Oregon Clean Water State Revolving Fund Annual Report

September 2022

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DEQ is a leader in restoring, maintaining and enhancing the quality of Oregon's air, land and water.

State of Oregon
Department of Environmental Quality

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Alternative formats

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Executive summary

Oregon's Clean Water State Revolving Fund mission is to provide technical assistance and below-market rate loans for planning, design and construction projects that improve water quality and environmental outcomes. This program supports public health, local economies and environmental protection statewide.

Since the program began in 1988, communities all over Oregon have benefited from more than $1 billion in water infrastructure investments. The program finances traditional wastewater treatment projects that address point source pollution, as well as nontraditional treatment, or nonpoint source pollution control projects. Unlike point source pollution from industrial and sewage treatment plants, nonpoint source pollution comes from a variety of sources such as rainfall or snowmelt moving over and through the ground, contaminating rivers, lakes and other bodies of water.

The Clean Water State Revolving Fund is maintained through an annual EPA capitalization grant, repaid loans, interest and fees. According to EPA, for each dollar of federal capitalization, $3 of assistance is provided to communities, maximizing funds and environmental benefits. The program issues an Intended Use Plan twice per year, which describes the water quality projects approved for financing.

This annual report describes how the program met its goals and objectives, provides project highlights and includes financial data required by EPA from the state fiscal year July 1, 2021 through June 30, 2022.

State fiscal year 2022 overview

- DEQ executed 11 ***new*** loans totaling $19,521,500
- DEQ provided increased financing in the amount of $27,347,430 for current loans
- The latest edition of the Oregon CWSRF Intended Use Plan for State fiscal year 2022 included 23 loan applications for a total of $174,783,989 in requested funding.
- The average interest rate for loans was 0.92 percent
- Financing to ten small communities totaled $15,900,401
- Nine communities were awarded principal forgiveness of up to $500,000

1.Program goals

The program annually reviews how well it is meeting programmatic and financing goals and objectives from the previous state fiscal year. The "actions taken" items below offer examples of steps taken to achieve each objective.

1. **Goal: Assist communities in restoring, maintaining and enhancing water quality by offering financial assistance for water pollution control, water quality improvement and protection projects.**

   Objective: Continue to focus on providing below-market rate loans to publicly-owned wastewater treatment facilities throughout Oregon. Develop tools to assist communities in obtaining loans.

Action taken:

- Staff continue to identify ways to assist applicants in applying for loans. Examples include updating the application documents to be more streamlined and easier to understand.
- Staff promoted EPA-led trainings around requirements such as American Iron and Steel and EPA's Climate Resilience, Evaluation and Awareness Tool (CREAT).

  Staff initiated a new pre-loan assessment review process to assist communities in being loan ready, using an online form that allows potential applicants to receive feedback at any stage of project development.

Objective: Support emerging markets to obtain loans; these include borrower types such as:

- Non-profit community development financial institutions for septic system repair, replacement, or connection to sewer;
- Irrigation districts; and
- Eligible borrowers for local community loans, which are a type of pass through lending.

Actions taken:

- The spring/summer 2022 CWSRF newsletter focused on how communities can prepare for, and respond to, natural disasters and climate change challenges such as drought, fire and flooding.
- The program supported irrigation districts with financing and loan application assistance.
- The program established rules for lending to Community Development Financing Institutes.

Objective: Encourage innovative and non-traditional projects, such as green infrastructure, water, energy efficiency, climate resilience and environmentally and financially sustainable projects.

Actions taken:

- Staff participates in a state wide climate adaptation work group to ensure the CWSRF is partnering with other agencies for protection of water quality.
- Staff participated in training for EPA's Climate Resilience, Evaluation and Awareness Tool (CREAT)
- Staff presented to Basin Coordinators on CWSRF-eligible projects that use natural systems for water quality
- The program used the spring/summer newsletter to promote planning and construction projects to prepare for, and respond to, droughts, fire and other natural disasters made worse by climate change.

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

Action taken:

- The program advertised financing for nonpoint source projects in two statewide publications.

2. **Goal: Administer the Clean Water State Revolving Fund for program excellence and ensure compliance with program regulatory requirements, financial integrity, viability and perpetuity.**

   Objective: Maintain the revolving nature of the fund and an active pace of disbursements in conjunction with the receipt of new funds and loan repayments.

