



**MARYLAND DEPARTMENT OF THE ENVIRONMENT
DRINKING WATER REVOLVING LOAN FUND PROGRAM**

**FINAL
FEDERAL FISCAL YEAR 2015
INTENDED USE PLAN**

JUNE 30, 2015



Prepared By

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

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MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

FINAL

**Federal Fiscal Year 2015 Intended Use Plan
Maryland Drinking Water Revolving Loan Fund**

TABLE OF CONTENTS

Executive Summary	1
A. Sources and Uses of Funds	4
B. Goals of the Maryland Drinking Water Revolving Loan Fund (DWRLF or DWSRF).....	4
C. Project Selection and Fund Activities under the FFY 2015 Intended Use Plan (IUP)	6
D. Project Scope of Work/Public Health Benefits - FFY 2015 IUP Projects	7
E. Minority Business Enterprises/Women's Business Enterprises (M/WBE) Participation.....	8
F. Assurances	8
G. Binding Commitments/Federal Payments	8
H. Public Review of the Draft FFY 2015 IUP	8

Table 1 - Project Funding List and Sources/Uses of Funds

- Appendix A: Maryland DWSRF Final Project Priority List for FFY 2015 IUP
- Appendix B: DWSRF Project Priority Ranking/Scoring Criteria
- Appendix C: Public Hearing Responsiveness Summary
- Appendix D: Assistant Attorney General Certification

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MARYLAND WATER QUALITY FINANCING ADMINISTRATION
FINAL
Federal Fiscal Year 2015 Intended Use Plan
Maryland Drinking Water Revolving Loan Fund**

EXECUTIVE SUMMARY

The Intended Use Plan (IUP) is the document that the Maryland Water Quality Financing Administration (MWQFA) will submit to the United States Environmental Protection Agency (EPA) to request the Federal Fiscal Year (FFY) 2015 Capitalization Grant under the Safe Drinking Water Act (SDWA), to be matched with 20% of State bond/general funds, for financing of capital projects from the Maryland Drinking Water Revolving Loan Fund (DWRLF or DWSRF). The Maryland DWSRF was established by amendments to the Maryland Water Quality Financing Administration Act, Title 9, Subtitle 16 of the Environment Article, Annotated Code of Maryland, to provide below market interest rate loans and other subsidies to local governments and eligible private entities for certain eligible drinking water capital improvement projects.

During FFY 2015, Maryland is eligible to receive \$15,012,000 in Federal Capitalization Grant, which may be used for Capital Projects (Project Funds) and for Set-Asides (Non-Project Funds). Under this IUP, Federal Capitalization Grant funds of \$10,358,280 or 69% is being allocated towards Drinking Water capital projects and the balance of \$4,653,720 or 31% is being allocated for set-aside activities. The Federal project funds combined with a 20% State general fund/GO bond match, plus loan repayments/investment earnings will be used to provide low interest loans and other financial subsidies for eligible DWSRF capital improvements, totaling \$24,000,000.

The Maryland Department of the Environment (MDE) Water Management Administration (WMA) will provide EPA a separate work plan for the use of the three programmatic set-asides (2%, 10%, 15%) totaling \$4,053,240 in July 2015.

Figure 1, shows a summary of the Sources and Uses of funds under the FFY 2015 IUP.

Figure 1

Sources:		Uses: FFY 2015 Appropriation	
Federal Cap Grant	\$ 15,012,000	Set-Asides (Non Project Funds)	
		Technical Assistance (up to 2%)	\$ 300,240
		DWSRF Admin. Expenses (up to 4%)	\$ 600,480
		Drinking Water Program Support (up to 10%)	\$ 1,501,200
		Local Assistance/State Activities (up to 15%)	\$ 2,251,800
		Subtotal	\$ 4,653,720
State Match (@ 20%)	\$ 3,002,400	DWSRF Capital Projects Loans and Grants	\$ 24,000,000
Est. Repayments	\$ 10,639,320		
Total	\$ 28,653,720	Total	\$ 28,653,720

