

Recommendations on Clean Water State Revolving Fund Rule Amendments

Submitted to: Oregon Environmental Quality Commission

By: DEQ Clean Water State Revolving Fund Advisory Committee

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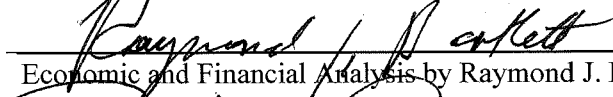
Members are listed by their position with current employer, the organization they represent and employer location. Original committee members, including Jim Zelenka (IFA), Tom O'Brien, (Network of Oregon Watershed Councils), Jerry Nicolescu (OACD), Darrel Lockard (OAWU), and Marty Stipe (ODOE), also contributed to the recommendations in this report.

CWSRF Advisory Committee Report

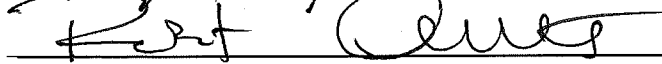
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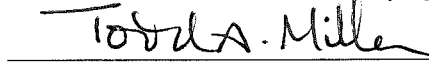
Association of Oregon Counties by Emily Ackland



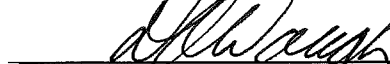
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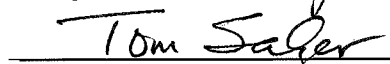
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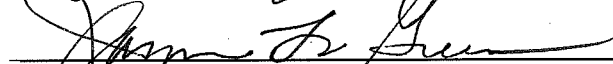
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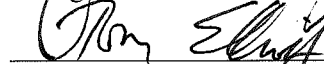
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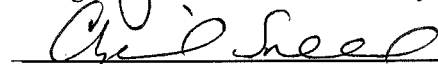
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The committee wishes to acknowledge their appreciation for the opportunity to serve on the advisory committee and to improve the CWSRF program rules. Members worked diligently to make positive and reasonable environmental and financial recommendations to the Environmental Quality Commission.

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Executive Summary

DEQ has administered the Clean Water State Revolving Fund loan program in Oregon since 1989. The program provides low-interest loans to public agencies for water quality improvement projects. More than \$952 million has been loaned to public agencies from September 1990 to January 2012. To date, 93.5 percent of funded projects address point source improvements (such as wastewater treatment and collection systems) and 6.5 percent funded nonpoint source projects (such as irrigation improvements and stream bank vegetation).

DEQ last conducted a comprehensive administrative rule review for the CWSRF program in 2003. Since then, federal requirements and policies have changed, and DEQ's CWSRF program priorities and internal processes have been updated. Program rulemaking is currently needed to:

- Review program approaches to funding projects
- Ensure project ranking criteria align with water quality program goals
- Ensure long-term financial integrity of the program

This report to the Oregon Environmental Quality Commission is the final product of the CWSRF Advisory Committee and reflects its recommendations on technical, policy and financial aspects of the CWSRF loan program rules; this includes project eligibility, project ranking criteria and financial provisions. DEQ will consider the report's recommendations when updating CWSRF program rules.

The committee developed a list of rulemaking issues and concerns (Appendix A) and rulemaking guiding principles. As the committee identified issues and concerns and developed guiding principles, several primary themes emerged:

- Acknowledgement that small communities need as much assistance as possible.
- Although it is fundamentally important for communities to attain and sustain compliance with permits and water quality standards, emphasis should be placed on projects that improve and protect water quality, whether point source- or nonpoint source-related.
- CWSRF funding should be awarded to projects that provide multiple benefits for water quality, especially projects that integrate traditional "gray" infrastructure with "green" or natural infrastructure.

Rulemaking guiding principles. The advisory committee developed guiding principles to keep topics focused on achieving its rule recommendation goals. The principles are:

- Keep it simple.
- Be more proactive than reactive.
- Encourage and provide incentives for a more holistic approach to water quality improvement.
- Maintain or improve water quality and the health of the ecosystem or watershed.
- Rank projects based on the foundation of the federal Clean Water Act – maintain and restore our nation's waters.
- Acknowledge local and regional differences in addressing priority needs within a watershed.
- Ensure the list of criteria and ranking system provide the best solutions for Oregon's problems.
- Use efficient administrative processes.
- Use capacity assessment for technical, managerial, financial capacity and asset management.
- Encourage and provide incentives for a sustainable project approach.

The advisory committee discussed many program topics but focused on the three key topic areas:

Project eligibility. The committee thoroughly discussed the uneven distribution between point source-funded projects and nonpoint source-funded projects. There was agreement that all eligible projects should achieve the most water quality benefits possible, regardless of project type, because funding resources are limited and project costs continue to rise. CWSRF projects need to be proactive in improving and protecting water quality. The committee recommended broadening project eligibility rule language to include more types of water quality improvement projects while also including flexibility for future water quality improvement projects. For example, adding “including but not limited to” rule language with examples of eligible projects will provide flexibility over time. Water quality trading is an example of an emerging improvement tool the committee supports using. However, under current federal regulations, the CWSRF program is not allowed to fund purchasing of credits. The committee recommended DEQ pursue regulatory changes necessary to allow the purchase and finance of long-term water quality trading credits under the CWSRF program. Project eligibility rule recommendations align with the committee’s guiding principles.

Project ranking criteria. DEQ awards limited funding under the CWSRF program based on a competitive application process. Project ranking criteria determine how a project fares against other projects, which is important because ranking order determines priority order for funding. The committee recommended criteria changes that:

- Align more closely with DEQ's water quality priorities and the committee’s guiding principles.
- Shift emphasis from compliance/non-compliance to proactively improving, restoring and maintaining water quality.
- Apply to all types of water quality projects.
- Encourage projects to integrate sustainable and “green” components with “gray” infrastructure.
- Add new project planning criteria (Appendix E, Table 2) to encourage planning efforts.
- Reflect a new scoring system.

Financial provisions. The loan annual fee, loan interest rates, loan repayment period and principal forgiveness have the most impact on finance affordability for all borrowers. The committee recommended the following actions:

- Eliminate the Expedited Loan Reserve.
- Increase the planning loan amount from \$150,000 to \$250,000.
- Revise the definition of a small community from a population of 5,000 or less to 10,000 or less.
- Increase the Small Community Reserve from 15 percent of total available funds to 25 percent.
- Do not allow lower-ranked projects with a Green Project Reserve eligible component to advance ahead of higher-ranked projects solely because of Green Project Reserve eligibility.
- Continue offering increases to existing projects before offering funding to new projects.
- Continue using the current definition of “project”.
- Reduce the annual fee account balance by:
 - Reducing the annual fee on all current loans from 0.5 percent to 0.25 percent for two years.
 - Increasing the annual fee back to 0.5 percent after two years, and then reassessing the account balance.

- Reduce interest rates for small communities with less than statewide median household income from 65 percent to 40 percent and reduce rates for all others from 65 percent to 55 percent of the base rate, as calculated based on the national municipal bond rate.
- Pursue regulatory changes to extend the repayment loan period from 20 years to 30 years as an option for future borrowers.
- Award principal forgiveness on a priority basis first to small communities with less than statewide median household income, then to small communities, and if necessary to large communities, except for planning loans.

