

DEBT SERVICE PROGRAM NARRATIVE

Debt Service

The State of Oregon, acting through the Environmental Quality Commission (EQC) and Department of Environmental Quality, has been using the proceeds from the sale of Pollution Control Bonds for 37 years to pay for solid waste and wastewater treatment facilities, and to clean up polluted sites. Issuance of these Bonds was authorized by the voters in May, 1969 and the first Bond Series amounting to \$45 million was issued in 1971. Since then approximately \$396 million of Pollution Control Bonds have been issued, with about \$43 million remaining outstanding as of June 30, 2008.

Bond proceeds have been used by DEQ for five main purposes: (1) loans and grants to local governments; (2) sewer safety net program; (3) loans to Portland and Gresham to help finance the mid-Multnomah County sewer project; (4) provide match to the Clean Water State Revolving Fund (CWSRF) program; and (5) cleaning up Orphan Sites.

- (1) Proceeds from the first six bond issues - \$188 million - were used for loans and grants to local governments, primarily to be used as local match for direct federal grants then available. The DEQ made water quality grants to 73 local governments and solid waste grants to 39 agencies; water quality loans went 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.
- (2) The sewer safety net program, also known as the assessment deferral loan program, began in 1987. Under this program DEQ lent bond proceeds to local governments to enable them to pay for sewerage of low-income home owners unable to currently afford construction costs. The local governments placed a lien on the property to be liquidated when the property was refinanced or changed hands. At this time the local government would repay the loan to DEQ. As the amount and timing of the loan repayments were very uncertain, the Legislature determined to keep loan repayments within the program and to instead pay debt service with (originally) lottery and then general fund appropriations. Two Bond Series amounting to approximately \$6 million in bond proceeds were used for this program. These two Bond Series were fully paid out in 2003 through the use of those monies repaid into the respective Bond Fund Accounts

DEBT SERVICE PROGRAM NARRATIVE

by local government. This produced general fund savings in 2003-05 which continue at a level of about \$750,000 per biennium for subsequent biennia.

- (3) In 1984 a health hazard from domestic septic tanks was found to exist in mid-Multnomah County, and the EQC issued an order to the cities of Portland and Gresham to build sanitary sewers in mid-county, even outside their corporate boundaries. The EQC agreed to issue pollution control bonds, the proceeds of which were then used to purchase special assessment bonds issued by the cities to finance this sewer construction. Between 1990 and 1994 DEQ sold some \$96 million in bonds to finance this program. Debt service was paid using repayments received from Portland and Gresham, and was completed ahead of schedule for all such Bond Series in February 2004.
- (4) The state currently receives a nearly \$15 million annual grant from the Environmental Protection Agency to capitalize the Clean Water State Revolving Fund (CWSRF) for which the state must make a one-for-five match payment. DEQ uses the CWSRF to provide below market interest rate loans to local municipalities for three kinds of water pollution abatement projects: i) wastewater collection, treatment, and disposal systems, ii) nonpoint source water pollution control, and iii) the implementation of management plans for several federally designated estuaries. Up to June 30, 2008 eight Bond Series amounting to about \$44 million had been issued for match purposes. Up to late in the 2001-03 biennium, Debt Service of these Bonds had been primarily from general-fund appropriations. As a result of the 2001-03 Special Session 6, DEQ provided about \$822,000 of CWSRF debt service payment from the Bond Sinking Fund as a means to achieve some general fund savings in 2001-03. The 2003-05 Legislatively Adopted Budget subsequently moved debt service of all Bond Series used for the CWSRF match payments from general fund appropriations to other fund non-limited appropriations so that interest earnings of the CWSRF could be used to service the debt of these Bonds. In the current economic and low interest rate environment the CWSRF program used accumulated CWSRF interest earnings to fully pay-out several of these Bond Series in 2003-05.
- (5) The Orphan Site Account (OSA) was established in 1989 to fund investigation and cleanup at sites known as orphans, where the responsible parties are unknown, unable or unwilling to perform cleanup-related work. Sites such as McCormick & Baxter, Prineville Texaco 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% 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, in the 1995-97 biennium, 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

DEBT SERVICE PROGRAM NARRATIVE

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.

Since 1999, current debt service has been funded with approximately \$1 million of hazardous substance possession fees and the remainder with General Funds.

Up to June 30, 2008, nine Bond Series amounting to about \$63 million had been issued for this purpose. The two earliest Bonds were refunded in September, 2003 (two Bond Series replaced by a 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 refunded bond, like the two it replaced, uses both hazardous substance possession fees and general fund appropriations for debt service. All other Orphan Bond debt is serviced using general fund appropriations alone. In November, 2005, the third, fourth, and fifth Bonds were refunded with an eighth Orphan Bond Series to take advantage of low interest rates and 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 11/1/2008.