Capital Project Selection

To provide applicants an opportunity to seek DWSRF funding, Financial Assistance Applications for drinking water (drinking water, source, treatment, storage and distribution, green infrastructure, water or energy efficiency and environmental innovation) capital projects were accepted by MWQFA from December 1, 2014 through January 31, 2015. Table 1 on this IUP shows the proposed list of capital projects including “green” projects for inclusion on the FFY 2015 IUP for DWSRF financial assistance. These projects were selected from the Project Priority List (PPL) based on their: (1) public health, compliance, sustainability benefits, reliability and affordability benefits per the project priority ranking/scoring criteria; (2) compliance with technical, managerial, and preliminary financial capacity; and (3) readiness to proceed to construction by December 31, 2016. Drinking water projects that are not included in an MDE-approved County Water and Sewer Plan are ineligible for funding. Drinking water projects that are not consistent with Maryland’s Smart Growth/Priority Funding Area (PFA) legislation will need a PFA exception approval

prior to loan execution. Before loan execution, projects identified in the IUP will undergo a detailed financial capacity/credit analysis by the MWQFA.

Capital Projects (Project Funds): A total of \$24,000,000 is available for Drinking Water capital projects identified in Table 1. The DWSRF loan terms are outlined below:

Current Interest Rate*	Standard Rate = 50% of Market Rate Disadvantaged Community (DAC) Rate = 25% of Market Rate (Market Interest Rate is defined as the average of the Bond Buyer 11-Bond Index for the month preceding the loan closing).
	* MDE, by policy, can change the SRF loan interest rate at any time. Interest rates are posted on the MWQFA web site.
Loan Term	Up to 20 Years (up to 30 years for DACs)
Loan Origination Fee	None
Loan Administrative Fee	5% of the aggregate debt service divided by the number of administrative fee payments over the life of the loan, collected annually. This amounts to approximately a 0.50% (or 50 basis points) increase in the interest rate for a 20-year loan or 0.35% increase in interest rate for a 30-year loan. The administrative fee is used to help meet program operating expenses. These funds are in addition to any funds provided for DWSRF program expenses from the Federal Capitalization Grant (4% set-aside).

Set-Asides (Non-Project Funds): A total of up to \$4,653,720 is being allocated for the four drinking water program set-aside activities. The use of set-aside funds is specifically identified in Section 1452 of the SDWA. The set-aside funds are targeted for use by the State for implementation of the primacy and administrative related activities. The MWQFA is requesting the 4% set-aside funds in the FFY 2015 IUP as insufficient funding is available from prior year grant awards to cover the administrative expenses associated with the DWSRF program. The 4% set-aside is taken every other year to ensure timely expenditure. The strategy for the other three set-asides will be provided with the program set-aside workplan, which will be submitted to EPA shortly by the WMA program staff.

1. Technical Assistance to Small Systems (up to 2%)

The funds allotted for Technical Assistance for Small Systems (water systems serving 10,000 population or fewer) are up to 2% of the FFY 2015 Capitalization Grant totaling \$300,240. These funds will be used for the MDE Water Supply Program activities (on-site technical assistance) and for contracts with organizations with expertise in dealing with small systems, such as Maryland Rural Water Association and the Maryland Center for Environmental Training (MCET) for continuation of the Circuit Rider program.

2. DWSRF Program Administration (up to 4%)

The funds allotted for Program Administration are up to 4% of the Capitalization Grant totaling \$600,480.

3. Drinking Water Program Funds (up to 10%)

The funds allotted for the Drinking Water Program Funds are up to 10% of the FFY 2015 Capitalization Grant totaling \$1,501,200. These funds will be used to fund additional program requirements under the SDWA, such as reporting, monitoring and enforcement. The funds will also be used to administer/provide technical assistance for source water protection, develop/implement the capacity development strategy and the operator certification program. In addition, the funds will be used to continue executing Delegation Agreements with 20 counties in Maryland for the regulation of SDWA activities of transient non-community water systems within their jurisdiction. This fund requires a 1:1 State match outside of the 20% State match to the Capitalization Grant (details to be provided with the Set-Asides Work Plan).

4. Local Assistance and Other State Projects (up to 15%)

The funds allotted for the Local Assistance and Other State Projects are up to 15% of the Capitalization Grant or

\$2,251,800. These funds will be used to provide technical and financial assistance to water systems for capacity development and wellhead protection; additionally, if there is demand, funds can be allocated for SDWA Section 1452(k) loans for land acquisition/conservation easements for source water protection for which the funding details will be provided in the set-aside work plan. The proposed loan terms for SDWA Section 1452(k) loans will be:

Interest Rate: 0%	Loan Term: Up to 20 years	Loan Origination/Admin. Fee: None
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All prior year 1452(k) loan repayments and interest earnings currently being received are being transferred into the DWSRF capital fund and made available for DWSRF capital activities, unless these funds are needed to make new 1452(k) loans.