   Actions taken:

- DEQ maintains adequate fund reserves to increase the number and amounts of new loans, as verified by the program's annual audit by the Oregon Secretary of State.
- Program staff collaborate with the National Pollutant Discharge Elimination System Permitting Program to identify permit status and new permit issuance dates for CWSRF loan applicants to determine if or how permit status will impact design and construction timelines. Staff use this information to troubleshoot options to avoid or mitigate any construction timeline delays that could impact pace.
- EPA's calculations indicate an increased fund utilization rate to 96 percent.

Objective: Ensure the program budget adequately supports resources, administrative costs and anticipates future needs.

Action taken:

- The program maintains financial stability. Current projected solvency is for at least 50 years at 2022 funding and repayment levels, even in cases of reduced federal investments.

Objective: Provide financial assistance that is most advantageous to borrowers, to the maximum extent possible, and maintain sound financial management of the fund.

Actions taken:

- DEQ offers its lowest interest rates to small communities below the median household income and reserves 15 percent of total funds available for small communities, making loans accessible to populations of fewer than 10,000 people. Principal forgiveness is prioritized to borrowers that are identified as Distressed on the Business Oregon index.
- Financing was extended to 10 small communities totaled $15,900,401during state fiscal year 2022.
- DEQ surveyed several other state SRF programs to identify opportunities to better support disadvantaged communities.

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

Actions taken:

- The program continues to promote a guide for stormwater management developed by program staff, which encourages green infrastructure to address stormwater runoff, a leading cause of water pollution. This is especially relevant in light of the recent federal stormwater grant program.

The program initiated more technical assistance to communities by advertising for a contractor via a RFP process.

Objective: Ensure the program effectively serves the needs of Oregon communities that are incorporating water quality solutions.

Action taken:

- The program approved 16 loan applications for a variety of water quality improvement projects for financing described in the 2021 Intended Use Plan.
- Staff provided technical assistance for 15 communities to help them identify CWSRF-eligible projects that improve water quality and habitat.
- Staff piloted updated processes for Construction Management General Contracting approach, which can streamline the construction process.

Objective: Ensure the program complies with changing state and federal regulations.

Actions taken:

- The program met its federal requirements documented in EPA's annual Program Evaluation Review.
- The program remains in compliance with state and federal requirements.
- During State Fiscal Year 2022, DEQ began a rulemaking associated with the Bipartisan Infrastructure Law to allow for more principal forgiveness allowed under the law.

Objective: Strategically market and communicate the Clean Water State Revolving Fund availability, eligible projects and benefits to decision makers at eligible public agencies. Build on previous successes.

Actions taken:

- The program continues to advertise in statewide trade magazines such as Oregon Association of Water Utilities, to electronically distribute a program newsletter three times per year, and to provide outreach at virtual tradeshows to increase the program's visibility.
- The program staff participated in panel discussions, and marketed at several tradeshows, including the Oregon Infrastructure Summit and the League of Oregon Cities conferences.

3. **Goal: Assist borrowers with the loan process to meet regulatory requirements with federal and state water quality standards, utility and financial management.**

Objective: Provide technical assistance to small communities using principals of effective utility management to assess financial, operational, and infrastructure capacity needs that will result in water quality improvements.

Actions taken:

- Staff are versed in Effective Utility Management and available to assist communities in understanding implementation, and the benefits of this approach.
- Staff continue to attend One-Stop meetings in collaboration with other state and federal funding agencies to offer funding and co-funded financing options to potential borrowers. Of the five One-Stop meetings this past year, one community submitted CWSRF loan applications for more than $30 million in requested financing.
- Staff will present a session at the Oregon Infrastructure Summit aimed at helping small communities understand the requirements tied to state and federal assistance.
- The program will hire a contractor to assist communities with technical assistance.

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

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

Actions taken:

- Staff collaborated with basin coordinators to ensure information about financing opportunities was shared with communities.

- Staff partnered with Business Oregon and Oregon Health Authority to promote the Bipartisan Infrastructure Law.

2. Program highlights

2.1 Principal forgiveness

In addition to below-market rate loans, the CWSRF offers principal forgiveness to help economically disadvantaged communities afford loans, or for projects that conserve water or energy, or are environmentally innovative.

Additional subsidization, which Oregon provides in the form of principal forgiveness, is required under federal appropriations. EPA's fedeal capitalization grant required DEQ to allocate a minimum of 10 percent in principal forgiveness. In state fiscal year 2022, principal forgiveness totaling $3,744,750 was distributed to nine communities. Each awardee received up to 50 percent of their loan amount in principal forgiveness, to a maximum of $500,000 per loan.

