



Maryland

Department of
the Environment

**MARYLAND WATER QUALITY FINANCING ADMINISTRATION
DRINKING WATER REVOLVING LOAN FUND PROGRAM
FINAL FEDERAL FISCAL YEAR 2021
INTENDED USE PLAN
JULY 1, 2021**

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MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

FINAL

**Federal Fiscal Year 2021 Intended Use Plan
Maryland Drinking Water Revolving Loan Fund**

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MARYLAND WATER QUALITY FINANCING ADMINISTRATION
FINAL
Federal Fiscal Year 2021 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) 2021 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 \$20,152,000 in FFY21 Capitalization Grant and \$186,000 in FFY19 Reallotment, which may be used for Capital Projects (Project Funds). Under this IUP, FFY21 Capitalization Grant funds of \$20,152,000 or 100% is being allocated towards Drinking Water capital projects, FFY19 Reallotment funds of \$186,000 is also being allocated towards Drinking Water capital projects. 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 \$41,865,409.

Figure 1 shows a summary of the Sources and Uses of funds under the FFY 2021 IUP.

Figure 1

Sources:		Uses:	
Federal Cap Grant 21	\$ 20,152,000	Set-Asides (Non Project Funds)	
+FFY19 Reallotment	\$ 186,000	Technical Assistance (up to 2%)	\$ -
State Match @ 20%	\$ 4,067,600	DWSRF Admin. Expenses (up to 4%)	\$ -
Revenue Bonds	\$ -	Drinking Water Program Support (up to 10%)	\$ -
Est. Repayments/Inv earnings	\$ 17,459,809	Local Assistance/State Activities (up to 15%)	\$ -
		Subtotal	\$ -
		DWSRF Capital Projects Loans and Grants	\$ 41,865,409
Total	\$41,865,409	Total	\$41,865,409

Maryland has chosen not to take set-asides for FFY2021 due to the availability of set-aside funding from prior capitalization grants. However, Maryland does have set-aside reserve authority that it may utilize in the future. The FFY2019 and FFY2021 reserve authority amounts are:

Capitalization Grant Year	2%	4%	10%
2019	\$3,720	\$7,440	\$18,600
2021	\$403,040	\$806,080	\$2,015,200

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 2020 through January 2021. Table 1 shows the proposed list of projects for inclusion in the FFY 2021 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, 2022. 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 \$41,865,409 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 30 Years (up to 40 years for DACs), not to exceed design life (MDE successfully sponsored State legislation during the 2021 legislative session to expand DWSRF loan terms to match federal law – see CH131 – Environment – Drinking Water Revolving Loan Fund – Use of Funds)
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.

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A. Sources and Uses of Funds

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

-	Thru 2020 IUP		2021 IUP	
<u>Sources:</u>				
Federal Capitalization Grants	\$ 312,742,706	a	\$ 20,338,000	
State Match	\$ 62,609,600	b	\$ 4,067,600	d
Federal Stimulus ARRA Grant 08 IUP	\$ 26,832,000			
Funds Transferred from Water Quality SRF	\$ 10,634,580	c		
Investment Earnings thru SFY 20 (Cap Reserve)	\$ 12,609,341			
Loan Principal Repayments thru SFY 20	\$ 115,972,792			
Loan Interest Repayments thru SFY 20	\$ 24,984,176			
Subtotal	\$ 566,385,195		\$ 24,405,600	
Estimated Loan Principal Repays (SFYs 21 & 22)	\$ 28,010,000			
Estimated Loan Interest Repayments (SFYs 21 & 22)	\$ 4,900,000			
Estimated Investment Earnings (SFYs 20 & 21)	\$ 130,000			
Estimated Loan Principal (SFY 23)	\$ -		\$ 14,700,000	
Estimated Loan Interest Repayments (SFY 23)	\$ -		\$ 2,727,000	
Estimated Investment Earnings (SFY 23)	\$ -		\$ 32,809	
Future Revenue Bonds	\$ 145,000,000			
Total Sources	\$ 744,425,195		\$ 41,865,409	
<u>Uses:</u>				
Loan/Grant Agreements Entered as of 06/30/2020	\$ 471,296,159		\$ -	
Pending Loans/grants on IUPs as of 05/31/2021	\$ 70,384,421		\$ 41,865,409	
SFY 21 Net Loan Agreements Entered as of 05/31/2021	\$ 116,179,409		\$ -	
ARRA-Stimulus Administrative Expense	\$ 400,000		\$ -	
Federal Funds for Set-asides (excludes ARRA admin)	\$ 85,936,339			
Total Uses	\$ 744,196,328		\$ 41,865,409	