The committee engaged in facilitated comprehensive discussions of program issues. The members represented their organizations while developing solutions that they believed were best for Oregon's CWSRF program and water quality protection. The guiding principles were the foundation for all recommendations the committee made and were referenced throughout the process. Recommendations in this report reflect their expertise and shared vision for the program.

DEQ staff appreciates the members' diligence in making purposeful, meaningful and implementable recommendations to the Oregon Environmental Quality Commission. Their efforts provide a reasonable and proactive roadmap for the future of Oregon's CWSRF program.

Background

Program Overview

The Oregon Department of Environmental Quality has been administering Oregon's Clean Water State Revolving Fund loan program since 1989. The program is administered under Title VI, State Water Pollution Control Revolving Funds, of the Clean Water Act, and Oregon Revised Statute 468.423 to 468.440. DEQ operates the program under an agreement with the U.S. Environmental Protection Agency, Region 10. The CWSRF program provides low interest loans to public agencies for the planning, design and construction of various projects that will prevent or mitigate water pollution. Eligible public agencies include federally recognized Indian tribal governments, cities, counties, sanitary districts, soil and water conservation districts, irrigation districts and various special districts, and certain intergovernmental entities.

The Oregon Environmental Quality Commission adopted Oregon Administrative Rules, Chapter 340, Division 54, in March 1989, that establish and prescribe how Oregon's CWSRF program is implemented, including loan and financial requirements. The program continues to evolve and address changing federal regulations and state water quality program priorities. From September 1990 to January 2012 DEQ has loaned more than \$952 million to public agencies. This amount includes approximately \$385 million DEQ has received from EPA in capitalization grants. To date, 93.5 percent of funded projects address point source improvements and 6.5 percent address nonpoint source projects. DEQ recognizes external needs and the growing demand to obtain program funds and strives to maintain financial integrity of the program. DEQ last made extensive rule amendments in 2003. EQC has taken numerous actions on CWSRF program rules:

- **March 1989** - Adopted rules establishing the CWSRF program.
- **August 1990** - Revised rules to improve the program.
- **Jan. 1993** – Amended rules to increase interest rates and establish loan fees to ensure fund availability for long term program administration costs.
- **Jan. 1995** - Amended rules that allow leveraging of the fund, establish a “procedures manual,” clarify the process for prioritizing projects by reassigning points to criteria, and limit the amount for individual loans funded from the small community and planning reserves.
- **Sept. 1997** - Amended rules allowing hardship grants when hardship funds are available from EPA.
- **May 2003** - Amended rules to better integrate nonpoint source projects in the program, revise scoring criteria, and establish the local community loan and sponsorship option.
- **Feb. 2008** - Adopted a State Environmental Review Process in rule as required by EPA.
- **May 2009** - Adopted emergency rules to address requirements of the federal American Recovery and Reinvestment Act of 2009.
- **Oct. 2009** - Adopted permanent rules to address ARRA requirements.
- **May 2010** - Adopted emergency rules to address 2010 federal requirements for the green project reserve and principal forgiveness.
- **Oct. 2010** - Adopted permanent rules to address 2010 federal requirements.

DEQ administers and implements the CWSRF program to provide funding for projects that achieve water quality protection and restoration benefits while ensuring lending policy protects financial integrity and perpetuity for the program. DEQ is updating the program administrative rules and requested the rulemaking advisory committee to consider the following:

- Review possible new program approaches to funding projects;
- Clarify the regulatory process for loan processing;
- Align project ranking criteria with water quality program goals; and
- Review program financial practices to ensure funding approaches maintain a sound program.

CWSRF Advisory Committee

DEQ selected representatives for a diverse statewide advisory committee to provide recommendations on program issues DEQ should address through rulemaking. DEQ's director appointed a CWSRF Advisory Committee which included individuals representing CWSRF interests from federal and state agencies, local governments, water and wastewater districts and utilities, watershed organizations, environmental advocacy, local conservation districts, and the financial sector. DEQ secured facilitation services from Kearns & West, Inc. The committee met on a monthly basis from May 2011 to March 2012.

The primary purpose of the advisory committee was to make CWSRF program rule amendment recommendations to DEQ. In developing these recommendations, the committee considered regulatory, administrative, financial, technical and policy program information. DEQ program staff presented background information to the committee on specific topics, including examples of how other state CWSRF programs are administered and implemented. The committee was asked to ensure the CWSRF program priorities align with DEQ's statewide water quality priorities and the program achieves a fair, objective and transparent funding process for water quality improvement projects.

Project ranking criteria and financial topics warranted the formation of two subcommittees. The subcommittees met to gather more information, more thoroughly address specific concerns, and discuss unintended consequences. They reported back to the full committee with recommendations the committee voted on. This additional work allowed the committee to utilize member expertise, have confidence that relevant issues were thoroughly examined and move forward in a timely manner.

The committee members agreed to conduct themselves according to the CWSRF Advisory Committee Charter and Operating Principles adopted at the June 9, 2011 meeting. The Charter and Operating Principles documented the committee's purpose, structure, participation and responsibilities, as well as procedures by which the committee governed its discussions, deliberations and recommendations. The committee strived to make decisions by consensus with the understanding that all members can live with the recommendation or decision. Committee members voted on recommendations for rule amendments that are included in this report. There were no significant minority opinions to express in this report. Committee meetings were open to the public and detailed information on the committee's discussions was recorded in meeting minutes and summaries. DEQ staff kept committee and rulemaking information up-to-date on the CWSRF rulemaking web page.

This report to the EQC is the final product of the CWSRF Advisory Committee and reflects their recommendations on CWSRF program rule amendments. The recommendations in this report will be considered by DEQ when amending the CWSRF program administrative rules.

Program Rulemaking Issues

DEQ staff provided information to the advisory committee regarding the CWSRF program's history and goals, EPA's oversight and assistance, financial administration and funding, and the application and loan process. DEQ also presented information regarding Oregon's water quality program, including water quality goals and priorities. The information provided a common foundation for members to make informed recommendations.

Interest and Program Issues Identified by Advisory Committee

The CWSRF advisory committee's initial discussions focused on identifying potential interests and program issues for rulemaking based on concerns from their representative organizations and their experience and expertise. As each member provided input, similar interests, concerns and issues emerged (Appendix A) under primary themes:

- Need to help small communities including providing principal forgiveness.
- Ensure applicants understand the program.
- Prioritize the use of funds.
- Address watershed approach incentivizing innovative technology.
- Understand challenges facing communities due to current revenue and economic conditions.
- Ensure a competitive program statewide with criteria that give preference to projects with the most water quality benefits.
- Address the uneven distribution of point source and nonpoint source funding.
- Address cross-program goals such as stormwater management and nonpoint projects for watershed protection.
- Ensure program is administered in a clear and fair manner so communities know when they can receive funding.
- Maintain financial integrity and attractiveness of the program.
- Conduct business in a different way.
- Ensure sustainable rate structures.
- Educate community leaders.
- Recognize the need for community fiscal responsibility.
- Acknowledge watershed's economic benefits to the whole system.
- Recognize failing on-site systems and the impact to water quality.