Table 1: Principal forgiveness allocation state fiscal year 2022

Loan No.	Borrower	PF award	Criterium
76074	Redmond	500,000	distressed
78600	RRVID &MID	500,000	GP
91415	TSID	400,000	distressed
13842	Bay City	150,000	distressed
62374	Madras	500,000	distressed
49802	Joseph	219,750	distressed
14529	Bend	375,000	GP
14530	Bend	500,000	GP
62375	Madras	500,000	distressed
69600	North Unit ID	100,000	GP

Project highlights

Gleneden Sanitary District conveys their wastewater to the Depoe Bay wastewater treatment facilities. The goal of the project is to eliminate sanitary sewer overflows from the Gleneden collection system. This project includes replacement of two pump stations and a force main, upgrades to two additional pump stations and appurtenances, and upgrades of the control system and telemetry of the collection system. This project received $500,000 in principal forgiveness to help defray user costs increases that will pay for the debt service on the DEQ loan. Project completion is expected in Fall 2022.

City of Cascade Locks:

This project completed improvements to the collection system, headworks, sequencing batch reactor, flow control valve, ultraviolet (UV) light disinfection system, effluent pH adjustment system and sludge management. DEQ was pleased to provide an interim financing loan, with USDA Rural Development as the primary funder. Providing interim, grant anticipation or “gap” funding is one of the flexibilities of the Clean Water State Revolving Fund.

2.2 Green projects

EPA's annual federal capitalization grant requires DEQ to fund projects that are "green," based on EPA criteria, to the extent that there are sufficient eligible green projects. The $17,949,000 annual capitalization grant required that the total of binding commitments for green projects must equal no less than 10 percent, or $1,794,900 in state fiscal year 2022.

Table 1: Green Project Reserve met during State Fiscal Year 2022

Borrower Name	Loan Number	Loan Amount	GPR Amount	Binding Date
City of Bend	R14529	750,000	750,000	5/27/2022
City of Bend	R14530	1,750,000	1,750,000	5/27/2022
Total		2,500,000	2,500,000	

DEQ established the Green Project Reserve, or GPR, to finance projects that are water efficient, energy efficient, environmentally innovative or include green infrastructure.

DEQ's current Intended Use Plan has several loan applications that include project costs that meet the GPR criteria. DEQ will continue to promote green projects and meet this requirement during the next fiscal year by encouraging applicants to consider environmentally innovative or conservation-related projects and assisting with expediting the loan execution process.

3. EPA regulatory requirements

EPA has requirements that must be met by states each fiscal year. Below are the specific requirements, followed by an explanation of how the Oregon program has complied.

1. **Review all SRF funded section 212 projects in accordance with the approved environmental review procedures**

   Environmental review during state fiscal year 2022 was completed on all new projects, except for planning projects. For these projects, DEQ reviewed all requests for categorical exclusions and environmental assessments submitted by CWSRF borrowers according to the requirements of the State Environmental Review Process.

   After incorporation of any DEQ comments, DEQ solicited public comments through notices published in one statewide and one local newspaper of general circulation. Table 3 below describes loan activity during the past four quarters. Included are determinations made by DEQ during an environmental review.

   These include a Finding of No Significant Impact, also called a FONSI, which means DEQ determined that the action will not have significant environmental impacts. A FONSI determination requires a broader environmental analysis known as an Environmental Assessment. A Categorical Exclusion, CE, means that the project is exempt from a detailed environmental analysis because of no anticipated significant impact on the environment. Loans that have "N/A" in the environmental determination column in Table 3 were planning loans or design-only loans not subject to environmental review.

