DEBT SERVICE PROGRAM NARRATIVE (13-15)

Debt Service

For 41 years, the State of Oregon, acting through DEQ and the Environmental Quality Commission, has used proceeds from the sale of pollution control bonds to pay for solid waste and wastewater treatment facilities and to clean up polluted sites. Voters authorized issuance of these bonds in May 1969, and in 1971 the state issued the first bond series amounting to $45 million. Since then, the state has issued approximately $405 million of pollution control bonds, with about $38 million remaining outstanding as of June 30, 2012.

DEQ has used bond proceeds for five main purposes:

- **Loans and grants to local governments**. The state used proceeds from the first six bond issues ($188 million) for loans and grants to local governments, primarily as local match for federal grants. DEQ made water quality grants to 73 local governments and solid waste grants to 39 agencies. DEQ made water quality loans to 68 local governments and solid waste loans to 11 agencies. Debt service on these bonds is complete and was paid by loan repayments for the loan portion of the bonds, by General Fund appropriations and by interest earnings of the Bond Sinking Fund.

- **Sewer safety net program**. The sewer safety net program, also known as the sewer assessment deferral loan program, began in 1987. Under this program, DEQ lent bond proceeds to local governments to pay for sewers low-income home owners unable to afford construction costs. When the property was refinanced or changed hands, the local governments placed a lien on the property and repaid DEQ for the loan. The amount and timing of the loan repayments were uncertain, so the Legislature decided to keep loan repayments within the program and to instead pay debt service with Lottery Fund, and later, General Fund appropriations. The state used two bond series amounting to approximately $6 million for the sewer net safety program. The series were fully paid out in 2003 with repayments from local governments, producing General Fund savings in 2003-05. The savings rate has continued at about $750,000 per biennium.

- **Loans to help finance the mid-Multnomah County sewer project**. In 1984, the Environmental Quality Commission issued an order to the cities of Portland and Gresham to build sanitary sewers in mid-county, even outside their corporate boundaries, because of health hazards found with domestic septic tanks. The EQC agreed to issue pollution control bonds. DEQ used the bond proceeds to purchase special assessment bonds that the cities issued to finance sewer construction. Between 1990 and 1994, DEQ sold about $96 million in bonds to finance the construction. Debt service was paid ahead of schedule for all such bond series in February 2004.

- **Match for the Clean Water State Revolving Fund program**. Oregon receives a nearly $15 million annual grant from the US Environmental Protection Agency to capitalize the Clean Water State Revolving Fund and must make a one-for-five match payment , or roughly $3 million,

annually. DEQ uses the Clean Water SRF to provide below-market interest rate loans to local municipalities for three kinds of water pollution abatement projects: wastewater collection, treatment, and disposal systems; nonpoint source water pollution control; and implementation of management plans for several federally-designated estuaries (Tillamook and Lower Columbia River). Debt service on these bonds was funded by General Fund appropriations until late in the 2001-03 biennium. Starting with the 2001-03 Special Session Six, DEQ started providing some CWSRF debt service payment from the loan repayment funds as a means to achieve some General Fund savings. In the 2003-05 Legislatively Adopted Budget DEQ shifted debt service on bond series used for the CWSRF match payments from General Fund appropriations, funded by loan repayments. During the execution of the 2003-05 budget, a low interest rate environment led the Clean Water SRF program to use accumulated interest earnings to fully pay-out several of these bond series in 2003-05. Through June 30, 2012, DEQ has sold ten bond series amounting to about $54 million for match purposes, with just under $21 million of these bonds still outstanding.

- **Orphan Sites and match for Oregon Superfund sites**. Oregon established the Orphan Site Account in 1989 to fund investigation and cleanup at sites known as orphans — locations where responsible parties are unknown, unable or unwilling to perform cleanup-related work. Sites such as McCormick and Baxter, Lebanon Area Groundwater and Lone Elk Market (Spray) are or have been orphan sites. The Legislature authorized the financing of industrial orphan cleanups with long-term pollution control bonds and established two fees to pay debt service on the bonds (50 percent from each fee): a hazardous substance possession fee (ORS 453.396-.414) and a bulk petroleum withdrawal or "petroleum load" fee (ORS 465.104-.131). The petroleum load fee has not been available for debt service since April 1993, when the Attorney General advised that its use for orphans was likely a violation of the state's constitutional dedication of motor vehicle fuels to highway purposes. As a result, the 1995 Legislature directed that the hazardous substance fee would fund only its half of debt obligations that existed before the beginning of the biennium, or about $1 million a biennium. Subsequent budgets have maintained use of the substance fee at that level. Beginning with the 1995-97 budget, the Legislature authorized the use of various funding sources, including General Fund, Lottery, and a loan from the Hazardous Substance Remedial Action Fund to meet existing debt service and to finance additional bond sales to continue funding orphan site cleanups.

