



Maryland

Department of
the Environment

**MARYLAND WATER QUALITY FINANCING ADMINISTRATION
DRINKING WATER REVOLVING LOAN FUND PROGRAM
FINAL FEDERAL FISCAL YEAR 2020
INTENDED USE PLAN
JULY 1, 2020**

AMENDMENT 1

**Larry Hogan
Governor**

**Boyd Rutherford
Lt. Governor**

**Ben Grumbles
Secretary**

**Horacio Tablada
Deputy Secretary**

MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

FINAL

**Federal Fiscal Year 2020 Intended Use Plan
Maryland Drinking Water Revolving Loan Fund**

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**MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION
FINAL
Federal Fiscal Year 2020 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) submits to the United States Environmental Protection Agency (EPA) to request the Federal Fiscal Year (FFY) 2020 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.

Maryland is making a grant application to receive \$20,170,000 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 \$14,724,100 or 73% is being allocated towards Drinking Water capital projects and the balance of \$5,445,900 or 27% is being allocated for set-aside activities. The Federal project funds combined with a 20% State general fund/GO bond match, plus DWSRF bond sales, loan repayments, and investment earnings will be used to provide low interest loans and other financial subsidies for eligible DWSRF capital improvements, totaling \$57,848,539. The Maryland Department of the Environment (MDE) Water & Science Administration (WSA) will provide EPA a separate work plan for the use of the three programmatic set-asides (2%, 10%, 15%) totaling \$5,445,900.

Figure 1 shows a summary of the Sources and Uses of funds under the FFY 2020 IUP.

Figure 1

Sources:		Uses:	
		Set-Asides (Non Project Funds)	
Federal Cap Grant	\$ 20,170,000	Technical Assistance (up to 2%)	\$ 403,400
		DWSRF Admin. Expenses (up to 4%)	\$ -
State Match @ 20%	\$ 4,034,000	Drinking Water Program Support (up to 10%)	\$ 2,017,000
		Local Assistance/State Activities (up to 15%)	\$ 3,025,500
Revenue Bonds	\$ 21,000,000	Subtotal	\$ 5,445,900
Est. Repayments/Inv earnings	\$ 18,090,439	DWSRF Capital Projects Loans and Grants	\$ 57,848,539
Total	\$ 63,294,439	Total	\$ 63,294,439

We are monitoring the economic impact of COVID-19 closely, including the impact on state revenues and special funds. At this point there have not been significant funding changes to impact the IUP. However, any future impacts that are identified may result in changes to the IUP. Additionally, Maryland plans to apply for any additional stimulus funding that may be appropriated by Congress later in the year. Projects may be added to the IUP from the PPL in priority order, subject to readiness to proceed.

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 2019 through January 2020. Table 1 shows the proposed list of projects for inclusion in the FFY 2020 IUP for DWSRF financial assistance, including those projects that are being considered for additional subsidy (loan principal forgiveness, if disadvantaged)

based on the assumed federal statutory limitation. 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, 2021. 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 \$57,848,539 is available for Drinking Water capital projects identified in Table 1. The DWSRF loan terms are outlined below:

Current Interest Rate*	<p>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).</p> <p>* MDE, by policy, can change the SRF loan interest rate at any time. Interest rates are posted on the MWQFA web site.</p>
Loan Term	Up to 20 Years (up to 30 years for DACs), not to exceed design life
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 a 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.

Set-Asides (Non-Project Funds): A total of up to \$5,445,900 is being allocated for three 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 not requesting the federal (4%) funds for DWSRF program administration in the FFY 2020 IUP as sufficient funding is available from prior year grant awards to cover the administrative expenses associated with the DWSRF program. 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 WSA 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 2020 Capitalization Grant totaling \$403,400. 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. Drinking Water Program Funds (up to 10%)

The funds allotted for the Drinking Water Program Funds are up to 10% of the FFY 2020 Capitalization Grant totaling \$2,017,000. 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.