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A. Sources and Uses of Funds

A comprehensive summary of DWSRF Sources and Uses of Funds are as follows:

Sources:	Thru 2014 IUP		2015 IUP	
Federal Capitalization Grants	\$	209,058,706	a	\$ 15,012,000
State Match	\$	41,851,400	b	\$ 3,002,400
Federal Stimulus ARRA Grant 08 IUP	\$	26,832,000		
Funds Transferred from Water Quality SRF	\$	10,634,580	c	
Investment Earnings thru SFY 2014	\$	8,674,044		
Loan Interest Repayments thru FY 2014	\$	15,195,383		
Loan Principal Repayments thru SFY 2014	\$	53,145,474		
Subtotal	\$	365,391,587		\$ 18,014,400
Estimated Loan Principal (SFYs 15 & 16)	\$	17,000,000		
Estimated Loan Interest (SFYs 15 & 16)	\$	3,000,000		
Estimated Investment Earnings (SFYs 15 & 16)	\$	458,000		\$ 292,000
Estimated Loan Principal (SFY 17)	\$	-		\$ 8,500,000
Estimated Loan Interest (SFY 17)				\$ 1,500,000
Estimated Investment Earnings (SFY 17)				\$ 375,000
Total Sources	\$	385,849,587		\$ 28,681,400
Uses:				
Loan/Grants Agreements Entered (as of 06/30/2014)	\$	292,744,303		
Projects on IUPs with loans pending	\$	34,184,359		\$ 24,000,000
SFY 15 Loan Agreements Entered (06/30/2015)	\$	1,589,191		
Stimulus Administrative Expenses	\$	400,000		
Federal Funds for Set-asides	\$	56,931,219		\$ 4,653,720
Total Uses	\$	385,849,072		\$ 28,653,720

^a Total federal appropriation through FFY 2014 Capitalization Grant, excluding ARRA.

^b Includes State General Fund or GO Bond Match of \$3,002,400 for FFY 2014 IUP (available July 1, 2015).

^c Funds transferred from Water Quality SRF to DWSRF (prior years).

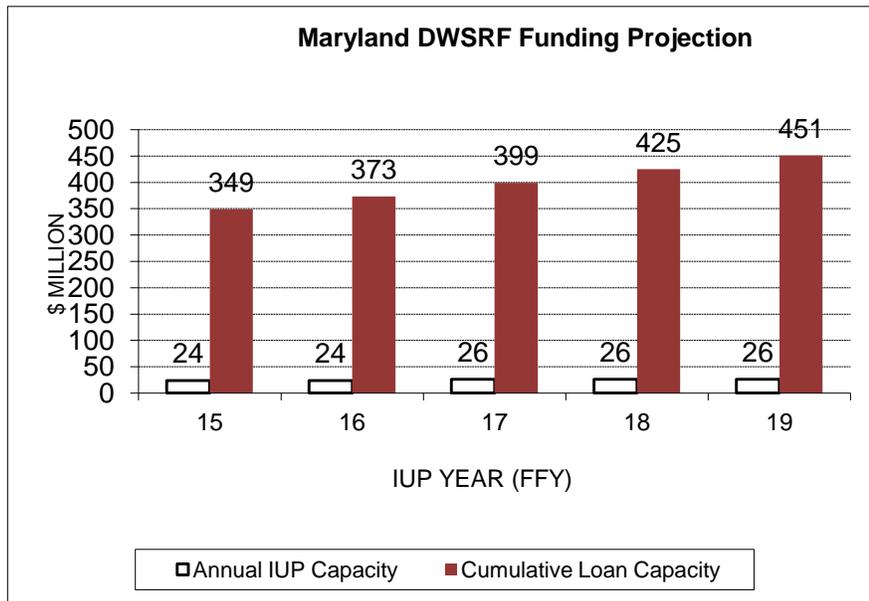
^d State General Fund/GO bond Match to FFY 2015 Capitalization Grant will be available July 1, 2016.

