#### State of Oregon

Department of Environmental Quality Memorandum

**Date:** [date report mailed to EQC – see EMT/EQC prep schedule]

**To:** Environmental Quality Commission

**From:** Dick Pedersen, Director

**Subject:** Agenda Item X, Rule Adoption: Amend the Clean Water State Revolving Fund Rules, OAR Chapter 340, Division 54

October 22-23, 2009 EQC Meeting

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| **Why this is Important** | DEQ is implementing the American Recovery and Reinvestment Act of 2009 (ARRA) through its Clean Water State Revolving Fund loan program under temporary administrative rules. The temporary rules are effective for only 180 days and will expire October 28, 2009. To ensure DEQ’s program is able to continue to meet the requirements and administer the funds under ARRA, a permanent rulemaking is necessary. |
| **Department Recommendation and EQC Motion** | The Department of Environmental Quality recommends that EQC adopt the proposed permanent rule revisions to OAR Chapter 340, Division 54, as presented in Attachment A. |
| **Background and Need for Rulemaking** | DEQ administers Oregon’s Clean Water State Revolving Fund loan program through support of an annual capitalization grant from the U.S. Environmental Protection Agency and from loan repayments through the program’s general fund. DEQ provides about $50 million annually for loans through the annual capitalization grant (about $10 million) and loan repayments. Additionally, DEQ’s CWSRF program was allocated about $44 million in February under the American Recovery and Reinvestment Act of 2009, but DEQ’s administrative rules at that time did not allow for the additional subsidization required by ARRA.  EQC adopted temporary administrative rules in April 2009 that addressed the additional ARRA requirements. The temporary rules define project eligibility, the use and allocation of funds, and financial terms for loans under ARRA. The temporary rules expire October 28, 2009 and because DEQ continues to administer ARRA funds it is necessary to establish permanent rules that will ensure DEQ continues to comply with ARRA requirements.  The proposed permanent rules include only minor refinements to the temporary rules:  The September 1, 2009 date in the temporary rules was deleted in the proposed rules as DEQ committed all ARRA funds prior to that date. The rules do clarify though that if there are remaining funds, the funds will be offered to an eligible applicant on the project priority list in rank order.  The proposed language still maintains the $5million maximum limit on the amount of a loan to an applicant, and clarifies that DEQ has the authority to determine the amount of funding provided to an applicant within that limit.  The proposed rules also clarify that an applicant has to complete all CWSRF requirements for a project to be eligible for a loan. |
| **Effect of Rule** | The proposed administrative rules will establish rules in OAR 340-054-0098 through OAR 340-054-0108 (see page 34, Attachment A). These rules will govern the use of ARRA funds when those funds are utilized within the Clean Water State Revolving Fund loan program and will define the use of the funds, the types of eligible projects and activities, the allocation of the funds and specific financial terms.  In addition to proposing to adopt OAR 340-054 0098 through OAR 340-054-0108, the DEQ made minor edits to OAR 340-054-0024, 0025 and 0035 to clarify the terminology used for design or construction loans. The language in OAR 340-054-0025 was modified to ensure that DEQ can update its Clean Water State Revolving Fund Intended Use Plan more frequently when necessary. |
| **Commission Authority** | The EQC has authority to take this action under Oregon Revised Statutes 468.020 and 468.423 - 468.440. |
| **Stakeholder Involvement** | DEQ worked closely with applicants and various organizations, in early 2009, including the Oregon Association of Clean Water Agencies, the League of Oregon Cities, Oregon Water Resources Congress, Association of Oregon Counties, Special Districts Association of Oregon, and the Oregon Association of Conservation Districts when the temporary rules were developed to address ARRA requirements.  DEQ did not convene a stakeholder advisory committee was convened during the development of the proposed rules as only minor clarifications were made to the temporary rules. DEQ did provide a notice of the proposed permanent rules by U.S. mail to cities, counties and special services districts, and to the Oregon Association of Clean Water Agencies, Oregon Water Resources Congress and Oregon Association of Conservation Districts by email. |
| **Public Comment** | DEQ provided a public comment period from July 24 to August 24 and held public hearings in Medford, Bend and Portland. Results of public input are provided in Attachment C. |
| **Key Issues** | DEQ intended to follow-up on the temporary rules with a permanent rulemaking and therefore discussed the key issues of these rules at the EQC meeting last April. Issues discussed focused on ARRA including: funded projects must be under contract or construction by February 17, 2010, additional subsidization of at least 50% must be provided to eligible applicants, and loans made prior to October 1, 2008 are not eligible for ARRA funding. These issues addressed in the temporary rules are also included in the proposed permanent rules.  The permanent rulemaking process has included the opportunity for the public to comment on the proposed rule revisions, and DEQ will present the permanent rules to EQC before the temporary rules expire. DEQ would not be able to continue to implement the ARRA requirements without permanent rules. |
| **Next Steps** | If adopted at the October 22-23, 2009, commission meeting, these permanent rules will be filed with the office of the Secretary of State’s office before October 28, 2009. These rules will update the current temporary administrative rules, and will become effective upon filing. DEQ will use the rules to administer the Clean Water State Revolving Fund loan program and implement ARRA requirements. |
| **Attachments** | 1. Redline version of the proposed rule revisions 2. Summary of Public Comments and Agency Responses 3. Presiding Officer’s Report on Public Hearings 4. Relationship to Federal Requirements Questions 5. Statement of Need and Fiscal and Economic Impact 6. Land Use Evaluation Statement |
| **Available Upon Request** | 1. Legal Notice of Hearing 2. Cover Memorandum from Public Notice 3. Rule Implementation Plan 4. [optional: list other documents supporting proposal] |

Approved:

Section: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Division: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Report Prepared By: [author]

Phone: [author’s phone]