The committee strived to be proactive in addressing water quality issues that communities face. One issue that arose after the first several committee meetings was water quality trading. The committee, DEQ and EPA recognize the effectiveness of watershed based solutions to water quality issues. Water quality trading is an example of an emerging improvement tool the committee supports using. However under current state and federal regulations the CWSRF program is not allowed to fund purchasing of credits. The members discussed how organized ecosystem restoration credit banking greatly expedites and increases the cost effectiveness of watershed restoration because nontraditional or natural infrastructure projects are much less costly than traditional gray projects. Water quality trading recognizes the potential for more effective watershed based solutions and formalizes permit compliance through use of credits. To realize the efficiency and cost effectiveness of credit banking, communities need the ability to invest in long term credits as a financially equitable option to other capital investments. The committee noted that current finance rules are antiquated in regard to emerging ecosystem credit markets. The best environmental and financial outcome for Oregon's water quality is to provide

communities financial and environmental flexibility in pursuing solutions that make the best sense going forward.

The committee would like the CWSRF program rules amended to allow the purchase and finance of long term water quality trading credits. The members recognize allowing purchase of water quality credits requires more than concurrence from DEQ and EPA. They recommend DEQ pursue regulatory changes necessary to allow CWSRF funds be used for purchase and finance of long term water quality trading credits. This recommendation aligns with the committee's guiding principles.

Rulemaking Guiding Principles

The committee's identified interests and program issues became the foundation for the development of the CWSRF Program Rulemaking Guiding Principles. These principles guided the committee's discussions and assisted in keeping topics focused on the goals the committee wanted to achieve for the CWSRF rule recommendations. The ten guiding principles are:

- Keep it simple.
- Be more proactive than reactive.
- Encourage and incentivize a more holistic approach to water quality improvement.
- Maintain or improve water quality and the health of the ecosystem or watershed.
- Rank projects based on the foundation of the Clean Water Act – maintain and restore our nation's waters.
- Acknowledge local and regional differences in addressing priority needs within a watershed.
- Ensure the list of criteria and ranking system provides the best solutions for Oregon's problems.
- Utilize efficient administrative processes.
- Utilize capacity assessment for technical, managerial, financial capacity and asset management.
- Encourage and incentivize a sustainable project approach.

Issues Identified by DEQ CWSRF Program Staff

DEQ's CWSRF program staff maintained an on-going internal list of program issues identified for rulemaking consideration. These issues were based on potential areas needing improvement or clarification for administering and implementing the program. DEQ staff presented this list (Appendix B) to the committee and the issues were considered and reviewed by the committee.

Recommendations

Project Eligibility

The current CWSRF program rules [OAR 340-054-0015(1)] identify a list of project types and costs eligible for funding. The CWSRF program historically has funded traditional infrastructure point source or “gray” projects. Over the last decade there has been a shift in how communities address water quality control and restoration through integration of traditional infrastructure projects with sustainable, nontraditional or “green” projects. The committee reviewed the list of project types and considered if the rules are inclusive for all types of water quality improvement and protection projects that could be eligible for funding.

Recommendation

The committee recommended the rules (Appendix C) be amended to clarify the project list to support all types of water quality projects with the overarching goal that projects achieve the best solutions for water quality improvement. Suggested rule language included:

- (1) A public agency may apply for a CWSRF loan for up to 100% of the cost of water quality projects and project related costs, including but not limited to:*
 - (a) retain current language;*
 - (b) Sewage treatment facilities;*
 - (c-j) retain current language;*
 - (k) Stormwater facilities, systems or stormwater projects intended to improve water quality;*
 - (l) delete; and*
 - (m - p) retain current rule language*

Issues Addressed

The committee discussed limitations of current rule language terminology and the goal to include all types of water quality improvement projects that could be implemented to meet permit requirements or address watershed improvement. There was thorough discussion of the unbalanced funding of point source and nonpoint source projects. The committee stressed the importance of maintaining rule language flexibility to be inclusive of projects that achieve the most benefits possible for water quality improvement. CWSRF funded projects should be proactive in solving problems, integrate both gray and green approaches, and make sense hydrologically as well as financially. The committee wanted the rules to clarify examples of eligible projects while not limiting or restricting projects to just those listed in rule. For example, there are limitations implied with the term “facilities” in the context of stormwater. Adding “including but not limited to” rule language with examples of eligible projects will provide flexibility over time. Broadening rule language to include all types of water quality improvement projects aligns with the committee's guiding principles. Also, water quality trading is an example of an emerging improvement tool the committee supports using. While current federal and state regulations do not allow the CWSRF program to fund purchasing or financing of credits, the committee recommended DEQ pursue any regulatory changes needed to allow the option.

Impact on Program

The rule language recommendation changes will allow more types of water quality improvement projects to be funded, thus potentially increasing the number of applications for funding. Typically nontraditional or green projects are much less costly than traditional or gray projects, and individual project costs could be reduced if green and gray projects are integrated. Less costly projects would allow more funds available for additional eligible projects, resulting in an overall increase in water quality protection and improvement throughout the state.

Project Ranking Criteria

DEQ CWSRF program staff implements a scoring system for all eligible proposed project applications based on the CWSRF project ranking criteria outlined in OAR 340-054-0025(4), Table 1 (Appendix D). The scoring system allows DEQ to develop a federally required project priority list and prepare an Intended Use Plan that includes scored projects ranked in order of funding priority. The current criteria and associated points that range from 0 to 12 may not address all water quality improvement projects in a balanced approach. Point source projects may seem “favored” over nonpoint or other water quality projects, and the current criteria focus more on assigning points to projects that address noncompliance issues.

Project ranking criteria should align with state water quality priorities. In addition, project ranking criteria determine how a project ranks against other projects and thus how likely a project is to receive funding. The committee spent considerable time discussing ranking criteria because criteria are essential for determining which projects receive funding.

Recommendation

The committee recommended the following (Appendix E):

- Revising and clarifying current criteria;
- Developing new criteria for Table 1;
- Developing new criteria (Table 2) to address planning loan applications; and
- Developing a new scoring system for both tables.

The objectives for changing criteria and the scoring system are to ensure applicants:

- Propose projects that prevent degradation of facilities;
- Are encouraged to follow best practices;
- Address problems proactively prior to enforcement action;
- Solve problems through a holistic approach that makes sense hydrologically as well as financially;
- Achieve multiple water quality benefits; and
- Address planning efforts that consider the best approach to water quality improvement and restoration.

Issues Addressed

The committee discussed the importance of project planning efforts. Current project ranking criteria were originally developed for project construction and not for project planning. Thus, planning applications do not rank high enough to be competitive with design and construction applications. However, planning projects have always been funded from the planning loan reserve “set-aside” that is required under current program rules as the reserve amount has been adequate for the number and cost of planning loan projects. The committee acknowledged the importance of planning from the outset of a project and wanted to encourage and support planning efforts. The proposed Table 2 criteria are intended to encourage planning loan applicants to maximize financial and water quality benefits. Criteria in both tables were developed to encourage loan applicants to consider the best possible solutions for water quality when solving their problem.