^a Total federal grant award through FFY 2020 Capitalization Grant, excluding ARRA.

^b Includes State General Fund/GO Bond Match through FFY/GY2020

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

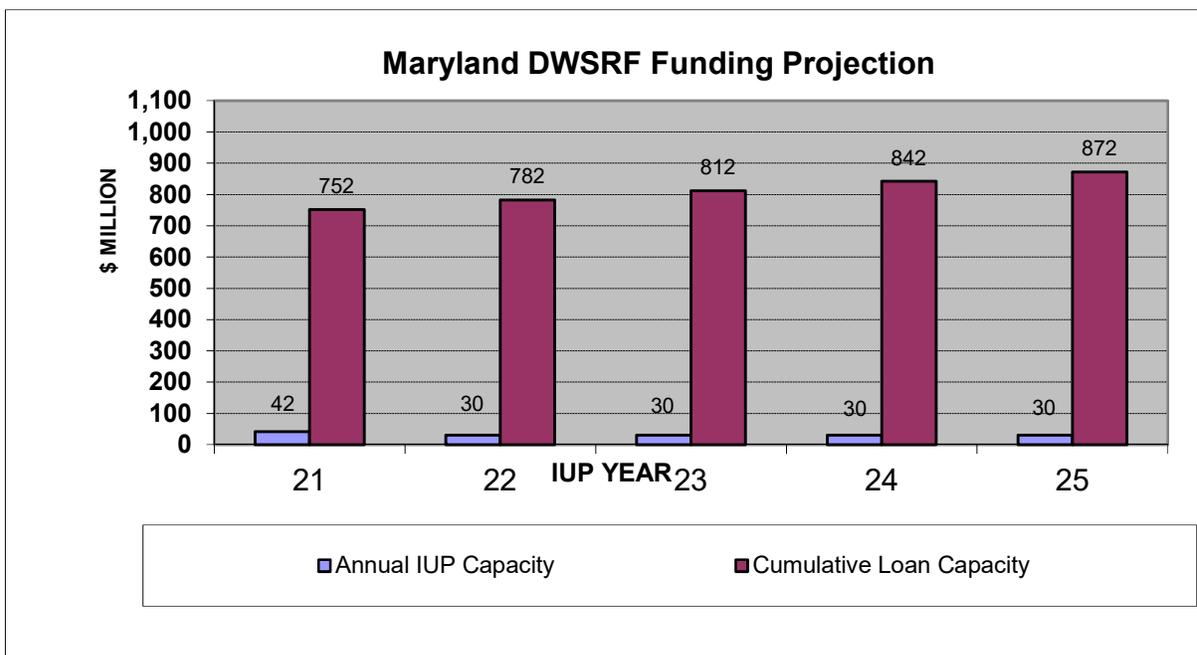
^d State General Fund/GO Bond Match to FFY 2021 Capitalization Grant

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 \$162 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 2021 and FFY 2025 IUPs (see graph below). This is in addition to the \$710 million capacity on existing IUPs (1998 – 2020). 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 \$872 million by FFY 2025.



- 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/FFY2021 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 2021 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 2021 capitalization grant: 1) the Congressional Additional Subsidy as authorized by the 2021 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 the 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. The one (1) Baltimore County project is identified for additional subsidy under this section.