B. Goals of the Maryland Drinking Water Revolving Loan Fund

1. Long-Term Goals

- Achieve and/or Maintain Compliance with Safe Drinking Water Standards - Using the DWSRF project priority rating and ranking system, target financial assistance that will help water systems comply with, maintain, or meet safe drinking water standards, and address public health issues.
- Coordination of Capital & Set-Aside Priorities - Coordinate State priorities under the set-aside work plan (technical assistance, source water protection, and technical, managerial & financial capacity development) to target DWSRF funding to high priority capital projects to achieve objectives consistent with the SDWA.

- Fund Perpetuity and Utilization** - To provide low interest rate financing and other subsidies to high priority eligible projects that are ready to proceed within a reasonable time while maintaining a perpetual source of capital funds for future projects. The goal is to achieve a fund utilization rate (loans executed/total funds) of 90% or greater. This is one Program Activity Measure (PAM) under EPA's strategic plan for the DWSRF. For FFY 2015, MWQFA is projecting a DWSRF fund utilization rate of 95%. The DWSRF could finance approximately \$126 million in additional loans [excluding revenue bond leveraging from capitalization grants (not including 31% allocated toward set-asides annually), State match, repayments, and investment earnings between FFY 2015 and FFY 2019 IUPs - see graph below]. This is in addition to the \$325 million capacity on existing IUPs (1997 – 2014). This analysis takes into account stimulus funds, existing and anticipated investment earnings, and loan repayments, and assumes Maryland's annual Federal Capitalization Grant of ~\$15 million per year. The cumulative loan capacity of the DWSRF is projected to reach \$451 million by FFY 2019.



- Reasonable User Cost** - Ensure drinking water projects are constructed and maintained at a reasonable cost for the users of the system. To this end, DWSRF DAC Criteria provides additional subsidies, including loan principal forgiveness, while ensuring reasonable water user rates and financial capacity. In addition, MDE will continue to coordinate with other Federal and State financial assistance programs (e.g., USDA Rural Utilities Service, Community Development Block Grant, Federal Special Appropriation grants) that provide approximately \$15 million/year for water/sewerage system improvements in Maryland.
- Financial Capacity and DAC Assistance** - As part of the credit/financial analysis of potential borrowers, the MWQFA will continue to provide financial advisory services to system owners on the feasibility of their user rate structure and financial capacity to pay back a loan. The MWQFA financial model forecasts future operating cash flows based on existing/proposed user rates using audited financial statements. The model has been an effective tool to assist communities in developing affordable user rate structures and in determining additional subsidies to DACs.

2. Short-Term Goals/FFY2015 IUP Operating Goals

CAPITAL PROJECTS

- Utility Sustainability** - To provide low-cost capital financing for existing facility (fix-it-first) upgrades for drinking water system improvements necessary to achieve or maintain SDWA compliance. The FFY 2015 IUP funding list identifies several such projects. Fiscal solvency includes reliable and dedicated sources of revenue for the debt service on capital improvements and the cost of operations and maintenance.

Applicants that have full cost pricing (revenue generated for replacement cost/depreciation recovery) in their water user rates are awarded sustainability points on the project rating system. Similarly, projects that support other sustainable elements, such as asset management, or projects that support green infrastructure, such as water/energy efficiency, are awarded sustainability points on the project rating system.

- Green Infrastructure, Water and Energy Efficiency and Environmental Innovation Projects - The State of Maryland has made a concerted effort to actively solicit “green” projects to be included in the FFY 2015 IUP. Although not required under DWSRF, the FFY 2015 PPL includes ten “green” projects totaling \$7,215,760, but none of these ranked high enough to be included in the FFY 2015 IUP.
- Additional Subsidization and Eligible Recipients - The FFY 2015 federal appropriation act specifies the DWSRF provide additional subsidies (e.g., loan principal forgiveness) in the amount no less than 20% of the Capitalization grant and no more than 30% of Capitalization grant. Additional subsidies are provided to DAC applicants in priority ranking order and readiness to proceed to construction until the statutory limit is reached. DAC projects are eligible to receive up to 50% of the DWSRF financing as loan principal forgiveness, not to exceed \$1.5 million per project and/or applicant. In 2015, the DAC eligibility criteria was revised to make it consistent with Water Quality SRF program as follows:
 1. Water user rate per year per Equivalent Dwelling Unit (EDU) > 1% of Community Median Household Income (MHI); or
 2. Project is physically located and benefits an MDE-approved Environmental Benefit District; or
 3. Project is physically located and benefits a community with MHI less than 70% of State MHI; or
 4. Project is physically located and benefits a community in a Maryland County (including Baltimore City) with a high unemployment rate (upper 25th percentile); or
 5. Project is physically located and benefits a community in a Maryland County (including Baltimore City) where the U.S. Census data shows a declining population.