A key discussion point was to encourage and support projects that integrate sustainable and “green” technology with traditional conventional solutions from the planning phase through the project development phase. While the committee supports and wants to encourage integration of traditional and natural infrastructure approaches, they want solutions that provide the best possible benefits for water quality, regardless of approach or type of project. There was agreement that only effective green and sustainable solutions should be eligible for CWSRF

funding. The committee emphasized funding should be awarded to projects focused on achieving tangible and measurable environmental benefits. Consideration should also be given to projects that incorporate green solutions that are not strictly defined under federal requirements for the Green Project Reserve (i.e., green infrastructure, water or energy efficiency, or environmentally innovative approaches).

Other key discussion topics included acknowledging nonpoint source pollution projects are as important to water quality improvement as point source projects, and project ranking criteria should be applicable to all projects regardless of project type. Integrating multiple water quality benefits should be a basic concept for all CWSRF funded projects. Also, small communities should receive as much assistance as possible for financial, technical and compliance issues. Small communities often have fewer resources to solve problems however these communities can have great impacts to water quality. Finally, criteria should reflect how projects can achieve the best results for protecting and improving water quality rather than focus solely on compliance issues.

A subcommittee thoroughly reviewed the criteria and categories, clarified rule language and developed a revised scoring system. Their recommendations were presented to the full committee for consideration. The subcommittee developed six questions to use as guidelines for evaluating categories and criteria:

- Is the language in each criterion clear enough to know what each means?
- Do the criteria answer the “right” question?
- Are the points in the scale understood?
- Can the rating system be effective and rational if each criterion is scored 1 – 5?
- Should some of the criteria be weighted to emphasize their importance?
- Are the criteria in the right category?

The subcommittee discussed scoring systems and the advantages of a consistent and standardized point scoring system. It is recommended that the system be based on a typical five level Likert scale as this best estimates whether a project will achieve targeted outcomes. The five levels force a sharper focus by eliminating an overly fine gradation scale:

- 1 = No or very low likelihood (0 – 20% chance)
- 2 = Low or in some minor way (21 – 40% chance)
- 3 = Moderate to significant likelihood (41% - 60% chance)
- 4 = High likelihood (61 – 80% chance)
- 5 = Very high likelihood (81%+ chance)

Another significant consideration of a scoring system was emphasizing the importance of specific criterion to a project. The total number of points was not as important as ensuring the “trigger” or “right” questions were being asked. Moreover, a weighting factor for key criterion would clearly indicate the importance of a criterion and should encourage and incentivize program priorities.

The subcommittee also defined two terms used in the ranking criteria:

- “Natural Infrastructure” means using natural form and function of ecosystems. This infrastructure restores or augments the intended water quality benefits of the project.
- “Sustainability” means long term reliability and viability of finance, operations, environmental performance or technology.

The members agreed the intent of the criteria was to encourage projects to achieve high rankings and that scoring could result in favorable point accumulation across multiple criteria for a single project. For example, points could be awarded for both the Green Project Reserve criteria (Appendix E, 2F – 2I) and the Oregon criterion (2E). The committee also agreed that applicants

for projects not ranking well could seek other sources of funding or reconsider their proposed project and reapply.

Impact on Program

These recommendations emphasize funding projects that more closely align with protecting, restoring and maintaining water quality while continuing to support a community's efforts to stay in compliance. The criteria reflect a shift from emphasizing point source and permit compliance projects to encouraging projects that provide the best solutions for water quality. Although there is unlikely to be a financial impact to the program, there is an expectation that using these criteria to rank projects will increase benefits to water quality.

Project Priority List

DEQ prepares an annual Intended Use Plan based on a state fiscal year, for EPA and others interested in the CWSRF program, which describes how DEQ will use CWSRF funds and includes information required for DEQ to receive federal funding. DEQ currently has an application process [OAR 340-054-0025(4)] that allows eligible public agencies to apply for a loan at any time throughout the year. DEQ is required under current rules to update the Intended Use Plan at least every four months, and program staff currently reviews, scores, and ranks applications in January, May and September. While other states have annual or semi-annual application deadlines, DEQ believes the current approach is effective and allows flexibility to apply for capitalization grants under delayed federal budgets or address new federal requirements. OAR 340-054-0025(7) allows a ranked project to stay on the project priority list for up to 36 months. DEQ asked the committee to review the project priority list rules.

Recommendation

The committee recommended:

- For a project on the project priority list, an applicant must submit an annual one-page project update to DEQ so the project can be considered active and remain on the list for up to 36 months.
- DEQ should continue to accept applications throughout the year and review, score and rank applications at least every four months (i.e., three times per year).

Issues Addressed

The committee discussion focused on:

- Length of time a project may take before actual construction begins;
- Are applicants discouraged from pursuing funding due to their knowledge of higher ranked projects in the ready to proceed queue; and
- Is the application process flexible for communities and DEQ.

The committee agreed 36 months is a reasonable length of time for a project to be on the project priority list. Confirming an applicant's interest in pursuing project funding would be helpful for both the community and DEQ and would give other interested applicants a more realistic understanding of available program funds. DEQ should continue to allow year-round application submittal, and review applications three times a year as this ensures effective program responsiveness to interested applicants.

Impact on Program

The committee did not want to create overly burdensome requirements for the applicant or DEQ staff by requiring applicants to submit annual project updates to stay on the project priority list. However, they agreed there is value in having applicants evaluate project information and

reaffirm interest as project needs could change over a three year time period, and there continues to be increased demand for funding from the CWSRF program.

There will be no additional impact to the program by continuing to allow application submittal throughout the year as currently required under OAR 034-054-0025(4)(b).

Funding Allocation and Priorities (Loan Reserves)

OAR 340-054-0025(6)(b) requires four loan reserves, or set-asides, for specific purposes. DEQ established in rules the Expedited, Small Community, and Planning reserves, and the Green Project Reserve is federally mandated. Federal regulations require states to allocate a certain percentage of their annual capitalization grant to “green” projects. OAR 340-054-0025(6)(c) requires funding increases to existing loans before funding new projects that are ready to proceed according to the project priority list. DEQ asked the committee to make recommendations regarding the reserves and allocations, reallocation and the current priority order of existing loans receiving loan increases first.

Recommendation

The committee made the following recommendations:

Current	Recommendation
1) “Project” definition, OAR 340- 054-0010(42)	No change
2) “Small Community” definition of 5,000 or less population, OAR 340-054-0010(49)	Increase population to 10,000 or less
3) Fund loan increases first then fund new loans, OAR 340-054-0025(6)(c)	No change
4) Expedited Loan Reserve, OAR 340-054-0025(6)(c)(A)	Eliminate reserve as not used
5) Small Community Reserve allocation maximum of 15 percent of total annual funds, OAR 340-054-0025(6)(c)(B)	Increase maximum to 25 percent
6) Planning loan initial maximum of \$150,000, OAR 340-054-0025(6)(c)(C)(i)	Increase initial maximum to \$250,000
7) Green Project Reserve priority, OAR 340-054-0025(6)(c)(D)	Entire project does not move ahead of higher ranking projects without a Green Project Reserve component

Issues Addressed

A subcommittee reviewed funding allocations and priorities and developed four overarching considerations:

- Reduce financial burden on economically distressed small communities, and recognize all small communities are not economically distressed.
- Agree that small community priority should be based on population and less than statewide median household income.
- Define “small community” as a population of 10,000 or less.
- Encourage planning.

