

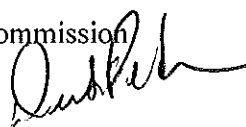
State of Oregon

Department of Environmental Quality

Memorandum

Date: May 21, 2012

To: Environmental Quality Commission

From: Dick Pedersen, Director 

Subject: Agenda item B, Informational item: Recommendations on Clean Water State Revolving Fund rule amendments
June 21-22, 2012, EQC meeting

Purpose of item This item provides a summary of the Clean Water State Revolving Fund Advisory Committee's final recommendations on CWSRF rule amendments.

Background DEQ administers Oregon's Clean Water State Revolving Fund loan program that provides low-interest loans to public agencies for the planning, design and construction of projects that will prevent or mitigate water pollution. DEQ completed the last comprehensive program rule update in 2003, and has made several rule updates since then to address federal requirements, including the American Recovery and Reinvestment Act of 2009.

In February 2011, DEQ selected and appointed a CWSRF Advisory Committee, which met monthly from May 2011 through March 2012. The committee researched, discussed and developed recommendations on the technical, policy and financial aspects of the program.

Public involvement The committee developed rulemaking guiding principles to develop its recommendations. Throughout the process, several overarching themes emerged:

- Acknowledgement that small communities need as much assistance as possible.
- The program should emphasize both point and nonpoint source projects that improve and protect water quality.
- The program should fund projects that have multiple water quality benefits, especially projects integrating traditional "gray" infrastructure with "green" or natural infrastructure.

Key recommendations The advisory committee's key recommendations include:

Project eligibility

The committee recommends broadening the current project eligibility rules to include more types of water quality improvement projects that could receive program funding. The rules should also be flexible so future water quality improvement projects not specifically identified in the current rules are eligible. Project eligibility determines which projects can receive CWSRF funding. The

committee's concerns with current rules were how the program's funds are unevenly distributed between point source and nonpoint source projects. Committee members agreed that all eligible projects should achieve the greatest water quality benefits possible.

The committee also supports the use of water quality trading as an emerging improvement tool. The committee recommends that DEQ pursue federal and state regulatory changes needed to allow the purchase and finance of long-term water quality trading credits under the CWSRF program.

Project ranking criteria

DEQ awards funding based on a competitive application process. Project ranking criteria determine how a project ranks against other projects, and the order determines funding priority. Recommendations focused on criteria that could apply to all types of water quality projects:

- Align criteria more closely with DEQ's water quality priorities and the committee's guiding principles.
- Shift emphasis from permit compliance or non-compliance to proactively improve, restore and maintain water quality.
- Encourage projects to integrate sustainable and "green" components with "gray" infrastructure.
- Add new project planning criteria to encourage planning efforts.
- Develop a consistent, standardized scoring system.

Funding allocation and financial provisions

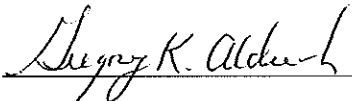
The CWSRF program fund is allocated through loan reserves established for specific purposes, such as planning. The loan annual fee, loan interest rates, principal forgiveness, and loan term have the most impact on finance affordability for all borrowers. Committee recommendations include:

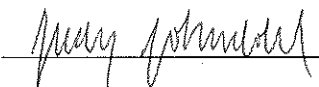
- Eliminate the Expedited Loan Reserve, as this reserve has never been used.
- Increase the initial maximum planning loan amount from \$150,000 to \$250,000.
- Revise the definition of a small community from 5,000 or less to 10,000 or less population, and increase the Small Community Reserve from 15 percent of total available funds to 25 percent.
- Continue to award loan increases to existing projects before funding new projects.
- Reduce the annual fee account balance, used for administering the CWSRF program, through a temporary two-year fee reduction and re-assessment process. Over time the account balance has increased and the reduction will not impact DEQ's ability to administer the program.
- Reduce interest rates for all communities, including lower interest rates for small communities with less than the statewide median household income.

- Pursue amending state statute and obtaining EPA approval to extend the loan repayment period from 20 years to 30 years as an option for future borrowers.
- Award principal forgiveness for planning, design and construction loans on a priority basis; first, to small communities with less than statewide median household income, and then to other small communities. If there are no eligible small community projects, DEQ could award principal forgiveness to large communities with less than statewide median household income for design and construction loans.

Next steps	DEQ will publish a notice of proposed rulemaking for public comment in the Secretary of State Bulletin in July 2012, and will hold a public comment period with hearings in September 2012. After considering public comments, DEQ will return to the commission in December 2012 with proposed final rules for adoption.
Attachments	A. CWSRF Advisory Committee report: <i>Recommendations on Clean Water State Revolving Fund Rule Amendments</i>
Available upon request	1. CWSRF Advisory Committee meeting minutes and summaries – <i>available online or via hard copy upon request</i> <ul style="list-style-type: none">• Link: http://www.deq.state.or.us/wq/loans/advisory.htm

Approved:

Division: 

Section: 

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