In addition to above criteria, if the statutory limit for additional subsidy has not been reached, up to 25% of the loan amount as loan principal forgiveness (not to exceed \$1.5 million) may also be provided to projects in priority ranking order with readiness to proceed where the water user rate would increase by more than 20% to achieve financial capacity as determined by MDE. Note: No project on the Final FFY 2015 IUP is identified for additional subsidy under this section.

SET ASIDES

The MDE WMA will provide EPA a separate work plan by July 2015 for the use of the three programmatic set-asides (2%, 10%, 15%) totaling \$4,053,240. This work plan will include the set-aside goals and details on how these funds will be used. The purpose of the different set-asides is outlined in the Executive Summary.

C. Project Selection and Fund Activities under the FFY 2015 IUP

Financial Assistance Applications for drinking water projects were solicited by MWQFA in December 2014 through January 2015 from local governments and private water system owners. These applications were rated and ranked based on Drinking Water Project Priority Rating/Ranking Criteria and identified in the Maryland PPL for Federal FFY 2015 and State FY 2017 Drinking Water Funds (Appendix A). The PPL was used to select projects for the FFY 2015 IUP, based on their priority ranking, applicant’s interest in DWSRF loan, and readiness to proceed to construction by December 2016 (unless specifically requesting a planning/design phase loan). Projects that are not consistent with the State’s smart growth/priority funding area legislation or have technical/managerial/financial capacity concerns will be allocated funding only after any outstanding issues have been resolved (assuming available DWSRF funding capacity), unless the DWSRF funding allocation will address the technical/managerial/financial capacity issue.

The FFY 2015 IUP includes \$24,000,000 in project funding. Below is a summary of the sources and uses of funds.

Sources:		Uses: FFY 2015 Appropriation	
Federal Cap Grant	\$ 15,012,000	Set-Asides (Non Project Funds)	
		Technical Assistance (up to 2%)	\$ 300,240
		DWSRF Admin. Expenses (up to 4%)	\$ 600,480
		Drinking Water Prog. Suprt (up to 10%)	\$ 1,501,200
		Local Assist/State Activities (up to 15%)	\$ 2,251,800
		Subtotal	\$ 4,653,720
State Match (@ 20%)	\$ 3,002,400	DWSRF Capital Projects Loans and Grants	\$ 24,000,000
Est. Repayments	\$ 10,639,320		
Total	\$ 28,653,720	Total	\$ 28,653,720

Capital Projects (Project Funds)

Table 1 shows funding for DWSRF projects totaling \$24,000,000. The SDWA specifies that a minimum of 15% of all dollars (capitalization grant, State match, repayments, bond proceeds, investment earnings, transferred funds from WQSRF to DWSRF) credited to the DWSRF project fund, shall be used to provide assistance to small systems. The project list includes \$3,579,150 (15%) for small systems.

Funding by Type of Project: The primary objective of the SDWA is to protect public health by providing safe and adequate drinking water through source water protection, treatment, storage and distribution. Accordingly, the FFY 2015 IUP identifies 9% for distribution, 3% for source water protection and 88% finished water storage.

Subsidies for Disadvantaged Communities: The FFY 2015 grant specifies that no less than 20% of the Federal Capitalization Grant (or \$3,002,400) and no more than 30% (up to \$4,503,600) may be used to provide additional subsidies in the form of loan principal forgiveness to benefit communities meeting the State's DAC Criteria. Table 1 identifies borrowers that may qualify as Disadvantaged; however, the extent of subsidy provided (e.g., lower interest rate, up to 30-year loan term, loan principal forgiveness) is determined based on the DAC Criteria described in Section B-2, above. The FFY 2015 IUP (Table 1) identifies \$3,289,575 (or 22%) of the capitalization grant in additional subsidies in the form of loan principal forgiveness.