The Expedited Loan Reserve is allocated to provide funding for emergencies and urgent repairs, although this reserve has never been used. An impediment for use of this reserve is an applicant must complete all CWSRF requirements, including federal cross-cutters and environmental review, before a loan agreement is signed. Thus the loan process can take more than 60 days while realistically a community may need to begin immediate repairs within 24 hours. Communities generally either have their own emergency funds or more time expedient sources of

funding. The committee agreed the Expedited Loan Reserve was not effective in meeting an applicant's emergency funding needs and recommended deleting the reserve.

The Planning Reserve provides funding for project planning activities and has specifically been used for facilities planning. DEQ must make available a maximum of \$3 million each state fiscal year for this reserve; however this amount has never been entirely needed for planning projects. Applicants are allowed to initially borrow up to a maximum of \$150,000, with the ability to obtain an increase if funds are available. Any unused funds that remain in the reserve on March 1st are reallocated first to unfunded portions of planning loans and then to the CWSRF program general fund. The committee discussed the cost of planning activities and agreed the \$150,000 maximum should be increased to \$250,000 to address current upward trends of planning costs, and agreed the allocation of \$3 million to this reserve was adequate.

The Small Community Reserve is used to assist communities with populations of 5,000 or less, as currently defined in the administrative rules. The reserve amount available is a maximum of 15 percent of the total CWSRF funds in each state fiscal year and the total reserve amount is frequently used. Applicants are allowed to borrow not more than the greater of \$750,000 or 25 percent of the reserve. Any unused funds that remain in the reserve on March 1st can be allocated as increases to unfunded portions of a small community loan if requested by the borrower. The committee discussed the importance of providing more small communities with CWSRF financing opportunity and agreed to change the small community definition from a population of 5,000 to a population of 10,000. Increasing the population to 10,000 or less would align with how other funding agencies, such as U.S. Department of Agriculture - Rural Development, address small communities. The definition change would increase the number of small communities from 167 to 194 allowing the opportunity for more communities to apply for funding under the Small Community Reserve. The committee also discussed increasing the maximum reserve amount available from 15 percent to 25 percent to offset the increase in the number of small communities that may apply for funding.

The Green Project Reserve is a federally mandated reserve that requires a certain percentage of the annual federal capitalization grant be set aside (for 2011 the set-aside requirement was 20 percent) for four project categories: green infrastructure, water efficiency, energy efficiency and environmentally innovative projects. Specific federal criteria need to be met to qualify as a green project. The committee discussed whether a project that was not ranked high enough to receive full funding, but had a green component, would get priority over a higher ranking project. They did not want lower ranked projects to be fully funded ahead of higher ranked projects solely based on a portion of the project funded under the Green Project Reserve. Only the "green" component of the project should be funded under the Green Project Reserve.

The committee discussed the current rule requirement for DEQ to fund increases for existing projects first, then fund new loans. They agreed the original program philosophy of first funding a project to completion still had merit and acknowledged this may limit funding availability for new projects. Providing financial support to current projects until completion does benefit water quality and is an acceptable tradeoff to funding more projects but with less total project completion commitment.

The committee also discussed including the term "used" in the definition of project. There was concern that projects get over-built for future development purposes and current ratepayers are paying for unused services. Others thought flexibility to take advantage of preplanning or financial opportunity was important. All agreed the objective should be to benefit water quality as well as ratepayers, and it was not necessary to change the definition of project as currently stated in OAR 340-054-0010(42).

Impact on Program

- Eliminating the Expedited Loan Reserve will not impact the program as this reserve has never been used and has always been reallocated to the program general fund.
- Increasing the allocation to the Planning Loan Reserve from 15 to 25 percent of total funds will reduce the overall program general fund by ten percent.
- More communities will be eligible for funds from the Small Community Reserve by redefining “small community” as a population of 10,000 or less. To accommodate the increase in small community eligibility, the maximum reserve amount available will be increased.
- The Green Project Reserve should encourage projects to incorporate other approaches to water quality improvement or restoration. Current requirements will not change unless mandated by future federal requirements, including reserve allocation amounts.
- Continuing to first fund current projects requesting increases, then fund new projects, and retaining the current definition of “project” will not impact the program.

Annual Fee

OAR 340-054-0065(7) requires a borrower to pay an annual fee of 0.5 percent on an outstanding loan principal balance, which begins with the second loan payment. These fees are deposited to a separate account under the CWSRF program and are used by DEQ only for CWSRF program administration expenses (ORS 468.431) such as salaries, services, supplies, and indirect costs. Over time the account balance has increased. Although state statute does not allow funds from this account to be transferred or used for any other purpose, there is no foreseeable need to fund program administrative costs at the amount accrued in the current account balance. DEQ asked the committee to recommend changes to reduce the annual fee account balance while maintaining adequate funds to administer the program.

Recommendation

The committee recommended to:

- Continue as required under current rule to not assess an annual fee for planning loans to encourage project planning.
- Decrease the required annual fee from 0.5 percent to 0.25 percent for two years (Jan. 2013 – Dec. 2014) to borrowers subject to the fee assessment during those two years.
- Return the annual fee to 0.5 percent in Jan. 2015.
- Have DEQ analyze the annual fee account balance after three years. If needed, DEQ at their discretion should adjust the annual fee to ensure a minimum account balance that will adequately fund the program’s annual expenditures.

Issues Addressed

DEQ staff presented an analysis of multiple annual fee options showing how changes over time would impact program expenditures and revenue. The different options discussed included:

- Not assessing an annual fee to small communities with less than statewide median household income.
- Charging less than the current 0.5 percent fee to all borrowers.
- Variations of charging or not charging a fee over different time periods.

The committee discussed fee reduction impacts to DEQ on administering the CWSRF program and the need to ensure the program is well funded over time. The goal should be an account balance that ensures financing a well run program and accommodating budget flexibility. Members unanimously wanted to protect the program by ensuring adequate funding is maintained in the account. Discussion also focused on how to benefit borrowers financially by reducing the

fee. Implications of a time-limited fee waiver and potential negative perceptions of the program by eliminating and then reinstating the fee were considered.

Issues related to the discussion included:

- Continuing to not charge a fee on planning loans to encourage planning efforts.
- Adding technical assistance staff to assist small communities.
- Identifying the target account balance needed for program operation.
- Identifying the length of time to judiciously reduce the account balance.

The committee recognized and agreed the amount accrued in the account balance should be adjusted by temporarily reducing the loan annual fee. Borrowers who are assessed an annual fee on their loans would financially benefit from this reduction.

Impact on Program

The recommended changes will reduce the account balance in an equitable manner for all borrowers over a reasonable time frame. DEQ should continue to monitor the revenue from annual fees in relation to program administrative expenditures and make future adjustments in the annual fee if necessary. DEQ's ability to make adjustments will ensure the account balance supports program administration but does not accrue an excessive amount of funds.

