

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY

TESTIMONY BEFORE THE HOUSE COMMITTEE ON AGRICULTURE, LAND USE & WATER

House Bill 2168 – Septic Repair/Replacement Financial Assistance

January 22nd, 2025

Context

- Onsite septic systems provide an effective method of wastewater treatment for rural households throughout the State who are outside the service area for sewage treatment facilities. About 35% of Oregonians live in rural or frontier communities and the majority of these residents rely on septic systems for domestic wastewater treatment.
- When properly planned, installed, operated and maintained, these systems can provide excellent wastewater treatment. However, when these systems are not properly maintained, burdened by overuse, or use beyond the intended lifespan of the system, septic systems can result in significant environmental and human health concerns.
- Costs to property owners utilizing these systems can vary from \$5,000 for a basic tank repair to more than \$25,000 to fix a drainfield or repair an advanced treatment technology system. When a system entirely fails, the expense to design, permit, and install a replacement system averages about \$40,000 but in some cases may exceed \$50,000. For low- and moderate-income households, this cost can be prohibitive, and without financial assistance homeowners may not be able to pay for needed repairs or replacements. This in turn can result in surfacing sewage which creates a health and safety risk, as well as contamination of surface or groundwater - and may put some residents at risk of being unable to stay in their homes.
- Failing septic systems disproportionately impact some of rural Oregon's most economically vulnerable citizens including communities with high unemployment rates, seniors living on fixed incomes, and some BIPOC communities.

State-Supported Funding for Septic Repair/Replacement Financial Assistance

- In 2016 the Oregon Legislature, with broad support from public health agencies, environmental organizations, and community development organizations, established a septic loan program (ORS 454.779). This program authorizes DEQ to issue pass-through grants to provide low-interest loans for septic system repairs and replacements. DEQ has partnered with Craft3, a community development financial institution (CDFI) to administer the affordable loan program.
 - Since 2016, \$3.7 million in general funds have been appropriated for this program. Information reported by Craft3 shows that as of December 2024, 224 homeowners in 29 counties received loans funded by state dollars through this program. Craft3 reports that nearly 40% of the families served by this program are low-income and an additional 30% are moderate-income households.

- Craft 3 has been able to expand the reach of this funding by using repaid principal to fund new loans, and to leverage the state funding with private investments to fund additional projects. As a result of the state appropriations, Craft3 has leveraged other funding to provide affordable below-market rates to over 380 borrowers in Oregon.
 - Available funds were successfully distributed by the end of the 2021-23 biennium, resulting in a suspension of being able to accept new applications.
- In 2021, the Oregon Legislature directed \$15M in American Rescue Plan Act (ARPA) funding to DEQ to establish the Onsite Septic Financial Aid Program (OSFAP). This program differs from the affordable loan program established in 2016 in three important ways: 1) a focus on wildfire recovery communities, 2) provides for a broader range of financial assistance tools - namely grants, in addition to loans, and 3) program authorization and funding is one-time, limited duration, set to expire in 2026.
 - DEQ has successfully obligated these funds to Craft3 and eight public agencies to distribute this funding for septic system repairs, replacements and in some cases conversions to sewer connections.
 - Over \$9.1 Million (60%) of this funding has been expended, supporting the repair or replacement of 519 systems. DEQ expects to expend an additional \$2.7M by June 2025, and that the remaining OSFAP funds will be obligated and largely spent by December 2025.
- Combined across both the Affordable Loan Program (ORS 454.779) and the ARPA-funded OSFAP, approximately 900 households have benefited so far from state directed spending to repair or replace failing septic systems. However, all related funds appropriated by the Legislature have been successfully expended or fully obligated.
- Demand remains high for financial support, especially from households experiencing economic hardship, seniors on fixed incomes, veterans, and other vulnerable rural populations. This funding helps those who are vulnerable to remain housed and living in safe conditions.
 - Overall, 70% of beneficiaries are low or moderate income with an area median income (AMI) of 120% or less. Low-income households, in particular, have received additional benefits such as grants for loan principal forgiveness (using the OSFAP funding) and loan terms with very low interest rates and deferred or interest-only payment options.
 - More than 1200 homeowners applied for OSFAP assistance before the funded public agencies and Craft3 closed their application periods due to more demand than could be serviced with available funding. However, wait lists continue to grow for our program partners such as Craft3 and the Central Oregon Intergovernmental Council. DEQ is also aware that there is significant demand in areas such as the Lower Umatilla Basin Groundwater Management Area and in coastal regions where there is both economic need and challenging geographic and water quality conditions.
- It is DEQ's understanding that without additional funding to capitalize these funding efforts in the 2025-27 biennium, our contracted partner administering the statewide program efforts (Craft3) will not be able to take more applications for septic repair/replacement financial assistance projects in Oregon.

DEQ has No Position on HB 2168

- As introduced, HB 2168 would provide \$5 Million General Fund appropriation to recapitalize the Onsite Repair/Replacement Affordable Loan Program (ORS 454.779), thereby enabling continuation of a state supported financial assistance program to provide Oregonian households in need of resources to address failing systems.
- DEQ has no position on this bill, as a funding source to continue financial assistance program efforts is not identified in the 2025-27 Governors Recommended Budget.
- However, DEQ has seen great value in the success of these efforts/activities. The ability to combine grants with loans, as demonstrated with the ARPA program funds, was able to more successfully target and support low and moderate income households that are being challenged with the costs to deal with a failing system. Therefore, to set up the Affordable Loan Program (ORS 454.779) for greater success in the future - if/when funding is made available to reestablish financial assistance offerings - the Governors Office (on behalf of DEQ) has introduced [SB 830](#) this session to extend legislative direction for continuation of onsite repair/replacement financial assistance by allowing for DEQ to provide funding for repair/replacement of failing septic systems in form of grants, as well as loans; expand funding eligibility to include larger systems serving low-income manufactured home parks (current legislation limits loan support to systems under 3500 GPD); and define and clarify definitions for “residential” and “small business.”

Testimony provided by:

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