C. Project Selection and Fund Activities under the FFY 2021 IUP

Financial Assistance Applications for drinking water projects were solicited by MWQFA in December 2020 through January 2021 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 2021 and State FY 2023 Drinking Water Funds (Appendix A). The PPL was used to select projects for the FFY 2021 IUP, based on their priority ranking, applicant's interest in DWSRF loan, and readiness to proceed to construction by December 2022 (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 2021 IUP includes \$41,865,409 in project funding. Below is a summary of the sources and uses of funds:

Sources:		Uses:	
Federal Cap Grant 21	\$ 20,152,000	Set-Asides (Non Project Funds)	
+FFY19 Reallotment	\$ 186,000	Technical Assistance (up to 2%)	\$ -
State Match @ 20%	\$ 4,067,600	DWSRF Admin. Expenses (up to 4%)	\$ -
Revenue Bonds	\$ -	Drinking Water Program Support (up to 10%)	\$ -
Est. Repayments/Inv earnings	\$ 17,459,809	Local Assistance/State Activities (up to 15%)	\$ -
		Subtotal	\$ -
		DWSRF Capital Projects Loans and Grants	\$ 41,865,409
Total	\$41,865,409	Total	\$41,865,409

Capital Projects (Project Funds)

Table 1 shows funding for DWSRF projects totaling \$41,865,409. 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 \$19,141,845 (46%) 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 2021 IUP identifies 1% for treatment, 80% for transmission/distribution, 20% for source water protection and 0% for finished water storage.

Subsidies for Disadvantaged Communities: There are two distinct and additive additional subsidy authorities regarding the 2021 capitalization grant: 1) the Congressional Additional Subsidy as authorized by the 2021 appropriation requires states to provide 14% (\$2,821,280) 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% (\$1,209,120) of the capitalization grant and no more than 35% (\$7,053,200) 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 40-year loan term, loan principal forgiveness) is determined based on the DAC Criteria described in Section B-2, above. The FFY 2021 IUP (Table 1) identifies \$6,771,172 (or 34%) 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 ~\$900,000.

D. Project Scope of Work/Public Health Benefits – FFY 2021 IUP Projects

The following are examples of the types of projects selected for financial assistance in the FFY2021 IUP.

- Chesapeake Heights Water Distribution System Replacement (rank 1/102 points) in Calvert County involves a complete replacement of water mains in the Chesapeake Heights water system. The County has experienced multiple main line breaks and multiple leaks in the 2” galvanized pipe which makes the system susceptible to backflow and introduction of contaminants. This project will ensure safe drinking water to 282 homes.

- Martingham Well Replacement (rank 7/80 points) in Talbot County involves replacement of one of two source water wells that serve the Martingham Utilities Cooperative (MUC) water system. The well to be replaced (Well #1) has a significantly corroded casing pipe and structural deterioration to the degree that attempting casing repairs, or well/aquifer redevelopment, would likely cause more damage and result in well failure. The proposed replacement well will be designed as a replacement of the existing Well #1 and will operate in conjunction with the existing Well #2 as a redundant water supply (with alternating well usage). This project will ensure safe drinking water to 308 homes. This project serves a disadvantaged community; therefore, a portion of the SRF financing will be offered as loan principal forgiveness.
- Oakland Water Plant Rehabilitation (rank 8/80 points) in Garrett County involves making additional improvements identified during current upgrades: replacement of three failing influent filter valves; replacement of three malfunctioning drain valves; replacement of the raw water valve, which is no longer functioning adequately; and installation of a SCADA-type system for automation at the raw water pump station. This project will ensure safe drinking water to 950 homes. Town of Oakland is a disadvantaged community, so has been identified to receive a portion of the SRF financing as loan principal forgiveness.

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 June 30, 2021. 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 July 30, 2021 and the comment period closed on that date. The Public Hearing Responsiveness Summary and all comments received, as well as Maryland’s Responsiveness Summary are included as Appendix C.