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DEPARTMENT OF JUSTICE
CIVIL ENFORCEMENT DIVISION

February 18, 2025

VIA E-MAIL ONLY

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James Simmons, President
Board of Directors
Crescent Sanitary District
P.O. Box 265
Crescent, OR 97733-0265

**RE: Clean Water State Revolving Fund Loan Agreement No. R25100, as amended;
Clean Water State Revolving Fund Loan Agreement No. R25102, as amended;
and
Water Fund Water Project Financing Contract No. Y17003, as amended.**

Dear Mr. Simmons:

Thank you for the proposal set forth in your letter of January 9, 2025, regarding Crescent Sanitary District's ("CSD's") attempt to address its defaults under the above-referenced loans. While ultimately not fully acceptable to DEQ or OBDD, we believe it represents a good-faith effort on CSD's part to meet its obligations. DEQ and OBDD remain concerned about CSD's ability to cure the many defaults, but are also mindful of the limitations faced by it, and encouraged by CSD's efforts to date. That said, we write to inquire of some of the points raised in your letter, and to set forth a counter-proposal of sorts by DEQ and OBDD.

First, we are unclear what CSD means when it requests classification as a "Disadvantaged Community." The referenced Administrative Order does not create such a designation or create any new type of financing or accommodations based on such. That said, please note that at the time the loans with DEQ were entered, and continuing today, CSD met and meets the affordability criteria for low interest rates and other subsidies available to distressed or disadvantaged communities. In fact, CSD previously received \$500,000 in principal forgiveness for this very reason. Please advise if you believe we have missed something about the Order you cite. Otherwise, simply know that at this time, from DEQ's perspective, CSD already qualifies for the most favorable consideration available, including potential additional principal forgiveness. Whether or to what extent that occurs will depend entirely on CSD's ongoing cooperation and efforts to rectify the existing defaults.

Second, while neither DEQ nor OBDD generally use the term "interest moratorium," we interpret this as a request to suspend the accrual of interest that would otherwise occur per the terms of the applicable loan agreements for an unspecified period of time. Considering the efforts CSD is undertaking toward "identifying and securing alternative funding sources" at the federal and state level, and the likely timeline for any movement along that front, DEQ and OBDD are willing to suspend the accrual of interest as specified further below.

Third, DEQ's and OBDD's willingness to pursue further discussions or agree to *any* additional accommodation is contingent upon CSD completing the RCAC Rate Study referenced at item 4 in your letter; continuing to meaningfully engage with stakeholders (including the current Board, whose commitment to the process is required); and implementing, with DEQ and OBDD input, financial oversight mechanisms and information sharing practices, including audits and budget reviews.

With all the above in mind, DEQ and OBDD propose the following as a framework for further discussions:

1. DEQ will defer CSD's obligations under Loan Agreements R25100 and R25102 for an additional year, meaning no payments due and no further accrual of interest during this period, with any repayment of principal, interest, and fees -- according to a payment schedule to be determined based on any eventual agreement -- to commence on February 1, 2026. To allow CSD as much breathing room as possible, DEQ will also agree to push the date for payment of the annual fee that would have been due on August 1, 2025 to February 1, 2026, and waive any unpaid annual fees CSD has failed to make to date. DEQ will not consider further waiver of fees.
2. OBDD will similarly agree to defer CSD's obligations for another year, with repayment of principal and any already-accrued interest and applicable fees -- according to a payment schedule to be determined -- to begin on December 1, 2025.
3. As a precondition to any of the above, CSD must continue to meet any reserve requirements of all loans with DEQ and OBDD, and share/prepare any financial reports or audits it performs or receives from retained third parties.
4. And finally, CSD shall submit a detailed repayment plan no later than June 1, 2025, as discussed at item 6 in your letter of January 9, 2025.

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Please advise whether CSD agrees with this proposal for moving forward no later than March 4, 2025, so that we can prepare any additional documents that might be necessary to memorialize the parties' agreement/understanding.

We look forward to your timely response and ongoing cooperation.

Sincerely,

/s/ Andrew Reilly
Andrew T. Reilly
Senior Assistant Attorney General

cc: Clients
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