DEBT SERVICE PROGRAM POLICY PACKAGE NARRATIVE

Title: Clean Water SRF - 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 (CWSRF). The CWSRF provides below market interest rate loans to public agencies, including counties and municipalities, for three kinds of water pollution abatement projects: 1) wastewater collection, treatment, and disposal systems, 2) nonpoint source water pollution control measures, and 3) 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, 2008, has written loans amounting to over \$684 million to 121 Oregon communities. Without this package DEQ would need to decline \$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 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 (20%) of the federal capital grant. DEQ issues General Obligation Bonds for the purpose of the 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 are permitted to be used for this purpose.

Approval of this package ensures we continue 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 will be 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.

DEBT SERVICE PROGRAM POLICY PACKAGE NARRATIVE

The State will need to issue up to \$10.0 million worth of these Bonds during the 2009-11 biennium to provide the State Match for up to \$45 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 09-11 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 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
Pkg: 191 - Clean Water SRF - Debt Service

Cross Reference Name: PCBF Debt Service
Cross Reference Number: 34000-009-00-00-00000

<i>Description</i>	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	-	-	-	-	-	-	-

DEBT SERVICE PROGRAM POLICY PACKAGE NARRATIVE

Title: Orphan Site Debt Service Substitutions (#811)

811-G25: Use Hazardous Substance Possession Fees to substitute for GF debt service

Orphan Site debt service payments for DEQ bond issue 2003B are funded equally by general fund appropriation and revenue transfers from hazardous substance possession fees. There is an accumulated fund balance of hazardous substance possession fees due primarily to bond refundings and interest earnings. The Legislature approved a one-time replacement of General Funds for orphan site debt service with hazardous substance possession fee balances.

How Accomplished: This package reduces GF limitation and appropriation by \$300,000, and increases other fund limited debt-service limitation and revenue transfers by \$300,000.

Budget: General Fund \$ (300,000)
Other Funds Limited \$ 300,000

Staffing Impact: None

811-G20 & 811-G26: Use proceeds from 2008 orphan bond sale to substitute for GF debt service instead of site clean-up

Orphan Site debt service payments for DEQ bond issue 2008B are funded by general fund appropriation. The Legislature approved a one-time replacement of General Funds for orphan site debt service with proceeds from the 2008B bond sale that normally would have been used for clean-up of orphan sites.

How Accomplished: This package reduces GF limitation and appropriation by \$657,000, and increase other fund limited limitation and revenue transfers from the orphan bond fund by \$657,000.

Budget: General Fund \$ (657,000)
Other Funds Limited \$ 657,000

Staffing Impact: None

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Environmental Quality, Dept of
Pkg: 811 - Analyst Fund Shifts

Cross Reference Name: PCBF Debt Service
Cross Reference Number: 34000-009-00-00-00000

<i>Description</i>	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Revenues							
General Fund Appropriation	(957,000)	-	-	-	-	-	(957,000)
Transfer In - Intrafund	-	-	957,000	-	-	-	957,000
Total Revenues	(\$957,000)	-	\$957,000	-	-	-	-
Debt Service							
Principal - Bonds	(626,613)	-	626,613	-	-	-	-
Interest - Bonds	(330,387)	-	330,387	-	-	-	-
Total Debt Service	(\$957,000)	-	\$957,000	-	-	-	-
Total Expenditures							
Total Expenditures	(957,000)	-	957,000	-	-	-	-
Total Expenditures	(\$957,000)	-	\$957,000	-	-	-	-
Ending Balance							
Ending Balance	-	-	-	-	-	-	-
Total Ending Balance	-	-	-	-	-	-	-

DETAIL OF OTHER FUNDS AND FEDERAL FUNDS REVENUE

Source	Fund	2005-2007 Actuals	2007-2009 Legislatively Approved	2009-2011		
				Agency Request	Governor's Recommended	Legislatively Approved
Debt Service						
2007A COPS Laboratory Furnishings & Equip	OF	0	256,260	240,600	240,600	240,600
Existing CWSRF Bonds	OF	5,935,699	2,537,172	3,245,923	3,245,923	3,902,923
New CWSRF Bonds	OF	0	4,810,000	10,020,000	10,020,000	10,020,000
Orphan Bonds	OF	1,021,792	1,025,995	1,029,025	1,029,025	1,329,025
Subtotal		6,957,491	8,629,427	14,535,548	14,535,548	15,492,548

Program Unit Appropriated Fund Group and Category Summary
 2009-11 Biennium
 PCBF Debt Service

Version: Z - 01 - Leg. Adopted Budget
 Cross Reference Number: 34000-009-00-00-00000

Description	2005-07 Actuals	2007-09 Leg Adopted Budget	2007-09 Leg Approved Budget	2009-11 Agency Request Budget	2009-11 Governor's Rec. Budget	2009-11 Leg Adopted Budget
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DEBT SERVICE (Excluding Packages)

DEBT SERVICE

General Fund	4,288,817	4,770,453	4,770,453	5,549,353	5,549,353	5,549,353
Other Funds	-	748,260	748,260	240,600	240,600	240,600
All Funds	4,288,817	5,518,713	5,518,713	5,789,953	5,789,953	5,789,953