3. 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 FFY 2020 Capitalization Grant or \$3,025,500. 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 is as follows:

-	Thru 2019 IUP		2020 IUP	
<u>Sources:</u>				
Federal Capitalization Grants	\$ 292,572,706	a	\$ 20,170,000	d
State Match	\$ 58,575,600	b	\$ 4,034,000	
Federal Stimulus ARRA Grant 08 IUP	\$ 26,832,000			
Funds Transferred from Water Quality SRF		c		
Investment Earnings thru SFY 19 (Cap res)	\$ 10,634,580			
Loan Principal Repayments thru SFY 19	\$ 12,204,895			
Loan Interest Repayments thru SFY 19	\$ 105,058,640			
	\$ 23,029,283			
Subtotal	\$ 528,907,704		\$ 24,204,000	
Estimated Loan Principal Repays (SFYs 20 & 21)	\$ 27,000,000			
Estimated Loan Interest Repayments (SFYs 20 & 21)	\$ 4,000,000			
Estimated Investment Earnings (SFYs 20 & 21)	\$ 700,000			
Estimated Loan Principal (SFY 22)	\$ -		\$ 15,000,000	
Estimated Loan Interest Repayments (SFY 22)	\$ -		\$ 2,550,000	
Estimated Investment Earnings (SFY 22)	\$ -		\$ 540,439	
Future Revenue Bonds	\$ 125,000,000		\$ 21,000,000	
Total Sources	\$ 685,607,704		\$ 63,294,439	
<u>Uses:</u>				
Loan/Grant Agreements Entered as of 06/30/2019	\$ 469,542,172		\$ -	
Projects on IUPs with loans/grants pending as of 04/30/2020	\$ 132,980,461		\$ 57,848,539	
SFY 20 Loan Agreements Entered as of 04/30/2020	\$ -		\$ -	
Stimulus Administrative Expense	\$ 400,000		\$ -	
Federal Funds for Set-asides (excludes Stimulus ARRA adm)	\$ 80,490,439		\$ 5,445,900	
Total Uses	\$ 683,413,072		\$ 63,294,439	

^a Total federal grant award through FFY 2019 Capitalization Grant, excluding ARRA.

^b Includes State General Fund/GO Bond Match through FFY/GY2019

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

^d State General Fund/GO Bond Match to FFY 2020 Capitalization Grant

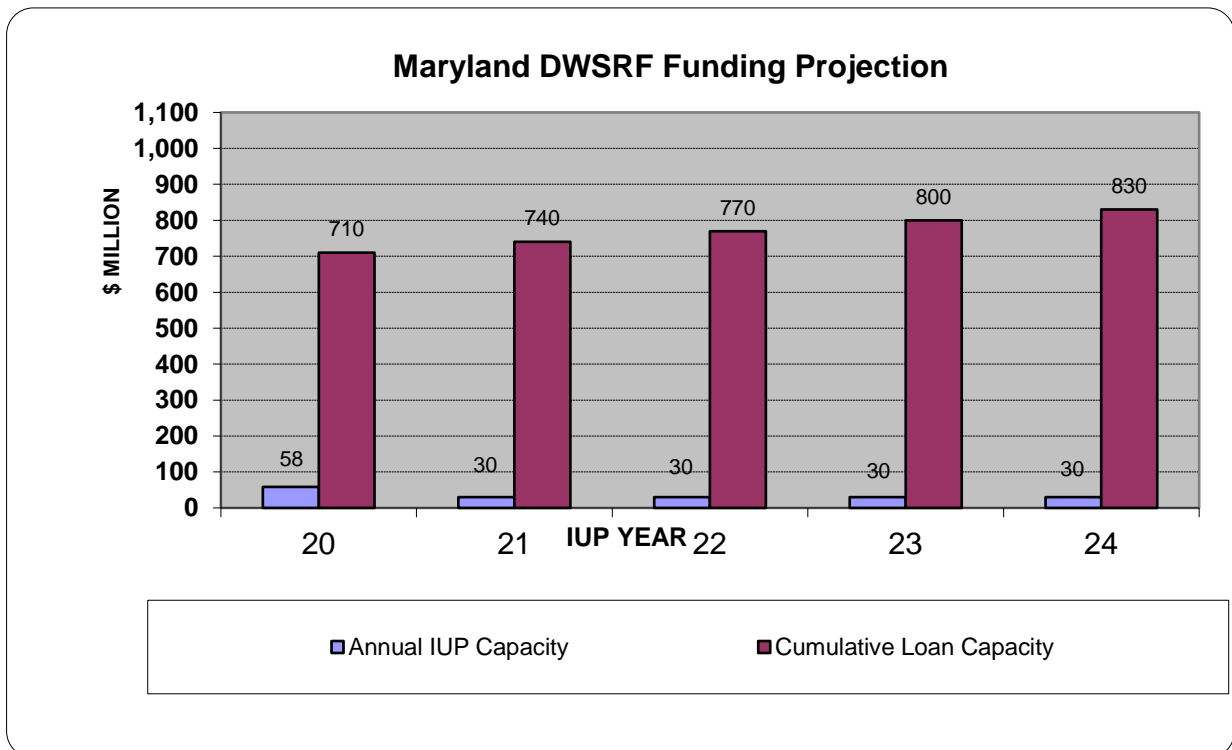
We are monitoring the economic impact of COVID-19 closely, including the impact on state revenues and special funds. At this point there have not been significant funding changes to impact the IUP. However, any future impacts that are identified may result in changes to the IUP. Additionally, Maryland plans to apply