Table 3: Loan activity and environmental determinations by quarter

Quarter	Loan Number	Borrower Name	Binding Date	Environmental Determination	Loan Amount	Type of funding	Quarterly Total
Quarter 1	62374	Madras	7/7/2021	CE	$1,140,000.00	NEW	
	97793	Winston	7/7/2021	n/a	($3,029.00)	Decrease	
	21644	COID	7/12/2021	n/a	($227,385.00)	Decrease	
	80491	Sandy	7/12/2021	n/a	($575.00)	Decrease	
	47840	Island City SD	7/27/2021	n/a	$346,145.00	INCREASE	
	76074	Redmond	8/2/2021	n/a	$6,400,000.00	NEW	
	80492	Sandy	8/24/2021	n/a	$10,325,000.00	INCREASE	
	1170	Ashland	8/31/2021	n/a	$259,427.00	INCREASE	
	56201	Lebanon	9/2/2021	n/a	$13,500,000.00	INCREASE	
	10514	Albany	9/7/2021	n/a	($2,890,397.00)	Decrease	
	89541	Sutherlin	9/8/2021	n/a	($32,544.00)	DECREASE	
						total Q1	**$28,816,642.00**
Quarter 2	91415	Three Sisters ID	10/12/2021	CE	$800,000.00	NEW	
	22406	Clackamas SWCD	10/25/2021	n/a	($7,756.00)	Decrease	
	22407	Clackamas SWCD	10/25/2021	n/a	$7,756.00	Increase	
	14520	Bend	10/25/2021	n/a	($1,315,615.00)	Decrease	
	24005	Coos Bay	10/25/2021	n/a	$826,000.00	Increase	
	62373	Madras	10/29/2021	n/a	$100,000.00	Increase	
	13842	Bay City	12/30/2021	CE	$50,000.00	New	
						total Q2	**$460,385.00**
Quarter 3	14528	Bend	1/11/2022	n/a	$3,950,000.00	?	
	14518	Bend	2/1/2022	n/a	($1,468,044.00)	Decrease	
	93052	Umatilla	2/4/2022	n/a	($54,206.00)	DECREASE	
	29522	Dufur	2/14/2022	CE	$2,442,000.00	NEW	
	47743	Irrigon	3/17/2022	n/a	($349,303.00)	Decrease	
						total Q3	**$4,520,447.00**
Quarter 4	72401	Pendleton	4/27/2022	n/a	($3,512,700.00)	decrease	
	24004	Coos Bay	5/2/2022	n/a	$743,102.00	Increase	
	62373	Madras	5/10/2022	n/a	($98,912.00)	decrease	
	14522	Bend	5/10/2022	n/a	($2,145,723.00)	decrease	
	27850	Dexter SD	5/23/2022	n/a	($2,029.00)	decrease	
	49802	Joseph	5/27/2022	CE	$439,500.00	NEW	
	14529	Bend	5/27/2022	n/a	$750,000.00	NEW	
	14530	Bend	5/27/2022	n/a	$1,750,000.00	NEW	
	14531	Bend	6/10/2022	CE	$1,400,000.00	NEW	
	11755	Ashland	6/21/2022	n/a	$1,000,000.00	Increase	
	13842	Bay City	6/21/2022	n/a	$250,000.00	Increase	
	1172	Ashland	6/22/2022	EA	$400,000.00	NEW	
						Total Q4	**$973,238.00**
							34,770,712

2. Deposit match on or before the date on which each quarterly grant payment was made

Each year, DEQ documents to EPA non-federal disbursements equal to 20 percent of the capitalization grant prior to drawing grant funding. In state fiscal year 2022, DEQ demonstrated non-federal disbursement in the amount of $4,962,039 paid to loans R52605 and R14521 on 5/27/2021 and 6/29/2021 respectably.

The CWSRF uses program interest earnings to pay the principal and interest on general obligation bonds that were previously issued by the state to provide the 20 percent matching funds as required by the Clean Water Act. Table 4 summarizes bonds outstanding as of June 30, 2022.

Table 4: Outstanding bonds in state fiscal year 2022

Series	Date	Original Balance	Principal Paid SFY 2022	Interest Paid SFY 2022	Remaining Balance Due
2010	10/9/2021	4,945,000.00	2,825,000.00	48,009.32	0
2012	11/1/2021	4,235,000.00	195,000.00	56,125.00	
	5/1/2022			51,250.00	2,615,000.00
2013	8/1/2021	4,015,000.00	450,000.00	35,375.00	
	2/1/2022		0	24,125.00	965,000.00
2015	8/1/2021	4,040,000.00	410,000.00	56,625.00	
	2/1/2022			46,375.00	1,855,000.00
TOTAL		**17,235,000.00**	**3,880,000.00**	**317,884.32**	**5,435,000.00**

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

DEQ's CWSRF loan program complied with equivalency requirements for loan projects in an amount no less than the capitalization grant amount. Equivalency requirements include demonstration of compliance with applicable federal environmental cross-cutters, qualifications based procurement for architecture and engineering services requirements, signage, Disadvantaged Business Enterprises procurement efforts, FFATA reporting and Single Audit Act reporting. For state fiscal year 2022, the City of Lebanon, loan number R52601 and City of Redmond, loan number R76074 for a total of $19,900,000 was selected for this purpose.

4. Make binding commitments to provide financial assistance equal to 120 percent of the amount of each grant payment within one year after receiving the grant payment pursuant to §35.3135(c)

Table 5 summarizes loan activity and program administrative expenses. This demonstrates DEQ's compliance with the federal requirement, 40 CFR §35.3135(c), to execute binding commitments in an amount equal to or greater than 120 percent of all federal grant payments within one year of those payments on a cumulative basis.

