

John J. Audley on behalf of

Association of Oregon Counties | City of Bend | Craft3  
Oregon Onsite Wastewater Association | Oregon Cattlemen's Association  
League of Oregon Cities | Oregon Dairy Farmers Association  
Oregon Environmental Council | Oregon Association of REALTORS

Testimony before the

Joint Committee on Ways and Means  
Subcommittee on Natural Resources

February 21, 2019

RE: H.B.5017

***We are supporters of the State of Oregon's affordable loan program that helps families replace failing septic systems and connect to municipal sewer. As such, we respectfully request that the Ways and Means Committee include an additional \$2.0 million in H.B.5017 for this vital program. The funds were initially proposed in DEQ's budget but were not part of the final budget presented to the Legislature.***

DEQ and the U.S. Environmental Protection Agency (EPA) estimate that, of the over 450,000 septic systems currently in use across the state, 10% (45,000) fail each year. Recognizing these failures as a problem for water quality, public health, and family resilience, the State Legislature established an affordable septic loan program in 2016.

That program, administered by DEQ and operated under-contract by nonprofit lender Craft3, has proved its value in only two years' time.

- More than \$2.2 million dollars have been invested in over 110 septic systems (or sewer hook-ups) in 70 cities across the state. Customers live in 27 Oregon counties.
- Over 13 million gallons of wastewater is treated annually because of these new systems.
- Nearly 40% of the families serviced by this program fall below 80% of county area median income – families that need help are getting it.
- By contracting out lending to a third party, DEQ has ensured there is zero risk to the state for losses due to loan default or non-payment.
- Of the loans currently made, nearly one-third are fully deferred – with no principal or interest payments until the loan matures. Another 15 percent are interest-only. Interest rates are affordable, with terms spread out over 15 years.

Craft3, which operates the program on behalf of DEQ after competitively bidding for it in 2016, has been proud to provide this service to Oregonians using the State of Oregon's previous investments of "patient capital" because it helps keep families in their homes and improves water quality. I'd note that Craft3 has also attracted \$450,000 in non-state capital to the program from private philanthropic sources. It has a robust pipeline of over \$1.2 million in new loans – many of which are to families that do not have easy access to the \$25,000 it often requires to replace a failed system. Beyond those, though, it does not have the capital to meet growing demand.

DEQ has responsibly administered the program. We estimate that only 1 percent of the funds appropriated by the State Legislature (\$250,000 initially; \$1.5 million in 2017) have been used by DEQ to oversee the program. Nearly all the rest has been used directly to make affordable and flexible loans to Oregon families.

The lender estimates that this program during the 2019-20 biennium will require approximately \$4.0 million in loan capital; the \$2.0 million in requested grant funds from the state would go a long way towards ensuring help is available to those who need it through 2021.

DEQ recognized the value of this program when it included \$2 million in grant funds in its draft budget. Unfortunately, the budget process did not retain those funds in the proposal sent to you by Governor Brown. While we understand that there are many competing needs for the coming biennium, our organizations respectfully submit that this program provides a tremendous service to the citizens of Oregon at a very low cost to the state.

Thank you for your time and considering this request.

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