

Action Item: Clean Water State Revolving Fund Longer-term Financing

Environmental Quality Commission
Special Meeting
Jan. 24, 2014

Katie Foreman, DEQ

DEQ's recommendation

DEQ recommends that EQC adopt proposed amendments to OAR 340, Division 54 as shown in Attachment A

- Longer-term financing option in the Clean Water State Revolving Fund program

Purchase and Refinancing of Debt Obligation for Treatment Works

340-054-0071

Debt Obligation Purchase

- (1) The department may use the CWSRF to buy a public agency's debt obligation for treatment works subject to the following limitations:
 - (a) The debt was incurred after March 7, 1985.
 - (b) The debt obligation does not exceed 20 years except for a bond purchase for treatment works as specified in OAR 340-054-0072.
 - (c) The department will not use the purchase of a debt obligation to refinance a pre-existing CWSRF loan or other debt obligation except as specified in OAR 340-054-0072(5)(b).

Stat. Auth.: ORS 468.020 & 468.440
Stats. Implemented: ORS 468.423 - 468.440

340-054-0072

Bond Purchase for Treatment Works

- (1) Application requirements. All application requirements for a CWSRF loan as specified in OAR 340-054-0022(1), (2), (3), (5) and (6) apply to a bond purchase for treatment works under this rule.
- (2) Intended Use Plan and project priority list. All applications for a bond purchase for treatment works are subject to IUP and project priority list development in the same manner as specified in OAR 340-054-0025.
- (3) Project ranking criteria. All applicants for a bond purchase for treatment works will be ranked based on the point sum from the criteria specified in Table 1 under OAR 340-054-0026.
- (4) Reserves. CWSRF general fund and project funding. Reserves and CWSRF general funds will be allocated for a bond purchase for treatment works in the same manner as specified in OAR 340-054-0036.
- (5) Requirements for a bond purchase for treatment works.

The program provides affordable funding to communities

Loans to public agencies for water quality protection and improvement projects

- Low interest rates
- Terms up to 20 years
- \$1 billion to 149 communities since 1990
- Water quality benefits



Shorter repayment period can lead to economic hardships

Large project costs can strain finances

- Especially small and lower-income communities with a small rate base



Longer terms will enhance the program and help communities

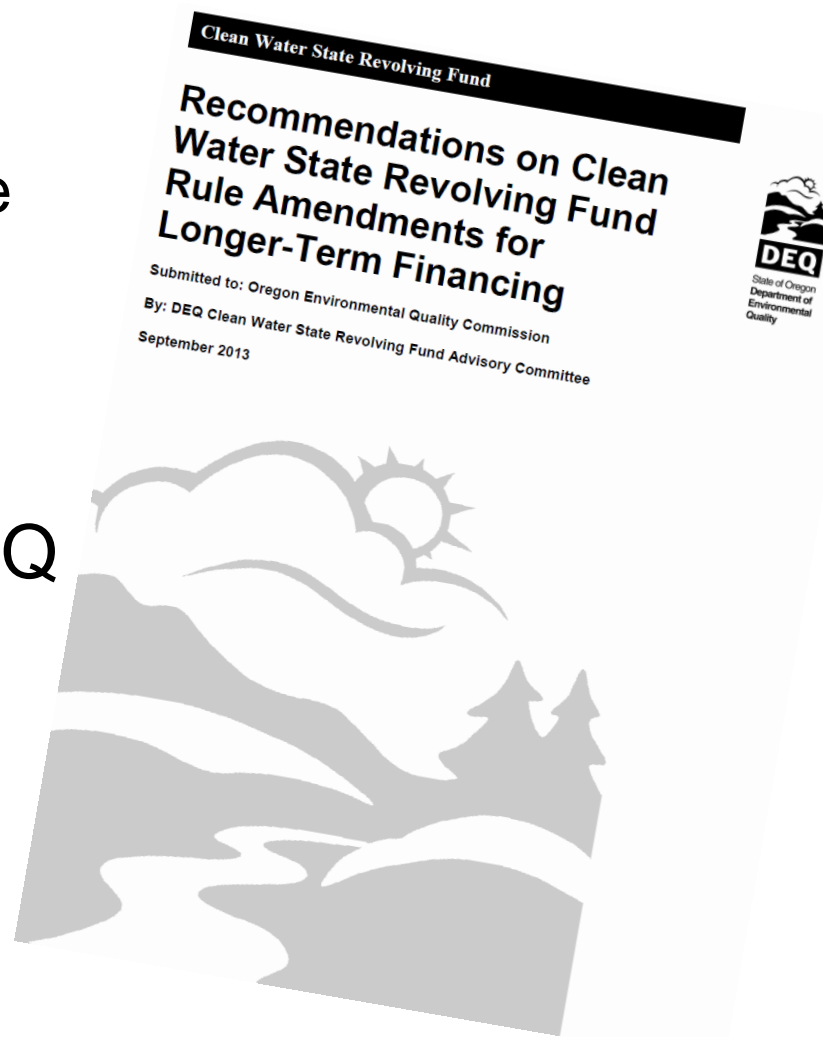
- Recommended during the 2012 program rulemaking
- 15 other state Clean Water State Revolving Fund programs allow longer-term financing
- Spreading debt over longer period creates more affordable repayment terms
 - Especially benefit smaller and lower-income communities
- Will make the program more attractive
- Could increase number of water quality projects