for any additional stimulus funding that may be appropriated by Congress later in the year. Projects may be added to the IUP from the PPL in priority order, subject to readiness to proceed.

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 95% or greater. This is one Program Activity Measure (PAM) under EPA’s strategic plan for the DWSRF. The DWSRF could finance approximately \$178 million in additional loans, excluding revenue bond leveraging from capitalization grants (not including 27% - 31% allocated toward set-asides annually), State match, repayments, and investment earnings between FFY 2020 and FFY 2024 IUPs (see graph below). This is in addition to the \$652 million capacity on existing IUPs (1998 – 2019). This analysis assumes an annual Maryland Federal Capitalization Grant of ~\$19 million per year. The cumulative loan capacity of the DWSRF is projected to reach \$830 million by FFY 2024.



- 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 Disadvantaged Community (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/FFY2020 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 2020 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. Projects that support 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.
- Additional Subsidization and Eligible Recipients – There are two distinct and additive additional subsidy authorities regarding the 2020 capitalization grant: 1) the Congressional Additional Subsidy as authorized by the 2020 appropriation requires states to provide 14% of the capitalization grant as subsidy (e.g., loan principal forgiveness) to any DWSRF-eligible recipient and 2) the SDWA Disadvantaged Community Subsidization Amounts as authorized by the SDWA requires the DWSRF provide additional subsidies in the amount no less than 6% of the capitalization grant and no more than 35% 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. It has been MWQFA’s policy that loan principal forgiveness not exceed \$1.5 million per project and/or applicant; however, the Administration reserves the right to provide additional subsidy, should circumstances warrant. DAC projects are eligible to receive up to 50% of the DWSRF financing as loan principal forgiveness. 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 33rd 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 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. Both Baltimore County projects are identified for additional subsidy under this section.

SET ASIDES

The MDE WSA will provide EPA a separate work plan for the use of the three programmatic set-asides (2%, 10%, 15%) totaling \$5,445,900. 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 2020 IUP

Financial Assistance Applications for drinking water projects were solicited by MWQFA in December 2019 through January 2020 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 2020 and State FY 2022 Drinking Water Funds (Appendix A). The PPL was used to select projects for the FFY 2020 IUP, based on their priority ranking, applicant's interest in DWSRF loan, and readiness to proceed to construction by December 2021 (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 2020 IUP includes \$57,698,539 in project funding. Below is a summary of the sources and uses of funds:

Sources:		Uses:	
Federal Cap Grant	\$ 20,170,000	Set-Asides (Non Project Funds)	
State Match @ 20%	\$ 4,034,000	Technical Assistance (up to 2%)	\$ 403,400
Revenue Bonds	\$ 21,000,000	DWSRF Admin. Expenses (up to 4%)	\$ -
Est. Repayments/Inv earnings	\$ 18,090,439	Drinking Water Program Support (up to 10%)	\$ 2,017,000
		Local Assistance/State Activities (up to 15%)	\$ 3,025,500
		Subtotal	\$ 5,445,900
		DWSRF Capital Projects Loans and Grants	\$ 57,848,539
Total	\$ 63,294,439	Total	\$ 63,294,439

Capital Projects (Project Funds)

Table 1 shows funding for DWSRF projects totaling \$57,848,539. 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 \$15,912,024 (28%) 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 2020 IUP identifies 0% for treatment, 30% for transmission/distribution, 0% for source water protection and 70% for finished water storage.