Interest Rates

Loan interest rates are established in OAR 340-054-0065(5). Interest rates are calculated as a percentage of a base rate, which is based on the average national municipal bond rate as published by the Federal Reserve. Different interest rates apply to different types of loans and to loans of differing repayment periods. Rates are adjusted quarterly, however, once a loan is signed, the interest rate is fixed for the life of the loan. Interest rates are key to funding affordability. DEQ staff presented information describing how several states (with similar EPA capitalization grant amounts) set interest rates for the CWSRF program. Staff noted the Clean Water Act requires the fund to grow, although each state determines how aggressive fund growth will be. DEQ asked the committee to review and make recommendations regarding current CWSRF interest rate calculations or other adjustments.

Recommendation

The committee recommended small communities with less than statewide median household income be charged an interest rate that is 40 percent (currently 65 percent) of the base rate as calculated by OAR 340-054-0065(5). All other borrowers will be charged an interest rate that is 55 percent (currently 65 percent) of the base rate as calculated by OAR 340-054-0065(5).

Issues Addressed

The committee discussed the impact interest rates have on demand for funding through the CWSRF program. Lowering interest rates would increase demand for loans while increasing rates will lower demand. Other discussion topics included how DEQ's CWSRF revenue goal needs to sustain the fund over time and achieve balance between funding affordability for small communities and long term viability of the fund. Communities view the true cost of a loan to be the interest rate plus the annual fee. Consistent interest rates from year to year are important to communities as they develop and plan for project financing. Interest rates and length of repayment term are crucial to project affordability. The recommendation supports the committee's guiding principles.

Impact on Program

The total available funds for the CWSRF program will not increase as quickly over time which will reduce future available funds. New borrowers will benefit from lower interest rates, making loans more affordable. Project affordability for all communities is intended to ensure needed projects are initiated in a timely manner.

Extended Term Financing

The CWSRF program currently offers a loan repayment period for a maximum of 20 years as defined by state statute ORS 468.440(2) and OAR 340-054-0065(10). Under authority of the Clean Water Act, EPA allows states to offer extended term financing under limited circumstances such as for purchase of borrower's bonds. OAR 340-054-0015(2)(c) also does not allow DEQ to use CWSRF loans for refinancing long-term loans (see section of Long Term Financing).

Recommendation

The committee recommended DEQ pursue extending the repayment term to 30 years as an option for future borrowers, including the potential need to amend state statute and proceed through the process for obtaining EPA approval. The term should be tied to the lifespan of the asset being financed and should include slightly higher interest rates to offset the longer repayment term. Extended term financing does offer more affordable financing for all communities even with a slightly higher interest rate.

Issues Addressed

Many small communities are too small to participate in the bond market, thus limiting their financing options. The committee discussed how most borrowers would like an option to spread loan payments over a longer time period as a method of keeping user rates as affordable as possible. Longer repayment terms increase affordability for all borrowers and also align better with repayment terms other funding agencies offer. Members acknowledged concern that longer repayment terms would reduce availability of program funds for future borrowers and could slow the overall growth rate of the fund. Ultimately, they felt slowing the future fund growth rate was an acceptable tradeoff for community affordability, and charging a higher interest rate on an extended term loan would help offset the slower growth of the fund. There was strong support for DEQ to pursue any needed state statute changes and obtain EPA approval in order to offer extended term financing as an option to future borrowers. Providing a more affordable repayment option for communities is in alignment with the committee's guiding principles.

Impact on Program

There are two impacts to the program's general fund if the loan repayment term is increased from 20 years to 30 years. The total amount of funding available for new projects will be reduced as future borrowers could have an additional ten years to repay. Charging a higher interest rate though will help to somewhat offset the fund reduction impact.

Additional Subsidization (Principal Forgiveness)

States receiving federal capitalization grants are required to provide additional subsidization to borrowers. DEQ provides principal forgiveness as the form of subsidization which is defined under OAR 340-054-0065(13). Principal forgiveness is applied to the principal loan amount effectively reducing the loan and future loan repayments. Under current rules, DEQ is allowed to provide principal forgiveness to the minimum extent required by the federal capitalization grant:

- Nonpoint source control and estuary management projects are eligible for the lesser of \$1 million or 30 percent of a loan amount.
- Point source projects are eligible for the lesser of \$1 million or 75 percent of a loan amount. DEQ determines principal forgiveness for Section 212 projects based on median

household income and an affordability index. A project applicant who has a median household income less than the statewide median household income qualifies.

- Planning projects are eligible for no more than 30 percent of the loan amount.

DEQ asked the committee to provide recommendations regarding allocating and prioritizing principal forgiveness.

Recommendation

Committee recommendations include:

- Continue to allocate the minimum amount of principal forgiveness as determined by EPA's capitalization grant to DEQ.
- Give principal forgiveness priority to:
 - Small communities with less than statewide median household income for increases to planning loans, then to new planning loans.
 - Small communities with less than statewide median household income for increases to design and construction loans, then to new design and construction loans.
 - Small communities with more than statewide median household income for increases to all loans, then to new loans.
 - Large communities with less than statewide median household income for increases to design and construction loans, then to new design and construction loans.
 - Large communities with more than statewide median household income for increases to design and construction loans, then to new design and construction loans.
- Ensure a separate amount of principal forgiveness is available and always award principal forgiveness to small communities with less than statewide median household income for planning loans. However, the amount of principal forgiveness offered should continue to be not more than 30 percent of the loan amount to encourage community ownership of project planning.

Issues Addressed

The committee discussed impacts of offering the minimum versus the maximum amount of additional subsidization allowed under the federal capitalization grant. When DEQ awards principal forgiveness, funds do not return to the program and the fund growth for future loans is slightly impacted. Discussion included the importance of fund growth as project funding needs are large now and are expected to increase. There was acknowledgement the federal capitalization grant may not be available in the future due to potential federal budget reductions.

Other discussion topics included the importance of encouraging planning projects especially when these projects will not score as high as non-planning projects, awarding principal forgiveness exclusively to small communities with less than statewide median household income, and setting aside a separate amount of principal forgiveness specifically for planning loans. The committee agreed small communities should be given priority to receive principal forgiveness as this approach is consistent with the committee's goal of assisting small communities. Even small amounts of principal forgiveness will have a greater impact for small communities than for larger communities because larger ratepayer bases can more easily absorb full cost loans. However, protecting the perpetuity of the fund was more important than increasing the total amount of principal forgiveness. The committee also agreed that large communities should not be awarded principal forgiveness on planning loans and should receive principal forgiveness only in the event there are no small community projects eligible to receive subsidization.

Impact on Program

The impact of awarding principal forgiveness will slightly reduce the fund's growth over time. The committee agreed that by continuing to award the minimum amount required under the federal capitalization grant protects the perpetuity of the fund as much as possible. The committee also agreed if additional subsidization is not required under future capitalization grants, then this provision should also not be required under Oregon's CWSRF program.

Other Financial Issues

Long Term Refinancing

OAR 340-054-0015(2)(c) does not allow CWSRF loans to be used for refinancing long term loans. Staff explained several borrowers have requested refinancing for existing loans when interest rates have been lower. The purpose of the CWSRF loan program is to provide low interest loans for water quality improvement projects so borrowers currently receive lower than market interest rates.