Program Income (Non Federal)

The MWQFA charges loan fees equal to 5% of annual debt service, which are used for administrative expenses in addition to the 4% of federal capitalization grant set-aside shown above. The details related to the program income revenue and expenses are provided each year in the annual report. During State FY 2017, MWQFA estimates the fee revenues to be ~\$425,000.

D. Project Scope and Public Health Benefits – FFY 2015 IUP Projects

The following are examples of the types of projects selected for financial assistance in the FFY2015 IUP.

- The Barrelville Rt 47 Section Water Project (Rank 1/130 points) in Allegany County involves the construction of 4,000 linear feet of water line to connect approximately 20 homes to Allegany County's Mt. Savage Water System. Currently, the homes are served by a combination of a small spring and wells which often go dry during dry weather seasons; when this happens, supplemental water is drawn from a nearby stream under the influence of potentially-contaminated surface water. The new system – to be owned and operated by Allegany County – will ensure safe and adequate drinking water to 22 homes in a rural disadvantaged community.
- The R.C. Willson Water Treatment Plant (WTP) Traveling Screen Replacement and Water Storage Tank IV-C Project (Rank 2/108 points) in Washington County involves replacement of the existing traveling screens at the WTP and the installation of a tank mixing system in four finished water tanks throughout the water distribution system; doing so will allow for better solids removal from the raw water supply and minimize and/or eliminate disinfectant by-product formation and nitrification in the distribution system. City of Hagerstown has entered into a consent agreement with MDE to achieve compliance with the Stage 2

Disinfectants and Disinfection Byproduct Rule. This project will ensure safe and adequate drinking water to 43,400 homes.

- The Ashburton Reservoir Improvements (WC-1211) Project (Rank 18/76 points) in Baltimore City involves the construction of an underground water tank to replace the existing open surface finished water reservoir in the Ashburton area of Western Baltimore City. The City is required to cover or abandon its uncovered finished water reservoirs under the provision of the Long Term 2 Enhanced Surface Water Treatment Rule. The City is under a Consent Decree to complete the needed repairs. The project will ensure safe and adequate drinking water to 720,000 homes.

E. Minority Business Enterprises/Women's Business Enterprises (M/WBE) Participation

The EPA and MDE have negotiated the new fair share goals for FFYs 2013, 2014, and 2015 based on the Maryland Department of Transportation 2011 disparity/availability study, which showed an increase in availability numbers. As a result, the new MDE goals are 17% MBE and 16% WBE for the "construction" category (total 33% M/WBE).

These goals will be applicable to all projects financed using DWSRF (loans, loan principal forgiveness). MDE provides DWSRF applicants an "Insert" for inclusion in procurement/bid documents, which outlines the M/WBE (%) goals and the affirmative/positive steps necessary to show a good faith effort consistent with federal regulations under 40 CFR Part 31.36(e). Failure to meet the M/WBE goals does not preclude the use of the SRF, as long as the good faith efforts can be demonstrated and documented. It is important that the **loan recipients and their prime contractors** undertake the necessary affirmative/positive steps to assure that M/WBE firms are afforded the opportunity to participate in SRF projects. M/WBE Program details and forms are available on MDE's web site at www.mde.maryland.gov/wqfa.

F. Assurances

The Department agrees to comply with the Federal program requirements as outlined in the Operating Agreement between EPA and MDE, amended as of April 2014. In addition, effective October 1, 2015, the Department will implement the requirement for disclosure of conflicts of interest in Exhibit A to the loan agreement.

G. Binding Commitments/Federal Payments

The projected binding commitments/federal payments schedule is shown on Table 1.

H. Public Review of the Draft FFY 2014 IUP

Applicants that submitted Financial Assistance Applications were sent an e-mail on Friday, May 15, 2015, informing them of the availability of the Draft IUP/PPL on MDE's website. This Draft FFY 2015 IUP was the subject of a public hearing on Monday, June 15, 2015 at 10:00 AM at the Maryland Department of Environment, 1800 Washington Boulevard, Baltimore, Maryland, 21230 (Terra Conference Room/Lobby). The public hearing record closed on June 22, 2015. The Public Hearing Responsiveness Summary is included as Appendix C of this FINAL FFY 2015 IUP, and indicates what actions MDE took on comments submitted.