Longer-term financing is allowable with amendments to rules

- The federal Clean Water Act and state statute
 - Limit loan terms to up to 20 years
 - Allow a public agency to sell DEQ a revenue bond with repayment terms up to 30 years or life of asset for treatment works projects (i.e. longer-term financing)
- Rule amendments are necessary to implement longer-term financing
 - Details for eligibility, terms, etc. needed to be determined

Input from many to develop recommendations for the proposed rules

- Advisory Committee
 - Standing, diverse committee
 - June-Sept. 2013
 - Recommendations report (Attachment B)
- EPA Region 10 and EPA HQ
 - Longer-term financing requirements
 - Approved Dec. 5, 2013



Details for the new funding option

Additional financing option to the traditional 20-year loan

- Not a loan
- Public agencies sell revenue bond to DEQ
- Repayment terms up to 30 years
- Details optimize fund protection and benefits to borrowers
 - All new borrowers eligible
 - Small group of existing borrowers can refinance
 - Interest rates, prioritization and allocation of funding
- Applies only to treatment works projects

Example of benefit to longer terms for a new project

\$10 Million project,
20 vs. 30 year

- Pay \$79K less a year in repayments
- \$ 3+ savings/mo. in utility rates
 - \$9 vs. \$12 rate increase
- Pay \$1.3M more in interest over life of debt



Longer-term financing limited by state law to “treatment works” projects

- “Treatment works”
 - Wastewater, industrial and stormwater treatment plants, equipment, and collection systems
 - No nonpoint source projects (i.e. stream restoration and irrigation)
- Federal law allows longer-term financing for non-treatment works projects
 - Could amend statute in future



Small group of existing borrowers can refinance loans

- 14 existing borrowers
 - Most disadvantaged communities
- Cost savings
 - Lower repayments
 - Potentially lower interest rates
- One time, limited period offer
- Notified in October 2013 of their eligibility

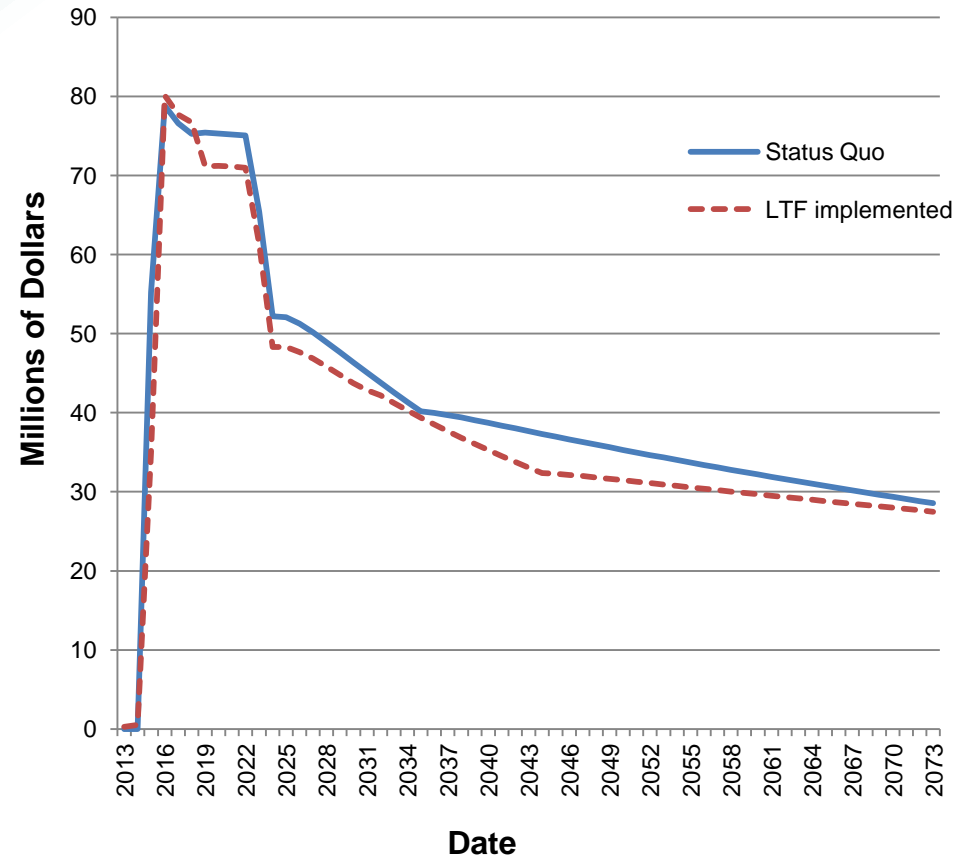
14 eligible existing borrowers for refinancing

