1940s and 1950s. As the project progressed and the extent of the problem was further revealed, the loan was amended to include additional construction work (interceptor, trunk, and collection lines) and the loan amount was increased to \$5.6 million.

The project file noted that the construction was occurring in order to comply with an NPDES permit.

An on-site inspection checklist completed by a member of DEQ staff noted that Davis-Bacon requirements were met. A completed civil rights form, (Form 4700-4), however, could not be found in the file. Also, several references were made to complying with the MBE/WBE requirements; however, nothing could be found in the loan or contract documents that spelled out each of the six steps.

Monument Hardship Grant, R-66390

The Town of Monument, Oregon received both an Oregon Water Pollution Control Revolving Fund loan (for \$127,000) and an EPA Clean Water Revolving Fund Hardship Grant of \$238,455 to build a community wastewater collection, treatment and disposal system. The town also received grant assistance for this project from Community Development Block Grant funds and state grant funds. Finally, the town substantially reduced the actual dollar cost of the project by using volunteer labor for a substantial portion of the construction work. The system the town is building includes collection, a secondary treatment lagoon and reuse of the treated effluent for spray irrigation of crops.

Prior to receiving the Revolving Fund financial assistance the town had already completed a wastewater facilities plan. After receiving that assistance, it completed an environmental assessment and the engineering for the facilities that would be constructed. Our review of the file documentation including the environmental assessment indicates that the project complied with those "equivalency requirements" that were relevant to the project. For example, because

it is a new system an infiltration and inflow analysis is not required and, because the town used volunteer labor (and the project started construction after September 30, 1994) Davis-Bacon prevailing wage rates do not apply either.

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. Since the end of SFY99, a final SERP submittal was received by EPA on November 3, 1999. On November 17, 1999 EPA provided official approval of the SERP and the Procedures Manual in which it is contained.

A comprehensive Environmental Assessment (EA) was performed for the Bandon project by Oregon DEQ on April 5, 1991. EPA issued a Finding of No Significant Impact (FONSI) on April 15, 1991 and provided a 30 day public response period. The EA reported a well attended public meeting without objections had been held in December 1990. There was also media coverage of the project and news articles were attached to the EA that was submitted to EPA. The EA addressed all the applicable environmental cross-cutters.

DEQ conducted an EA for the St. Helens project in 1989. Both EPA and DEQ reviewed the EA and a FONSI was issued for part of the project on September 27, 1989. It was acknowledged that additional Infiltration/Inflow (I/I) would have to be done later as the I/I problem was putting a tremendous stress on the system. The same EA was again submitted in 1992 to work on the I/I problem. A categorical exclusion (CE) was issued on October 1, 1992 and published in the Oregonian on the 13th of the same month. The EA addressed all the applicable environmental cross-cutters.

A copy of an environmental review was not found in the Bear Creek Valley project file.

During the environmental assessment process of the Monument project, the facility's planning and design team confirmed compliance with the Endangered Species Act as well as other applicable environmental cross cutting federal authorities. The town provided extensive opportunities for public participation during the entire facility planning and design process. The public continues to be involved during project construction due to the extensive use of volunteer labor.

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 follows¹²:

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
4Q FY98	\$ 13,801,813.00	\$ 29,235.00	0.21%	\$ 192,580.00	1.40%	4-Nov-98
1Q FY99	\$ 7,803,778.00	\$ 173,097.00	2.22%	\$ 437,050.00	5.60%	13-Aug-99
2Q FY99	\$ 13,794,337.00	\$ 444,202.00	3.22%	\$ 585,342.00	4.24%	13-Aug-99
3Q FY99	\$ 16,082,328.53	\$ 137,893.46	0.86%	\$ 638,049.10	3.97%	13-Aug-99
Total	\$ 51,482,256.53	\$ 784,427.46	1.52%	\$ 1,853,021.10	3.60%	

During SFY98, and again in SFY99, DEQ was late in submitting three 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.” Future DEQ MBE/WBE reporting **must** be submitted in a timelier manner.

During SFY99 the goals for MBE/WBE utilization were .469% and .664% respectively. Oregon far exceeded its MBE and WBE goals for the fiscal year. 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.