Recommendation

The committee recommended not allowing refinancing long term loans as program rates are always below market rates. They agreed current rule language should not be changed.

Issue Addressed

Committee discussion included how refinancing loans with rates that are already lower than market rates will not provide any direct water quality benefits and older projects may not meet newer CWSRF requirements causing regulatory complexities. The result would be increased workloads for program staff without any corresponding water quality improvements. Changing this rule would be contradictory to several of the committee's guiding principles.

Impact on Program

There will be no impact to the CWSRF program if the current rule is unchanged. If long term refinancing were to be allowed there would be some reduction in fund growth from charging lower interest rates. Staff workloads would increase to ensure current regulatory requirements are met and loan agreements are redrafted.

Timely Use of Funds

Currently there is no rule addressing how long a loan can remain unused after DEQ and the borrower sign a loan agreement. Staff noted this is an infrequent problem but has occurred. DEQ asked the committee to make recommendations to address this circumstance.

Recommendation

The committee recommended adding language to the effect of "At the agency's discretion, if within a reasonable amount of time the funds have not been used DEQ can terminate the offer."

Issue Addressed

After DEQ and a borrower sign a loan agreement the loan is available for the borrower to use and these funds cannot be offered to another borrower. While not uncommon for projects to take two or three years to begin, holding an inactive loan open for five or more years ties up program funds that could be used for other projects. The committee agreed the goal is to ensure loan money is used in a timely manner, and thought DEQ should have discretion to terminate the loan agreement and award those dedicated funds to other applicants in need if a timeliness situation occurred. Available funding is limited and should be awarded to communities that will use it within a reasonable time period.

Impact on Program

There will be minimal impact to the program as borrowers generally use loan funds in a timely manner. The recommendation improves DEQ's ability to ensure unused loan funds are funding projects within a reasonable time period.

Discretionary Loan

OAR 340-054-0065(4) allows DEQ to offer a discretionary loan only to a small community that cannot practicably comply with certain financial loan term requirements outlined in the rules that are applicable for all other CWSRF loans. DEQ asked the committee to make a recommendation to keep or eliminate this loan type as it has not been used over the last ten years.

Recommendation

The committee recommended to not modify the current rule and to allow the option of offering a discretionary loan as there is no impact to the program.

Issue Addressed

DEQ has not executed a discretionary loan in over ten years and there is no guidance or process in place for offering this type of loan. The committee did not have strong opinions as to if this type of loan option should be retained or eliminated. There was general agreement that no harm was created in keeping it as an option as there may be a need in the future.

Impact on Program

There will be no impact to the program if the discretionary loan is unused. However, guidance and procedural process will need to be developed if this loan type is to be used.

Conclusion

The committee thoroughly discussed their and DEQ's rulemaking issues to develop informed recommendations. The members worked well together throughout the process, respected different viewpoints and developed solutions that were best for Oregon's CWSRF program and water quality. Members worked diligently to make purposeful, meaningful and implementable recommendations to the Environmental Quality Commission. The recommendations in this report reflect their expertise and shared vision for the program.

The committee requests DEQ and EQC to review and evaluate the program's outcomes from implementing these recommendations three years after rule adoption. They believe an adaptive management approach will be helpful in determining whether these recommendations were effective in meeting their guiding principles and water quality improvement and protection goals.

While the members expressed their appreciation for the opportunity to serve on the advisory committee, it is DEQ staff that is appreciative of their willingness to volunteer their time and expertise to recommend program rule improvements.

Appendix A

List of Interest and Program Issues Identified by Advisory Committee

Water Quality Benefits

- Match project funding to obtain maximum water quality benefits
- Match water quality priorities with state wide priorities
- Match financial savings with ecosystem services
- Provide incentives for innovation in solving water quality problems
- Integrate stormwater management with watershed protection and preserving capacity
- Innovative approaches are important from a watershed perspective
- Criteria are key and need to be clear and consistent
- Find projects that have economic benefits for the whole watershed
- Support emerging water quality trading programs

Financial Needs

- Maintaining a long term and viable loan program
- Affordability for borrowers and rate payers
- CWSRF funding affordability
- Provide more certainty of funding for borrowers
- Leverage CWSRF funding with other sources of funding
- Borrower planning for future financial needs
- Larger communities could be directed to other sources of funding
- Align financial savings with ecological benefits

Small Community Needs

- Is there sufficient funding for smaller facilities
- Balance borrower workloads and resources with loan administration
- Lack of borrower leadership and fiscal responsibility can be a problem
- Lack of ability to get bonds
- Program transparency and certainty of receiving funding not understood
- Limited revenue base for small communities

Miscellaneous

- All agencies are facing capacity issues
- How does DEQ plan to prioritize funding
- Integrate the value engineering process with the operator process
- Doing business as usual will not work due to political realities and the rising costs of compliance
- Unincorporated areas have failing septic systems and the issue needs to be addressed

Appendix B

List of Issues Identified by DEQ CWSRF Program Staff

Eligibility/Application

- Expand stormwater eligibility
- Scope of local community loan
- Expand CWSRF support of nonpoint source needs
- Nonpoint source project oversight
- Improve the definition and procedures within the Sponsorship Option

Priority/Scoring

- Restructure the scoring criteria
- Provide a clear understanding of the Project Priority List
- Develop a procedure that limits ready to proceed, but low-ranked projects from immediate funding

Planning

- Incentives for planning

Financial

- Loan increases as priority
- Review/adjust set-aside amount for small communities
- Annual fee
- Financial support of on-site repairs or replacements
- Refinancing
- Discretionary loan
- Extended term financing

Loan Agreement

- Tribal Issues Related to Loan Agreements – public agency, sewer use ordinance, default remedies and sovereign immunity
- Time limit for how long a loan recipient can keep a loan open before using it (including planning loans)
- Loan term for longer than the life of the asset being financed

Housekeeping/Definitions

- Definitions and rule readability

Appendix C

Current Project Eligibility OAR 340-054-0015(1)

- (1) A public agency may apply for a CWSRF loan for up to 100% of the cost of the following types of projects and project related costs:
- (a) Planning for sewage facilities, nonpoint source control or estuary management projects including supplements or updates;
 - (b) Secondary sewage treatment facilities;
 - (c) Advanced sewage treatment facilities, if required to comply with Department water quality statutes and rules;
 - (d) Reserve capacity for a sewage treatment or disposal facility that serves a population not to exceed a 20-year population projection, and for a sewage collection system, or any portion thereof, not to exceed a 50-year population projection;
 - (e) Facilities related to biosolids disposal and management;
 - (f) Interceptors, force mains and pumping stations;
 - (g) Identification and correction of infiltration and inflow;
 - (h) Major sewer replacement and rehabilitation necessary to maintain the structural integrity and function of the sewer;
 - (i) Combined sewer overflow correction, if required to protect sensitive estuarine waters or to comply with Department water quality statutes, rules or permits, provided the project is the most cost effective alternative;
 - (j) New collector sewers required to alleviate documented water quality problems or to serve an area with a documented health hazard;
 - (k) Storm water control facilities intended to reduce infiltration or inflow to a sanitary sewer system.
 - (l) Storm water management measures identified in Oregon's Nonpoint Source Control Program Plan that address environmental quality directly related to water quality.
 - (m) Estuary management efforts that address environmental quality directly related to water quality.
 - (n) Nonpoint source control activities that address environmental quality directly related to water quality.
 - (o) Funding of local community loans through public agencies to address nonpoint source control activities or estuary management efforts.
 - (p) Wastewater reuse projects.