Subsidies for Disadvantaged Communities: There are two distinct and additive additional subsidy authorities regarding the 2020 capitalization grant: 1) the Congressional Additional Subsidy as authorized by the 2020 appropriation requires states to provide 14% (\$2,823,800) of the capitalization grant as subsidy (e.g., loan principal forgiveness) to any DWSRF-eligible recipient and 2) the SDWA Disadvantaged Community Subsidization Amounts as authorized by the SDWA requires the DWSRF provide additional subsidies in the amount no less than 6% (\$1,210,200) of the capitalization grant and no more than 35% (\$7,059,500) of capitalization grant. 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 2020 IUP (Table 1) identifies \$7,902,791 (or 39%) 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. The details related to the program income revenue and expenses are provided each year in the annual report. During State FY 2021, MWQFA estimates the fee revenues to be ~\$750,000.

D. Project Scope of Work/Public Health Benefits – FFY 2020 IUP Projects

The following are examples of the types of projects selected for financial assistance in the FFY2020 IUP.

- Druid Lake Tanks (WC-1204) project (rank 1/107 points) in Baltimore City involves the construction of two underground finished water storage tanks and a sodium hypochlorite system. The City is under a Consent Decree to cover or abandon its uncovered finished water reservoirs under the provision of the Long Term 2 Enhanced Surface Water Treatment Rule. This project is cost-shared with Baltimore County (rank 2/107 points), a user of the City's drinking water system. SRF financing has been phased over multiple IUPs. Baltimore City and County both qualify as DACs and have been identified to receive loan principal forgiveness. The project will ensure safe drinking water to 720,000 homes.
- Pittsville Water Treatment Plant Upgrade project (rank 4/95 points) in Wicomico County will make final improvements to the plant, which has had trouble treating iron due to aging, clogged an inefficient components. Included in the project scope are upgrades for monitoring (sensors and flow meters), reliability (filter control valves and isolation valves), improvements to the chemical room for safety, sludge drying beds, and replacement of the clarifier. Pittsville is a small DAC and has been identified to receive loan principal forgiveness. This project will ensure safe drinking water to 567 homes.
- Decatur Street 24" Crosstown Water Main Replacement (31-17-W) (rank 7/90 points) in Allegany County will replace 1,600 linear feet of water main and portions of other service lines which are subject to frequent breaks, which have the potential to leave the users of City of Cumberland's system with inadequate water and/or drain stored water. Cumberland is a DAC and has been identified to receive loan principal forgiveness. This project will insure save and reliable water drinking water to 11,800 homes.

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

The EPA and MDE have negotiated fair share goals for FFYs 2019, 2020, and 2021 based on the Maryland Department of Transportation 2018 disparity/availability study, which showed an increase in availability numbers. As a result, the new MDE goals are 22% MBE and 16% WBE for the "construction" category (total 38% M/WBE), an increase of 4% over the 34% goal applicable for the previous three-year period.

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 33. 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. All subcontractors selected to participate on the project are also subject to these Good Faith Efforts requirements when further subcontracting or dividing a scope of work. M/WBE Program details and forms are available on MDE's web site at <http://mde.maryland.gov/programs/Water/WQFA/Pages/mwbe.aspx>.

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, and further updated as of February 2016.

G. Binding Commitments/Federal Payments

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

H. Public Review of the Draft FFY 2020 IUP

The 30-day public comment period started May 27, 2020. On that date, an email was sent to all applicants who submitted Financial Assistance Applications (and others), informing them of the availability of the Draft IUP/PPL on MDE's website. Public comments were received through June 25, 2020 and the comment period closed on that

date. The Public Hearing Responsiveness Summary and all comments received are included as Appendix C to the FINAL FFY 2020 IUP. The Responsiveness Summary indicates what action MDE took on comments submitted.