Table 5: Loan activity during state fiscal year 2022 and program administrative expenses

Total loans as of June 30, 2021	1,478,926,506
Total Admin. Exp. Pd. From Grants	10,446,523
Total Commitments	1,489,373,029
Federal Payments thru June 30, 2021	531,399,785
FISCAL YEAR 2022 ACTIVITY	
Loans	34,770,712
Admin. Expense Pd. From Grants	717,960
Federal Payments (prior yr.)	17,231,040
Cumulative Total Loans as of June 30, 2022	1,513,697,218
Cumulative Total Admin. Exp. Pd. From Grants	11,164,483
Total Commitments	1,524,861,701
Cumulative Total Fed. Payments thru SFY2022	548,630,825
Commitments as a percentage of federal payments (cumulative)	278%

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

DEQ scores and ranks each eligible loan application and incorporates the loan application into the Intended Use Plan, known as the IUP. Projects can only be funded if they are included in the IUP and are "ready to proceed," meaning the project satisfies all CWSRF loan requirements. This may include, for example, a land use compatibility statement, an environmental review and documentation supporting compliance with the federal environmental cross-cutting authorities. An applicant is not considered ready to execute a loan agreement until all such requirements have been satisfied.

Currently, DEQ has sufficient funds to award funding to all projects as they become ready to proceed. This ensures the fund is utilized in a timely manner. In the event the program does not have sufficient funds available to finance all projects that are ready to proceed, DEQ will award funding to projects that are ready to proceed in ranked order based on project score.

If an applicant declines funding, DEQ will go to the next highest ranking project and offer funding to that applicant until all available funds have been committed.

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

4. Financial Reports

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2022

	Loan Fund	Administration	TOTAL
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 280,068,631	$ 2,316,614	$ 282,385,245
Loans Receivable, Net	27,599,512	-	27,599,512
Loan Interest Receivable	1,831,904	-	1,831,904
Due From Oregon DEQ	-	80,466	80,466
Other Accounts Receivable	3,063,782	-	3,063,782
Total Current Assets	312,563,829	2,397,080	314,960,909
Non-Current Assets:			
Loans Receivable, Net	488,310,025	-	488,310,025
Loan Interest Receivable	2,144,330	-	2,144,330
Total Non-Current Assets	490,454,355	-	490,454,355
Total Assets	$ 803,018,184	$ 2,397,080	$ 805,415,264
Liabilities and Net Position			
Current Liabilities:			
Accounts Payable	$ -	$ 10,228	$ 10,228
Payroll Payable	-	139,472	139,472
Compensated Absences Payable	-	77,903	77,903
Bond Interest Payable	75,833	-	75,833
Bonds Payable	1,105,000	-	1,105,000
Total Current Liabilities	1,180,833	227,603	1,408,436
Non-Current Liabilities:			
Compensated Absences Payable	-	7,188	7,188
Bonds Payable	5,119,423	-	5,119,423
Total Non-Current Liabilities	5,119,423	7,188	5,126,611
Total Liabilities	6,300,256	234,791	6,535,047
Net Position:			
Unrestricted	796,717,928	2,162,289	798,880,217
Total Net Position	796,717,928	2,162,289	798,880,217
Total Liabilities and Net Position	$ 803,018,184	$ 2,397,080	$ 805,415,264

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

The above numbers are unaudited and subject to modification.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2022

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OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Loan Fund	Administration	TOTAL
Cash Flows From Operating Activities:			
Receipts from Loan Fees	$ -	$ 1,696,648	$ 1,696,648
Payments to Vendors	-	(300,444)	(300,444)
Payments to Employees	-	(1,600,619)	(1,600,619)
Payments for Indirect Cost	-	(331,195)	(331,195)
Trf to Admin Fund	(1,108,623)	1,108,623	-
Net Cash Flows Provided (Used) in Operating Activities	(1,108,623)	573,013	(535,610)
Cash Flows From Noncapital Financing Activities:			
Receipts from Federal Grants	18,339,663	-	18,339,663
Principal Payments on Bonds	(1,055,000)	-	(1,055,000)
Interest Payments on Bonds	(153,888)	-	(153,888)
Net Cash Provided (Used) in Noncapital Financing Activities	17,130,775	-	17,130,775
Cash Flows from Investing Activities:			
Receipts from Treasury Interest Credits	1,595,905	11,966	1,607,871
Repayments from Loan Interest	7,429,714	-	7,429,714
Repayments from Loan Principal	31,516,486	-	31,516,486
Disbursements to Borrowers	(64,213,065)	-	(64,213,065)
Net Cash Provided (Used) in Investing Activities	(23,670,960)	11,966	(23,658,994)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,648,808)	584,979	(7,063,829)
Cash and Cash Equivalents, Beginning	286,813,080	1,731,635	288,544,715
Cash and Cash Equivalents, Ending	$ 279,164,272	$ 2,316,614	$ 281,480,886