In June of 1997, Guidance from EPA’s Small, Minority and Women’s Business Enterprises was revised. The guidance which is to be used for EPA’s FY1998 fair share negotiations with States and other recipients of EPA financial assistance, reflect a number of changes to EPA’s existing MBE/WBE utilization Guidance. Since 1996, the US Department of Justice has worked with various federal agencies on their affirmative action programs in light of the Supreme Court’s decision in Adarand Constructors, Inc. vs Pena, 115 S CT 2097 (1995). A change to the revised Guidance that requires immediate action is that the State must complete an assessment of the availability of qualified MBE/WBE firms in its relevant geographical market. MBE/WBE objectives were based on data provided by this assessment. FY98 capitalization grant awards included MBE/WBE firms. The FY99 capitalization grant award included MBE/WBE goals based upon the availability assessment the State conducted.

¹² Source: EPA Forms 5700-52A

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.¹³

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%
Totals	\$14,466,661	\$345,948	2.39%	\$856,345	5.92%	8.31%
Goals (weighted)		\$ 1,048,428	7.25%	\$ 657,597	4.55%	5.90%

The State has fallen short of its MBE goal (by 4.86% or \$702,480) and exceeded its WBE goal (by 1.37% or \$198,748) based on capitalization grants FY89 through FY98 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 FY98 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 WBE goals for the FY97 and FY98 grants, the program has been unable to meet its goals.

EPA determined during FY98 that the way in which DEQ informs loan recipients and contractors of the MBE/WBE Six Affirmative Steps (40 CFR 31.36(e)) is not sufficient. DEQ should explicitly list the Six Affirmative Steps and the Fair Share Goals in its loan documents and in-turn require that the Loan Recipients include them in their bid documents. By spelling out the requirements, rather than just making a reference to the requirements in the loan documents, loan recipients and contractors do not have to look them up and are more aware of what is required. See Attachment III for information detailing what the Loan Recipients need to take into consideration when preparing their bid inserts.

The St. Helens loan document, attachment 3.5(a) and bid documents, documented compliance with the MBE/WBE regulations. The subcontractor signed a compliance form as well. The file was well documented for all MBE/WBE matters related to the winning bid.

¹³ Source: EPA Forms 5700-52A

The Bear Creek Valley loan documents certified that both the loan recipient and its contractors would comply with the MBE/WBE requirements. However, no clear elucidation of the required six steps was found in the project file.

The Monument project actively solicited minority and women owned businesses as well as small business when it solicited bids for work on the project. With one exception none of these firms submitted bids for work on the project. That one exception, a woman-owned business, submitted a winning bid for one component of the project.¹⁴ DEQ used a bid review checklist to verify compliance with applicable administrative cross cutting federal authorities.

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 ten projects submitted as equivalency projects have been found to lack the appropriate documentation. There are several options available to DEQ. EPA and DEQ will continue to discuss this matter further and we reach a conclusion during the PEV later this year in November.

Every CWSRF loan agreement includes language agreeing to comply with federal cross-cutting requirements. Compliance with the 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 St. Helens file found all applicable Equal Employment Opportunity language within the documents, all socioeconomic cross-cutting requirements met, and all signed certifications present.

The Bear Creek Valley project file had the standard loan language requiring adherence to the Federal cross-cutting requirements. However, a signed copy of Form 4700-4 could not be located.

The Monument files were complete with one exception. EPA was unable to find anything related to how the Town was informed of its obligations under Executive Order 11738 (prohibiting contracting with entities that have outstanding violations of either the Clean Air Act or the Clean Water Act) and how DEQ confirmed that the Town complied with this requirement in its solicitation and award of contracts.

¹⁴ The file did indicate that this company was not officially registered as a woman-owned business.

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 has been made. In this endeavor, they have enlisted the assistance of Bill Jarocki and Paul Woods of the Environmental Finance Center. EPA wishes DEQ and EFC luck and success and hopes to see some nonpoint source and estuary projects funded from the FY2002 IUP.