  Through June 30, 2012, the state issued seven bond series amounting to about $42 million for orphan sites and match for Oregon Superfund sites. There have also been two refunding bond series ($21 million), for a total of nine series ($63 million) altogether. The two earliest series were refunded in September, 2003 by the seventh Orphan Bond Series to take advantage of low interest rates and to achieve approximately $370,000 of General Fund and Other Fund non-limited savings for the 2003-05 biennium. The refunding bond, like the two it replaced, uses both and general fund appropriations for debt service. All other Orphan Bond debt has been serviced using General Fund appropriations alone. In November 2005, the third, fourth, and fifth series bonds were refunded with the eighth Orphan Bond Series to achieve approximately $585,000 of general fund non-limited savings for the 2005-07 biennium. The ninth Orphan Bond Series ($4,500,000) was issued in April of 2008 with debt service starting November 1, 2008.

  Debt service payments on the seventh (refunding) Orphan Bond Series will conclude in May 2014. In 2011, the Legislature approved issuance of bonds to be financed solely with the hazardous substance possession fees that will be freed up when that bond series is paid off. DEQ expects bonds to be issued in November 2012 and the fee revenue stream is expected to support an issue a principal amount of about $6.7 million.

.

DEBT SERVICE PROGRAM POLICY PACKAGE NARRATIVE (11-13)

Title: Clean Water State Revolving Fund – Bond Debt Service (#191)

Purpose:

This package seeks to obtain limitation to provide debt service for General Obligation Bonds issued to meet the state match for up to three federal capitalization grants to maintain Oregon's Clean Water State Revolving Fund. The CWSRF provides below-market interest rate loans to public agencies, including counties and municipalities, for three kinds of water pollution abatement projects: wastewater collection, treatment, and disposal systems; nonpoint source water pollution control measures; and implementation of management plans for federally designated estuaries (Tillamook and Lower Columbia River). DEQ issued its first CWSRF loan in 1991, and as of June 30, 2012, has written loans amounting to over $985 million to 147 Oregon communities. Without this package, DEQ would need to decline more than $15 million per year of federal grants, and there would be less state assistance to Oregon communities for such projects.

The federal Water Quality Act of 1987 created the state wastewater treatment revolving loan fund program. The primary source of funds for this program is repayments of loan principal and interest and federal capitalization grants. The federal act requires the state to match federal dollars with state funds in an amount at least equal to twenty percent of the federal capital grant. DEQ issues General Obligation Bonds for match, which is to be authorized by the statewide Bond Bill.

Debt service for the bonds will be sourced from the interest earnings received by the CWSRF. Interest earnings may be used for this purpose.

Approval of this package ensures DEQ continues to provide communities with affordable financing options for wastewater treatment and other clean water projects. Adequate wastewater treatment capacity is needed for communities' economic development future.

Without this package communities may face delays or higher financing costs for wastewater treatment and other clean water projects.

How accomplished:

The State of Oregon issues General Obligation Bonds to finance the annual state match contributions to the CWSRF. These bonds are issued under the authority of Article XI-H of the Oregon Constitution and ORS Chapters 286, 288, and 468 in accordance with resolutions of the Environmental Quality Commission and Issuance Certificates of the State Treasurer.

The state will need to issue up to $10 million worth of these bonds during the 2013-15 biennium to provide the state match for up to $50 million worth of federal capitalization grants and to pay bond issuance costs. DEQ will require funds to finance the debt service on these Pollution Control Bonds. All debt service will be sourced from interest earnings of the CWSRF program, and hence these General Obligation Bonds are "self-financed." This package covers $10.02 million of debt service for Bonds of short duration which are fully redeemed during the 2013-15 biennium with no carryover into subsequent

biennia. However, if demand for CWSRF loans remains strong and the long-term bond markets are favorable, DEQ will request the issuance of 20-year bonds with debt-service spread equally over as long as 10 biennia.