Reconciliation of Operating Income to
Net Cash Provided (Used) in Operating Activities:

Operating Income (Loss)	1,516,768	609,423	2,126,191
Adjustments to Reconcile Operating Income to			
Net Cash Provided (Used) in Operating Activities:			
Loan Interest Receipts Reported as Operating Revenue	(7,429,714)	-	(7,429,714)
Bond Interest Payments Reported as Operating Expense	153,888	-	153,888
Principal Forgiveness Expense Reported as Operating Expense	4,650,435		4,650,435
Amortization of Bond Premium	(187,272)	-	(187,272)
Net Changes in Assets and Liabilities:			
Loan Interest Receivable	1,146,989	-	1,146,989
Accounts Payable	-	(1,422)	(1,422)
Payroll Payable	-	(644)	(644)
Due From Oregon DEQ		(39,180)	(39,180)
Bond Interest Payable	(19,542)	-	(19,542)
Compensated Absences Payable	-	4,836	4,836
Total Adjustments	(1,685,216)	(36,410)	(1,721,626)
Net Cash Provided (Used) in Operating Activities:	$(168,448)	$573,013	$404,565

The accompanying notes are an integral part of the financial statements.
The above numbers are unaudited and subject to modification.

Notes to the Basic Financial Statements - Enterprise Fund June 30, 2022

1 Summary of Significant Accounting Policies

The accompanying financial statements of the State of Oregon Department of Environmental Quality Clean Water State Revolving Fund have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing accounting and financial reporting principles.

1.1 Reporting Entity

The Oregon Clean Water State Revolving Fund (CWSRF) was established pursuant to Oregon Revised Statutes 468.423 – 468.440 and the 1987 amendments to the federal Clean Water Act. The purpose of CWSRF is to provide low interest loans to local governments for the planning, design and construction of wastewater treatment facilities, implementation of nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 30 years, and all repayments, including interest and principal, must be credited to the CWSRF.

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

DEQ charges the CWSRF for staff time spent on CWSRF activities, and the CWSRF pays those expenses from the Administration fund. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to CWSRF. The rate of indirect cost is negotiated annually with EPA.

In FY2021, Oregon DEQ used its 4% administrative allowance from the EPA Capitalization Grant. The 4% administrative allowance was used to cover cost incurred for management of the SRF program and for management of projects receiving financial assistance from the SRF. This is the first time in more than 10 years Oregon DEQ elected to draw on its 4% administrative allowance. The Program will assess the need to continue using the administrative allowance in subsequent years.

The Annual Financial Report is prepared for the U.S. Environmental Protection Agency as an Enterprise Fund of the State of Oregon, which uses the accrual basis of accounting. For the purpose of the State of Oregon's Annual Comprehensive Financial Report (ACFR), the CWSRF is included in the Environmental Management Fund, which is reported as a governmental special revenue fund using the modified accrual basis of accounting. Due to differences in basis of accounting, there may be differences between the amounts reported in these financial statements and the State of Oregon's ACFR.

1.2 Basis of Presentation – Fund Accounting

DEQ programs and accounts are organized by "funds", each of which is a separate accounting entity. Each major program utilizes a separate set of self-balancing accounts to record the assets, liabilities, net position, revenues and expenses of their activities. DEQ's CWSRF loan program is classified as a proprietary fund for the purposes of these financial statements, however DEQ treats this fund as a governmental fund. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. The CWSRF loan program is accounted for in an Enterprise Fund. Enterprise Funds account for and report any activity for which fees are charged to external users for goods and services.

1.3 Measurement Focus and Basis of Accounting

The basic financial statements for the Fund are presented as an Enterprise Fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual basis of accounting, in accordance with state policy (OAM 15.40.00). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flow. All revenues and expenses of the Fund are considered to be operating revenues and operating expenses, with the exception of federal grant income and interest income, which are considered to be non-operating revenue. All assets and liabilities associated with the operations of the Fund are included on the Statement of Net Position.

1.4 Cash and Cash Equivalents

All monies of the Fund are deposited with the Office of the State Treasurer, which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash and cash equivalents. Interest earnings on these deposits are received by the Fund on a monthly basis. The Fund has no other cash deposits or investments.