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

The FY99 Project Priority List (PPL) listed 90 community and project names with pre-application dollar requests of \$239,114,428. The IUP identified 57 projects with a total dollar value of \$101,374,533 that had anticipated binding commitments between July 1, 1998 and June 30, 1999. 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. Eighty-two potential projects listed in the FY99 IUP were Section 212 projects, two were Section 319 NPS projects, and six were Section 320 projects.

Of the above mentioned 57 projects listed in the FY99 PPL, nine new projects achieved binding commitments during the Period, while nine existing projects

TABLE 15: CWSRF PROJECT PRIORITY RANKING - SFY99		
B/C Date SFY99	Community	FY99 PPL Ranking (90 Projects)
4/99 - 6/99	Bear Creek Valley	Decrease
4/99 - 6/99	Bear Creek Valley	Increase
4/99 - 6/99	Boardman	#44
7/98 - 9/98	Canyonville	Increase
10/98 - 12/98	Cave Junction	Decrease
7/98 - 9/98	Clatskanie	Decrease
7/98 - 9/98	Coquille	Decrease
4/99 - 6/99	Corvallis	Increase
7/98 - 9/98	Florence	Increase
7/98 - 9/98	Florence	#3 FY98 IUP
4/99 - 6/99	Gov't Camp	#45
7/98 - 9/98	Gresham	Decrease
1/99 - 3/99	Gresham	Increase
7/98 - 9/98	Independence	Increase
4/99 - 6/99	Lakeside	#52
4/99 - 6/99	Monument	#24
4/99 - 6/99	Neskowin	Increase
1/99 - 3/99	Ontario	Decrease
7/98 - 9/98	Redmond	Increase
4/99 - 6/99	Sisters	#23
10/98 - 12/98	Springfield	Decrease
1/99 - 3/99	Tillamook	Increase
10/98 - 12/98	Turner	#6
7/98 - 9/98	Umatilla	#5 FY98 IUP
7/98 - 9/98	Unity	Decrease
7/98 - 9/98	Waldport	#18

received increases and eight decreases. Project priority ranking for actual binding commitments and increases and decreases to existing projects are listed in Table 14.

During SFY99 Oregon developed and submitted a thorough IUP for SFY 2000. Several aspects of the CWSRF continual application process for the IUP are noteworthy:

- The priority system used to evaluate and rank projects uses a suite of criteria that are consistent with the goals of the national program and that give the water quality benefits of a project a significant role in determining the project's overall rank;
- As administered, projects that received funding have, mostly, been projects that ranked high on the Project Priority List
- The use of a simple cash flow model (an Excel[®] workbook) to estimate the new loan volume that can be supported each quarter has allowed DEQ to significantly increase the number of loans it makes. This will result in faster cash flows out of the fund to projects under construction and in the fund revolving at a higher rate;
- DEQ is actively soliciting applications from sponsors of nonpoint source water quality projects and estuary management water quality projects in an effort to diversify its portfolio as called for by the Clean Water Action Plan.

A few suggestions for polishing the IUP development and design to make it more usable for EPA and the public are as follows:

- A brief narrative on all projects listed on the PPL, not just the new ones.
- A clearly stated fundable range based on availability of funds.
- The IUP sent to EPA for review in its draft form instead of final as submitted with capitalization grant application.
- A clearly articulated point assessment system.
- A numbered priority list.

Achievement of Goals and Objectives

The State had three long-term and five 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 abatement projects. During SFY99, DEQ continued to offer financial assistance to Oregon communities and agencies that work on nonpoint source abatement and in national estuaries. 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.

2. Long-Term Goal – To accompany mandates to comply with federal and state water quality standards with assistance in coping with the cost of compliance. 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 \$3 million to capital in SFY99.
1. Short-Term Goal – To continue working toward achieving and maintaining the revolving nature of the Fund and to maintain an adequate pace of disbursements compared to receipt of new funds and loan repayments. More projects will be financed over time if loans are made with a goal of minimizing cash balances beyond what is needed to maintain a reasonable reserve. The program came close to drawing down all available federal funds during FY99 and should reach this goal in FY00. At that point, the program will begin drawing on the fund balance cash that has accumulated over the course of the program in the form of repayments, interest on loans and investment earnings. This will make Oregon the first CWSRF program in Region X to take full advantage of its fund’s ability to finance new projects based on its real-time cash flows. Congratulations to the DEQ staff that have made this possible!