Appendix D

Current Project Ranking Criteria

OAR 340-054-0025(4)

TABLE 1

Category 1: Proposed Project's anticipated benefit for water quality or public health

1A — (0 or 8 points) — Project addresses water quality or public health issue within a "special status" water body

1B — (0-6 points) — Project addresses noncompliance with water quality standards, a public health issue or effluent limits related to surface waters

1C — (0-6 points) — Project addresses noncompliance with water quality standards or a public health issue related to groundwater

1D — (0-12 points) — Project ensures that a source already in compliance maintains that compliance.

1E — (0-8 points) — Project improves or sustains aquatic habitat supporting state or federally threatened or endangered species

1F — (0-12 points) — Project incorporates wastewater reuse or a water quality-related conservation process

1G — (0-7 points) — Project improves water quality by mitigating any of the following pollutants: temperature, dissolved oxygen, contaminated sediments, toxics on the EPA Priority Pollutants List, bacteria or nutrients

1H — (0-5 points) — Project supports the implementation of a Total Maximum Daily Load (TMDL) allocation or action plan for a Ground Water Management Area

1I — (0-6 points) — Project addresses a water quality or public health issue involving "Persistent Bioaccumulative Toxics" (PBT's)

Category 2: Potential water quality or public health consequences of not funding the proposed project

2A — (0-5 points) — If the proposed project is not implemented, water quality standards are likely to be exceeded or existing exceedances are likely to worsen

2B — (0-5 points) — If the proposed project is not implemented, the resulting impact is likely to cause a public health problem

2C — (0-5 points) — A unique opportunity to implement the proposed project currently exists due to timing, finances or other limitations that would not allow this project to be implemented in the future

Category 3: Other considerations

3A — (0-3 points) — Project has significant educational or outreach component

3B — (0-3 points) — Project demonstrates innovative technology which is transferable

3C — (0-3 points) — Project is a partnership with other group(s), incorporating self-help, financial or in-kind support

3D — (0-5 points) — Project incorporates monitoring, reporting or adaptive management

3E — (0 or 1 point) — Project addresses or includes risk management, safety or security measures

3F — (0-minus 5 points) — Applicant's past performance with previous Department loans or grants such as, but not limited to, failure to satisfy match requirements of a grant, failure to complete the project or failure to submit any other required deliverable in a timely manner.

Appendix E

Recommended Project Ranking Criteria with New Scoring System

TABLE 1
CWSRF Project Ranking Criteria for non-Planning Loans

Category 1: Water quality standards and public health considerations

1A – (1-5 points) – Does project improve water quality by addressing water quality parameters, including but not limited to: temperature, dissolved oxygen, contaminated sediments, toxics, bacteria or nutrients?

1B – (1-5 points) – Does project ensure facility currently in compliance, but at risk of noncompliance, maintains compliance?

1C – (1-5 points) – Does project address noncompliance with water quality standards, public health issues or effluent limits related to surface waters, biosolids, water reuse or groundwater? *(2X weighted question = 10 points)*

1D – (1-5 points) – If project is not implemented, are water quality standards likely to be exceeded or existing exceedances likely to worsen? *(2X weighted question = 10 points)*

Category 2: Watershed and environmental benefits

2A – (1-5 points) – Does project improve or sustain aquatic habitat supporting native species or state or federally threatened or endangered species?

2B – (1-5 points) – Does project address water quality or public health issue within a “special status” water body? *(2X weighted question = 10 points)*

2C – (1-5 points) – Does project support the implementation of a Total Maximum Daily Load (TMDL) allocation, DEQ water quality status and action plan or Groundwater Management Area? *(2X weighted question = 10 points)*

2D – (1-5 points) – Does project provide performance based water quality improvements supported by monitoring and reasonable assurance project will continue to function over time? *(2X weighted question = 10 points)*

2E* – (1-5 points) – Does project integrate or expand sustainability or the use of natural infrastructure, or use tools such as water quality trading, beyond current EPA green project reserve guidance? *(2X weighted question = 10 points)*

2F* – (1-5 points) – Does project incorporate or expand green stormwater infrastructure in accordance with current EPA guidance, including but not limited to, practices that manage wet weather and that maintain and restore natural hydrology by infiltrating, evapotranspiring, harvesting or using stormwater on a local or regional scale?

2G* – (1-5 points) – Does project incorporate or expand water efficiency in accordance with current EPA guidance, including but not limited to, the use of improved technologies and practices to deliver equal or better services with less water such as conservation, reuse efforts, or water loss reduction and prevention?

2H* – (1-5 points) – Does project incorporate or expand energy efficiency in accordance with current EPA guidance, including but not limited to the use of improved technologies and practices to reduce energy consumption of water quality projects, or use energy in a more efficient way, or to produce or utilize renewable energy?

2I* – (1-5 points) – Does project incorporate or expand environmentally innovative projects in accordance with current EPA green project reserve guidance, including but not limited to, demonstrating new or innovative approaches to deliver services or manage water resources in a more sustainable way?

Category 3: Other considerations

3A* – (1-5 points) – Does project include a long term planning effort, addressing financial, managerial, or technical capability, or asset planning that ensures project will be maintained?

3B – (1-5 points) – Does project include a significant on-going educational or outreach component?

3C – (1-5 points) – Does project incorporate working with others, including but not limited to, in-kind support, other funding sources or partnership(s) with governmental, tribal, or non-governmental organizations?

3D* – (1-5 points) – Does project address a water quality improvement or restoration need for a population of 10,000 or less? (*2X weighted question = 10 points*)

3E* – (1-5 points) – Does project include a new Sponsorship Option?

TABLE 2*

CWSRF Project Ranking Criteria for Planning Loans

1 – (1-5 points) – Does the planning effort address more than one water quality benefit, pollutant, or restoration effort?

2 – (1-5 points) – Does the planning effort address sustainability?

3 – (1-5 points) – Does the planning effort take advantage of an opportunity with respect to timing, finances, partnership or other advantageous opportunity?

4 – (1-5 points) – Does the planning effort include addressing financial, managerial and technical capability aspects of the project?

5 – (1-5 points) – Does the planning effort address integrating natural infrastructure and built systems? (*2X weighted question = 10 points*)

6 – (1-5 points) – Does the planning effort demonstrate applicant cost effectiveness by considering three or more project alternatives such as optimizing existing facilities, regional partnerships, or consolidation?

*Note: New criterion and table

CWSRF Advisory Committee



Back row from left: Doug Waugh, Brett Arvidson, Todd Miller and Sam Goldstein. Front row from left: Tom Salzer, April Snell, Mary Wahl, Emily Ackland, Tom Elliot, Robert Ault, Chris Marko and Joe Whitworth. Not pictured: Ray Bartlett and Jason Green.