1.5 Loans Receivable/Bonds Receivable

Loans and bonds are funded by federal capitalization grants, state matching funds, loan repayments and fund earnings. The CWSRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the project is complete, repayment begins with an interest only payment.

Loans and bonds are fully amortized to assure full repayment by the loan or bond maturity date.

DEQ has been required, under the terms of several grant awards from EPA, to offer additional subsidization to certain borrowers. DEQ has chosen to offer this subsidization in the form of principal forgiveness and has implemented this in administrative rule (OAR 340-054-0065). Loans Receivable are stated net of the allowance for principal forgiveness.

1.6 Long-Term Obligations

Long term obligations of the Fund consist of bonds issued to provide the required State matching funds for the federal capitalization grants, and the non-current portion of compensated absences. Bonds issued on behalf of the CWSRF are reported on the Statement of Net Position, net of the related premium or discount. Bond premium and discount are amortized over the life of the bond issues. Bond premium and discount are reported in the Statement of Revenues, Expenses and Changes in Fund Net Position as bond interest expense.

1.7 Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the state does not pay any amounts when employees separate from state service. A liability for vacation leave (compensated absences) is accrued when incurred as employees may be paid for up to a maximum of 300 hours of accrued vacation leave upon separation from state service.

2 Cash and Cash Equivalents

On June 30, 2022, the book balance of cash and cash equivalents was $282,424,446 and the bank balance was $282,472,709. All cash in the Fund is deposited in demand accounts with the State Treasurer in the Oregon Short-Term Fund (OSTF), a cash and investment pool for use by all state agencies.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The CWSRF does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and the Oregon law.

Further details of the investments and a copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 867 Hawthorne Ave. SE, Salem, Oregon 97301 or located at the following web site:

https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.aspx

3 Loans Receivable

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate (see ORS 468.440). Interest rates vary depending on the length of the loan, the type of loan, and program rules (at OAR 340-054). Rates range from 25% of the bond rate for 5 year loans to 55% of the bond rate for 30 year loans. Recipients make semiannual or, in some cases, annual payments, and must begin loan principal and interest repayments within one year of the date the facility is operationally complete and ready for the purpose it was planned, designed, and built or the project is completed, as determined by DEQ. There is an allowance account for that portion of loan disbursements that will not be repaid due to principal forgiveness offered to some borrowers. Principal forgiveness is offered to some borrowers, based on criteria in administrative rule, to comply with a requirement included in DEQ's grant agreement with EPA. There is no additional allowance account, because Fund management believes all existing borrowers will pay as agreed. The detail of loans receivable as of June 30, 2021 is as follows:

Loans Receivable	$494,538,759
Less: Allowance for Doubtful Accounts	($6,228,734)
Net Loans Receivable, 6/30/2021	$488,310,025

4 Bonds Payable

In July 2003 EPA agreed to the use of the CWSRF Fund assets to pay the principal and interest on general obligation bonds that were previously issued by the State to provide the 20 percent state matching funds as required by the Clean Water Act. The following table summarizes bonds with activity during Fiscal Year 2021:

Original Issue

Series	Due Dates	Interest Range	Original Amount
2012A	2014-2024	2% - 3.75%	$ 4,235,000
2013A	2014-2024	2.0% - 5.0%	4,015,000
2015A	2016-2026	5%	4,040,000
		Total:	$ 12,290,000

Bonds Outstanding

Series	Balance 6/30/2021	Increases	Decreases	Balance 6/30/2022	Due Within One Year
2012A	$ 3,015,000		$ 195,000	$ 2,820,000	205,000
2013A	1,415,000		450,000	965,000	260,000
2015A	2,265,000		410,000	1,855,000	430,000
Total	$ 6,695,000	-	$ 1,055,000	$ 5,640,000	$ 895,000

The bond interest rates noted above differ depending on the term of the individual security. Thus, those securities with the longest term yield the highest interest rate.

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements for each year during the next five-year period, and in five year increments thereafter.

Year Ending 6/30/2022	Bond Principal	Bond Interest	Total Debt Service
2022	$ 1,055,000	$ 269,875	$ 1,324,875
2023	1,035,000	215,875	1,250,875
2024	1,165,000	159,125	1,324,125
2025	705,000	112,375	817,375
2026	740,000	76,250	816,250
2027-2031	1,335,000	191,175	1,526,175
2032-2036	590,000	17,850	607,850
Totals	$ 6,625,000	$ 1,042,525	$ 7,667,525

5 Changes in Long-Term Liabilities

The liability for compensated absences is calculated based on the vacation accrual at June 30, 2022 for each employee whose duties include CWSRF related activities. Bonds payable includes amounts payable on bonds issued to benefit the CWSRF fund, and also includes the unamortized amounts of bond discount or premium.