2. Short-Term Goal – To provide funding to local communities to the maximum extent possible within the constraints of sound financial management. The CWSRF in Oregon has committed all of the resources available to it (with the exception of a small cash reserve) and now relies upon the receipt of interest and repayments before committing to fund new loans. The financial accountant, Rick Watters, closely watches quarterly cash inflow in order to determine if any new loans may be made.
3. Short-Term Goal – To increase the assistance to local communities to implement non-point source management programs and to develop and implement estuary plans. This goal was not reached during SRY99 though a significant outreach effort had been undertaken since SFY98 to stimulate demand for nonpoint source projects. As a direct result of this outreach effort, a number of nonpoint and estuary projects submitted applications; 84% of which had never applied to the program before. It was hoped that some of these projects would be funded during SFY99; but that wasn't the case. The nonpoint source and estuary projects were not in areas with serious enough water quality problems and a lack of regulation limits the number of points a project can receive for Enforcement Activities and Water Quality Violations. A primary focus of the CWSRF during SFY 2001 will be modifying the program so as to include appropriate nonpoint source projects.
4. Short-Term Goal – To implement an application process that is more responsive to the timing needs of local communities. This may be a semi-annual or perhaps a quarterly application solicitation. Two open application periods were held during FY99. It is not felt at this time that more frequent open solicitation periods are necessary as many high priority projects are ready to proceed and yet still await funding.
5. To complete the 1999 and 2000 Intended Use Plans as well as the 1999 Capitalization Grant Application. The 1999 Capitalization Grant was submitted to EPA in March 1999 and was awarded on September 15, 1999. The solicitation for the 2000 IUP was conducted during FY99.

Reporting

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

The Annual Report was dated October 11, 1999 and arrived at EPA later the same month. The content and information provided 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,

there will be a set of “environmental indicators” to gauge how Clean Water SRFs are achieving desired environmental progress.

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 September of 1999.

Conclusions

The Oregon CWSRF continues to be a well managed and well-implemented program.

1. An experience 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 has become the fastest paced CWSRF in Region 10.
6. The program continues to use effective loan portfolio management practices to minimize the potential for borrowers to default on their loans.

Recommendations

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

1. During the FY98 program evaluation 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.
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.
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.