Staffing impact: None

Budget: $10,020,000

Revenue source: Non-Limited Funds

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Environmental Quality, Dept of | **Cross Reference Name: PCBF Debt Service**

Pkg: 191 - Clean Water SRF Bond Debt Service | **Cross Reference Number: 34000-009-00-00-00000**

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Revenues							
Transfer In - Intrafund	-	-	-	-	10,020,000	-	10,020,000
Total Revenues	**-**	**-**	**-**	**-**	**$10,020,000**	**-**	**$10,020,000**
Debt Service							
Principal - Bonds	-	-	-	-	10,000,000	-	10,000,000
Interest - Bonds	-	-	-	-	20,000	-	20,000
Total Debt Service	**-**	**-**	**-**	**-**	**$10,020,000**	**-**	**$10,020,000**
Total Expenditures							
Total Expenditures	-	-	-	-	10,020,000	-	10,020,000
Total Expenditures	**-**	**-**	**-**	**-**	**$10,020,000**	**-**	**$10,020,000**
Ending Balance							
Ending Balance	-	-	-	-	-	-	-
Total Ending Balance	**-**	**-**	**-**	**-**	**-**	**-**	**-**

DETAIL OF OTHER FUNDS AND FEDERAL FUNDS REVENUE

Source	Fund	2009-2011 Actuals	2011-2013 Legislatively Approved	2013-2015		
				Agency Request	Governor's Balanced	Legislatively Adopted
Debt Service						
2007A COPS Laboratory Furnishings & Equip	OF	240,600	238,600	0	0	0
Existing CWSRF Bonds	OF	4,257,461	5,092,638	6,079,476	6,079,476	0
New CWSRF Bonds	OF	0	10,020,000	10,020,000	10,020,000	0
Orphan Bonds	OF	1,986,025	1,037,563	1,040,802	1,040,802	0
Subtotal		6,484,086	16,388,801	17,140,278	17,140,278	0

Description	2009-11 Actuals	2011-13 Leg Adopted Budget	2011-13 Leg Approved Budget	2013-15 Agency Request Budget	2013-15 Governor's Budget	2013-15 Leg Adopted Budget
TOTAL NONLIMITED BUDGET (Including Packages)						
Other Funds	120,655,267	109,516,601	109,516,601	111,939,306	111,939,306	-
OPERATING BUDGET						
Other Funds	120,655,267	109,516,601	109,516,601	111,939,306	111,939,306	-
TOTAL BUDGET						
Other Funds	120,655,267	109,516,601	109,516,601	111,939,306	111,939,306	-

Description	2009-11 Actuals	2011-13 Leg Adopted Budget	2011-13 Leg Approved Budget	2013-15 Agency Request Budget	2013-15 Governor's Budget	2013-15 Leg Adopted Budget
DEBT SERVICE (Excluding Packages)						
DEBT SERVICE						
General Fund	4,592,353	5,379,568	5,573,180	4,729,793	4,729,793	-
Other Funds	1,197,600	238,600	238,600	-	-	-
All Funds	5,789,953	5,618,168	5,811,780	4,729,793	4,729,793	-
TOTAL DEBT SERVICE (Excluding Packages)						
General Fund	4,592,353	5,379,568	5,573,180	4,729,793	4,729,793	-
Other Funds	1,197,600	238,600	238,600	-	-	-
All Funds	5,789,953	5,618,168	5,811,780	4,729,793	4,729,793	-
DEBT SERVICE (Current Service Level)						
General Fund	4,592,353	5,379,568	5,573,180	4,729,793	4,729,793	-
Other Funds	1,197,600	238,600	238,600	-	-	-
All Funds	5,789,953	5,618,168	5,811,780	4,729,793	4,729,793	-
TOTAL DEBT SERVICE (Including Packages)						
General Fund	4,592,353	5,379,568	5,573,180	4,729,793	4,729,793	-
Other Funds	1,197,600	238,600	238,600	-	-	-
All Funds	5,789,953	5,618,168	5,811,780	4,729,793	4,729,793	-
DEBT SERVICE NONLIMITED (Excluding Packages)						
DEBT SERVICE						
Other Funds	5,286,486	16,150,201	16,150,201	7,120,278	7,120,278	-
TOTAL DEBT SERVICE NONLIMITED (Excluding Pac						