The long term liability activity for the year ended June 30, 2022 was as follows:

	Beginning Balance 07/01/2021	Increases	Decreases	Ending Balance 06/30/2022	Due Within One Year
Bonds Payable	$ 6,695,000		$ 1,055,000	$ 5,640,000	1,105,000
Issuance Premium	771,695		$ 187,272	$ 584,423	
Issuance Discount	-			$ -	
Total Bonds Payable	7,466,695		1,242,272	6,224,423	1,105,000
Compensation Absences	80,255	85,091	80,255	85,091	77,903
Total Long Term Liabilities	$ 7,546,950	$ 85,091	$ 1,322,527	$ 6,309,514	$ 1,182,903

6 Loan Fees

In order to support administration and project management costs, loan fees are assessed on loans originating after 1992. A fee of 0.50 percent is assessed on the outstanding loan principal balance and is collected annually, beginning with the second loan payment.

Fees are deposited to a separate Treasury account and are used only for administrative and project management costs. Planning loans are not assessed annual fees in order to encourage Oregon communities to complete more planning.

7 Employee Retirement Plan

Plan Description

As part of the State of Oregon, the Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans to the Fund's employees. PERS is a cost-sharing multiple-employer defined benefit pension plan. All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the members IAP account. The pension plans provide pension benefits, death benefits, and disability benefits.

PERS issued a separate, publicly available, audited financial report that may be obtained from the Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2022, for state agencies general service members were: 22.38% for Tier One/Tier Two and 17.29% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by state agencies.

Employer contributions for the fiscal year ended June 30, 2021, were $25,144 for Tier One/Tier Two and $107,213 for OPSRP. Member contributions for the fiscal year ended June 30, 2021, were $50,396.

<u>Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources</u>

At June 30, 2022, the State reported a liability of $5 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. At the June 30, 2021, measurement date, the State's proportion, was 27.42% percent.

The Fund's portion of the net pension liability was not specifically identified. See Note 14. Employee Retirement Plans, in the State of Oregon Annual Comprehensive Financial Report (ACFR), for more detail.

8 Other Postemployment Benefit Plans

The Fund's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by ORS 238 and the Public Employees Benefit Board (PEBB) as established by ORS 243. A copy of the audited annual financial report may be obtained from Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

<u>Retirement Health Insurance Account</u>

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple employer OPEB plan which provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: 1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more creditable service in PERS, 2) receive both Medicare Parts A and B coverage, and 3) enroll in a PERS-sponsored health insurance plan.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year end June 30, 2022, was 0.50 percent. Combined employer contributions for the years ended June 30, 2022, 2021 and 2020, was approximately $5,138, $4,229, and $5,470 respectively, equal to the required contributions each year.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (RHIPA) is a single employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and the health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service but are not eligible for federal Medicare coverage.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each employee's covered salary for the fiscal year ended June 30, 2022, was 0.49 percent. The Fund's actual contribution for the year ended June 30, 2022, 2021 and 2020 was approximately $4,586, $3,316, and $4,999, respectively, which was equal to the actuarial required contribution.

Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is a single-employer plan which offers medical, dental and vision benefits to eligible retired employees. Chapter 243 of the Oregon

Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

The State of Oregon's liability for the primary government was $113 million for the fiscal year ended June 30, 2021, and was determined by an actuarial valuation as of June 30, 2021. The Fund's portion of this liability was not specifically identified.

9 Commitments

As of June 30, 2022, the CWSRF has active loan agreements in the amount of $260,589,006 and has disbursed a total of $122,517,860 in cash to these borrowers. The amount of undisbursed loan commitments is $138,071,146.

10 Risk Financing

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible. The monies set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation

- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. For example, the self-insured property and liability program is backed by an excess property policy with a limit of $425 million and a blanket commercial crime policy with a limit of $5 million. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions, and boards participate in the self-insured property and liability program. Risk Management allocates the cost of claims and claim administration by charging an assessment to each State agency, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The CWSRF participates in this risk financing program through DEQ, which, as a State agency, is a participant. Settlements have not exceeded insurance coverage in each of the past three years.

11 Subsequent Events

Potential financial and economic impact of the COVID-19 pandemic are still being continually assessed during fiscal year 2023.

On September 6, 2022, the federal fiscal year 2022 capitalization grant from EPA was awarded in the amount of $13,071,000. This amount provides additional capital funding for the CWSRF program.