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

Fiscal Year	Time Period	Payments	Cum. Payments	BCs (Required)	Cum. BCs (Required)	BCs (Actual)	Cum. BCs (Actual)	Actual BC by SFY	Cum. (Actual)	Total Cum. Payments (Max. Cash Draw)	Cash Draws (Actual)	Cum. Cash Draws
									BC Percent			
FFY89	Oct-Dec 88	-	-	-	-	-	-	-	-	-	-	-
	Jan-Mar 89	-	-	-	-	-	-	-	-	-	-	-
	Apr-Jun 89	-	-	-	-	-	-	-	-	-	-	-
SFY90	Jul-Sep 89	-	-	-	-	-	-	-	-	-	-	-
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	4,063,700	7,421,676	-	8,672,800	39,893	39,893
FFY91	Oct-Dec 90	910,180	9,582,980	2,061,120	2,061,120	-	4,063,700	-	237%	9,582,980	46,499	86,392
	Jan-Mar 91	2,877,276	12,460,256	2,376,720	4,437,840	1,383,200	5,446,900	-	147%	12,460,256	1,616,651	1,703,043
	Apr-Jun 91	2,383,557	14,843,813	2,640,000	7,077,840	1,974,776	7,421,676	-	126%	14,843,813	2,841,873	4,544,916
SFY92	Jul-Sep 91	2,845,112	17,688,925	3,329,520	10,407,360	3,219,843	10,641,519	22,004,798	123%	17,688,925	335,142	4,880,058
FFY92	Oct-Dec 91	1,775,123	19,464,048	1,092,216	11,499,576	2,613,084	13,254,603	-	138%	19,464,048	2,475,913	7,355,971
	Jan-Mar 92	1,006,264	20,470,312	3,452,731	14,952,307	2,285,210	15,539,813	-	125%	20,470,312	2,647,005	10,002,976
	Apr-Jun 92	813,008	21,283,320	2,860,268	17,812,576	13,886,661	29,426,474	-	198%	21,283,320	805,985	10,808,961
SFY93	Jul-Sep 92	7,493,126	28,776,446	3,414,134	21,226,710	344,500	29,770,974	39,393,294	168%	28,776,446	6,204,730	17,013,691
FFY93	Oct-Dec 92	7,300,000	36,076,446	2,130,148	23,356,858	39,034,597	68,805,571	-	354%	36,076,446	4,301,271	21,314,962
	Jan-Mar 93	8,200,000	44,276,446	1,207,517	24,564,374	6,697	68,812,268	-	336%	44,276,446	1,869,685	23,184,647
	Apr-Jun 93	6,300,000	50,576,446	975,610	25,539,984	7,500	68,819,768	-	323%	50,576,446	3,815,546	27,000,193
SFY94	Jul-Sep 93	4,983,622	55,560,068	8,991,751	34,531,735	1,087,386	69,907,154	10,214,683	243%	55,560,068	9,897,689	36,897,882
FFY94	Oct-Dec 93	4,200,000	59,760,068	8,760,000	43,291,735	50,000	69,957,154	-	194%	59,760,068	2,359,074	39,256,956
	Jan-Mar 94	2,300,000	62,060,068	9,840,000	53,131,735	(674,750)	69,282,404	-	156%	62,060,068	3,123,171	42,380,127
	Apr-Jun 94	4,749,191	66,809,259	7,560,000	60,691,735	9,752,047	79,034,451	-	156%	66,809,259	4,636,270	47,016,397
SFY95	Jul-Sep 94	-	66,809,259	5,980,346	66,672,082	3,050,937	82,085,388	3,925,367	148%	66,809,259	4,260,901	51,277,298
FFY95	Oct-Dec 94	8,000,000	74,809,259	5,040,000	71,712,082	(234,699)	81,850,689	-	137%	74,809,259	6,814,434	58,091,732
	Jan-Mar 95	8,000,000	82,809,259	2,760,000	74,472,082	1,111,000	82,961,689	-	134%	82,809,259	1,450,617	59,542,349
	Apr-Jun 95	5,712,581	88,521,840	5,699,029	80,171,111	(1,871)	82,959,818	-	124%	88,521,840	346,022	59,888,371
SFY96	Jul-Sep 95	2,000,000	90,521,840	-	80,171,111	11,533,705	94,493,523	40,017,705	141%	90,521,840	4,275,260	64,163,631
FFY96	Oct-Dec 95	4,000,000	94,521,840	9,600,000	89,771,111	5,214,000	99,707,523	-	133%	94,521,840	163,117	64,326,748
	Jan-Mar 96	4,000,000	98,521,840	9,600,000	99,371,111	170,000	99,877,523	-	121%	98,521,840	2,131,621	66,458,369
	Apr-Jun 96	7,472,415	105,994,255	6,855,097	106,226,208	23,100,000	122,977,523	-	139%	105,994,255	586,992	67,045,361
SFY97	Jul-Sep 96	4,000,000	109,994,255	2,400,000	108,626,208	8,170,648	131,148,171	60,289,058	145%	109,994,255	1,987,900	69,033,261
FFY97	Oct-Dec 96	4,000,000	113,994,255	4,800,000	113,426,208	14,700,000	145,848,171	-	154%	113,994,255	2,064,027	71,097,288
	Jan-Mar 97	5,914,054	119,908,309	4,800,000	118,226,208	14,388,843	160,237,014	-	163%	119,908,309	1,386,561	72,483,849
	Apr-Jun 97	1,483,400	121,391,709	8,966,898	127,193,106	23,029,567	183,266,581	-	173%	121,391,709	1,940,519	74,424,368
SFY98	Jul-Sep 97	2,640,900	124,032,609	4,800,000	131,993,106	54,475,877	237,742,458	89,961,162	216%	124,032,609	3,367,954	77,792,322
FFY98	Oct-Dec 97	14,666,823	138,699,432	4,800,000	136,793,106	6,499,646	244,242,104	-	214%	138,699,432	1,724,438	79,516,760
	Jan-Mar 98	-	138,699,432	7,096,865	143,889,971	26,143,639	270,385,743	-	225%	138,699,432	3,505,882	83,022,642
	Apr-Jun 98	-	138,699,432	1,780,080	145,670,051	2,842,000	273,227,743	-	225%	138,699,432	12,033,019	95,055,661
SFY99	Jul-Sep 98	3,500,000	142,199,432	3,169,080	148,839,131	23,478,039	296,705,782	35,445,740	239%	142,199,432	7,613,909	102,669,570
FFY99	Oct-Dec 98	3,511,959	145,711,391	17,600,188	166,439,318	(771,133)	295,934,649	-	213%	145,711,391	13,414,062	116,083,632
	Jan-Mar 99	-	145,711,391	-	166,439,318	3,690,166	299,624,815	-	216%	145,711,391	15,974,227	132,057,859
	Apr-Jun 99	-	145,711,391	-	166,439,318	9,048,668	308,673,483	-	223%	145,711,391	11,976,159	144,034,018