| Applicant | Project Description | Loan Amount (\$) |
|---------------------------|--------------------------|------------------|
| Bunker Hill S.D. | Pipeline replacement | 106,479 |
| Burns, City of | WWTP Upgrade | 1,955,718 |
| Charleston Sanitary Dist. | Pump Station rebuild | 425,750 |
| Charleston Sanitary Dist. | Pump stations upgrade | 92,040 |
| Charleston Sanitary Dist. | Pump station relocation | 930,272 |
| Klamath Falls, City of | WWTP Upgrade | 1,000,000 |
| Klamath Falls, City of | WWTP Upgrade | 7,150,672 |
| Modoc Point S.D. | Community On-Site System | 32,000 |
| Monument, City of | WWTP Upgrade | 198,279 |
| Myrtle Creek, City of | WWTP Upgrade | 8,775,686 |
| Powers, City of | I&I Reduction | 347,605 |
| Reedsport, City of | WWTP Upgrades | 12,000,000 |
| Rockaway Beach, City of | WWTP Upgrades | 2,700,000 |
| Shady Cove, City of | WWTP Upgrades | 997,503 |
| Tillamook, City of | WWTP Upgrades | 448,039 |
| Tillamook, City of | WWTP Upgrades | 191,072 |
| Tillamook, City of | WWTP Upgrades | 16,926,224 |
| Ukiah, City of | Wastewater lift station | 293,000 |
| Westport Sewer Dist. | WWTP Upgrades | 112,250 |

Proposal provides many benefits with limited costs

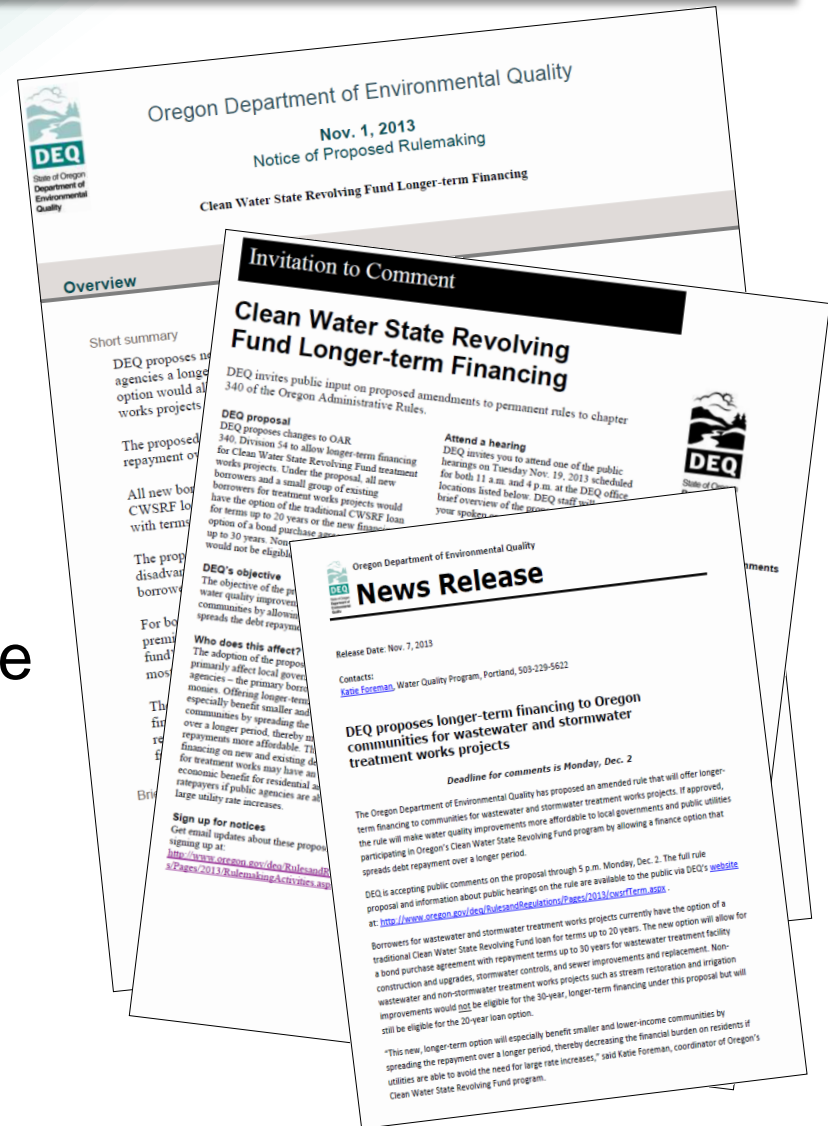
- More affordable terms
- More water quality protection and improvement projects implemented
- Slight decrease in CWSRF money lent over time, but still fund-protective
- No significant state fiscal or economic effects
- More upfront costs to communities for bond process

Amount lent with rule amendments vs. without



Stakeholder and public feedback was solicited on proposal

- 30-day public comment period (Nov. 1-Dec. 2, 2013)
- 12 public hearings, six locations (Nov. 19, 2013)
 - No attendees
- Four supportive comments, one comment beyond scope
- Proposal approved by EPA



Next steps

- Rule effective
 - Feb. 3, 2014
- Implementation plan
- Communication strategy
 - Feb. - May 2014
- Consider legislative concept for 2015 to broaden eligible projects



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