TOTAL DEBT SERVICE (Excluding Packages)

General Fund	4,288,817	4,770,453	4,770,453	5,549,353	5,549,353	5,549,353
Other Funds	-	748,260	748,260	240,600	240,600	240,600
All Funds	4,288,817	5,518,713	5,518,713	5,789,953	5,789,953	5,789,953

DEBT SERVICE (Essential Budget Level)

General Fund	4,288,817	4,770,453	4,770,453	5,549,353	5,549,353	5,549,353
Other Funds	-	748,260	748,260	240,600	240,600	240,600
All Funds	4,288,817	5,518,713	5,518,713	5,789,953	5,789,953	5,789,953

DEBT SERVICE (Policy Packages)

PRIORITY 0

811 ANALYST FUND SHIFTS

DEBT SERVICE

General Fund	-	-	-	-	-	(957,000)
Other Funds	-	-	-	-	-	957,000
All Funds	-	-	-	-	-	-

TOTAL DEBT SERVICE (Policy Packages)

Program Unit Appropriated Fund Group and Category Summary
 2009-11 Biennium
 PCBF Debt Service

Version: Z - 01 - Leg. Adopted Budget
 Cross Reference Number: 34000-009-00-00-00000

Description	2005-07 Actuals	2007-09 Leg Adopted Budget	2007-09 Leg Approved Budget	2009-11 Agency Request Budget	2009-11 Governor's Rec. Budget	2009-11 Leg Adopted Budget
General Fund	-	-	-	-	-	(957,000)
Other Funds	-	-	-	-	-	957,000
All Funds	-	-	-	-	-	-
TOTAL DEBT SERVICE (Including Packages)						
General Fund	4,288,817	4,770,453	4,770,453	5,549,353	5,549,353	4,592,353
Other Funds	-	748,260	748,260	240,600	240,600	1,197,600
All Funds	4,288,817	5,518,713	5,518,713	5,789,953	5,789,953	5,789,953
DEBT SERVICE NONLIMITED (Excluding Packages)						
DEBT SERVICE						
Other Funds	6,957,491	8,373,167	8,373,167	4,274,948	4,274,948	4,274,948
TOTAL DEBT SERVICE NONLIMITED (Excluding Pacl						
Other Funds	6,957,491	8,373,167	8,373,167	4,274,948	4,274,948	4,274,948
DEBT SERVICE NONLIMITED (Essential Budget Level						
Other Funds	6,957,491	8,373,167	8,373,167	4,274,948	4,274,948	4,274,948
DEBT SERVICE NONLIMITED (Policy Packages)						
PRIORITY 27						
191 CLEAN WATER SRF - DEBT SERVICE						
DEBT SERVICE						
Other Funds	-	-	-	10,020,000	10,020,000	10,020,000
TOTAL DEBT SERVICE NONLIMITED (Policy Packag						
Other Funds	-	-	-	10,020,000	10,020,000	10,020,000

Program Unit Appropriated Fund Group and Category Summary
 2009-11 Biennium
 PCBF Debt Service

Version: Z - 01 - Leg. Adopted Budget
 Cross Reference Number: 34000-009-00-00-00000

Description	2005-07 Actuals	2007-09 Leg Adopted Budget	2007-09 Leg Approved Budget	2009-11 Agency Request Budget	2009-11 Governor's Rec. Budget	2009-11 Leg Adopted Budget
TOTAL DEBT SERVICE NONLIMITED (Including Pack						
Other Funds	6,957,491	8,373,167	8,373,167	14,294,948	14,294,948	14,294,948
TOTAL BUDGET						
General Fund	4,288,817	4,770,453	4,770,453	5,549,353	5,549,353	4,592,353
Other Funds	6,957,491	9,121,427	9,121,427	14,535,548	14,535,548	15,492,548
All Funds	11,246,308	13,891,880	13,891,880	20,084,901	20,084,901	20,084,901

Oregon Department of Environmental Quality
2009-11 Legislatively Adopted Budget

Section 1: Legislative Action

Section 2: Agency Summary

Section 3: Revenues

Section 4: Air Quality Program

Section 5: Water Quality Program

Section 6: Land Quality Program

Section 7: Cross Program

Section 8: Agency Management Program

Section 9: Pollution Control Fund Debt Service

Section 10: Nonlimited Expenditures and Pollution Control Bonds

Section 11: Capital Budgeting

Section 12: Special Reports

Part 1: Major IT Projects/Initiatives; Facility Proposal Impact on Work Space Requirements; Audit Results; Affirmative Action; Sustainability; BSU-003; BSU-004

Part 2: BDV103A; ANA100A

Part 3: ANA101A (part 1)

Part 4: ANA101A (part 2)

Part 5: PPDPLBUDCL; PPDPLAGYCL; PPDPLWSBUD