ATTACHMENT II
Oregon CWSRF - SFY 99 ACH Cash Draw Report

SFY Month	SFY Draw Amount	SFY Month	SFY Draw Amount
01	1999 \$3,342	07	1999 \$284,703
01	1999 \$150,081	07	1999 \$2,065,244
01	1999 \$1,877,274	07	1999 \$33,356
01	1999 \$120,349	07	1999 \$1,239,848
01	1999 \$50,195	07	1999 \$144,693
	Month Total \$2,201,241		Month Total \$3,767,844
02	1999 \$18,501	08	1999 \$4,181,133
02	1999 \$1,030,691	08	1999 \$486,681
02	1999 \$1,045,919	08	1999 \$515,994
	Month Total \$2,095,111	08	1999 \$9,114
03	1999 \$35,783	08	1999 \$653,593
03	1999 \$8,707	08	1999 \$39,753
03	1999 \$59,690	08	1999 \$888,956
03	1999 \$1,252,095		Month Total \$6,775,224
03	1999 \$1,583,958	09	1999 \$662,519
03	1999 \$421,814	09	1999 \$2,732,431
03	1999 -\$35,783	09	1999 \$443,855
03	1999 -\$8,707	09	1999 \$61,379
	Month Total \$3,317,557	09	1999 \$1,530,975
	Qtr Total \$7,613,909		Month Total \$5,431,159
04	1999 \$458,252		Qtr Total \$15,974,227
04	1999 \$1,737,627	10	1999 \$291,397
04	1999 \$650,837	10	1999 \$57,695
04	1999 \$67,822	10	1999 \$197,175
04	1999 \$56,164	10	1999 \$153,975
04	1999 \$798,446	10	1999 \$1,096,742
	Month Total \$3,769,148	10	1999 \$2,309,658
05	1999 \$524,206	10	1999 \$1,011,823
05	1999 \$1,204,875		Month Total \$5,118,465
05	1999 \$603,272	11	1999 \$194,735
05	1999 \$1,725,672	11	1999 \$59,338
05	1999 \$533,534	11	1999 \$459
05	1999 \$71,022	11	1999 \$895,177
	Month Total \$4,662,581		Month Total \$1,149,709
06	1999 \$719,930	12	1999 \$3,230
06	1999 \$240,748	12	1999 \$1,247,487
06	1999 \$2,515,660	12	1999 -\$1,250,717
06	1999 \$175,323	12	1999 \$621,756
06	1999 \$1,330,672	12	1999 \$1,855,741
	Month Total \$4,982,333	12	1999 \$74,699
	Qtr Total \$13,414,062	12	1999 \$207,668
		12	1999 \$2,890,758
		12	1999 \$57,363
			Month Total \$5,707,985
			Qtr Total \$11,976,159
			SFY99 Total \$48,978,357

The total federal draws recorded in IFMS for SFY99 differ from the Annual Report by \$240,003 due to timing issues for one loan draw and one draw for administration.