



Maryland

Department of
the Environment

**MARYLAND WATER QUALITY FINANCING ADMINISTRATION
WATER QUALITY REVOLVING LOAN FUND PROGRAM
FEDERAL FISCAL YEAR 2019
FINAL INTENDED USE PLAN
June 28, 2019**

**Larry Hogan
Governor**

**Boyd Rutherford
Lt. Governor**

**Ben Grumbles
Secretary**

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Deputy Secretary**

MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

FINAL

**Federal Fiscal Year 2019 Intended Use Plan
Maryland Water Quality Revolving Loan Fund**

TABLE OF CONTENTS

Executive Summary..... 1

A. Sources and Uses of Funds.....3

B. Goals of the Maryland Water Quality Revolving Loan Fund.....4

C. Project Selection and Fund Activities under the FFY 2019 IUP6

D. Project Scope of Work/Environmental Benefits – FFY 2019 IUP Projects7

E. Minority Business Enterprises/Women’s Business Enterprises (M/WBE) Participation.....8

F. Assurances8

G. Binding Commitments/Federal Payments8

H. Public Review of the Draft FFY 2019 IUP.....8

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

- Appendix A: Maryland WQSRF Final Project Priority List for FFY 2019 IUP
- Appendix B: WQSRF Integrated Project Priority System (IPPS)
- Appendix C: Public Hearing Responsiveness Summary
- Appendix D: Assistant Attorney General Certification

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 cover program operating expenses. The Administration is not requesting any WQSRF federal 4% administrative funds from the FFY 2019 capitalization grant. If the loan administrative fee is insufficient to cover program operating expenses, the additional amount needed will be transferred from the program Total Net Position, up to 1/5% of net asset limit authorized under WRRDA in accordance with FWPCA section 603(d)(7). Based on the most recent audited financial statements as of 06/30/2018, the maximum amount allowed would be \$2,713,858 (Total Net Position of \$1,356,928,959 * 0.2% = \$2,713,858).

Table 1 shows the proposed list of projects for inclusion in the FFY 2019 IUP for WQSRF financial assistance, including “green projects” and those projects that are being considered for additional subsidy (loan principal forgiveness, if disadvantaged) based on the assumed federal statutory limitation. Projects on Table 1 were selected from the Project Priority List based on: (1) the Integrated Project Priority System (IPPS) ranking, and (2) readiness to proceed to construction no later than December 31, 2020. The IPPS was revised, after holding a public hearing on September 14, 2016 and approved by the USEPA on November 10, 2016. The revised IPPS provides greater emphasis on cost efficiency for nitrogen reduction to the Chesapeake Bay, and is used to rate and rank projects to develop the project priority list.

Sewerage projects that are not included in an MDE-approved County Water and Sewer Plan are ineligible for funding. Sewerage 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 financial credit capacity analysis by the MWQFA.

**MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION
FINAL Federal Fiscal Year 2019 Intended Use Plan
Maryland Water Quality Revolving Loan Fund**

A. Sources and Uses of Funds

A comprehensive summary of WQSRF Sources and Uses of funds is as follows:

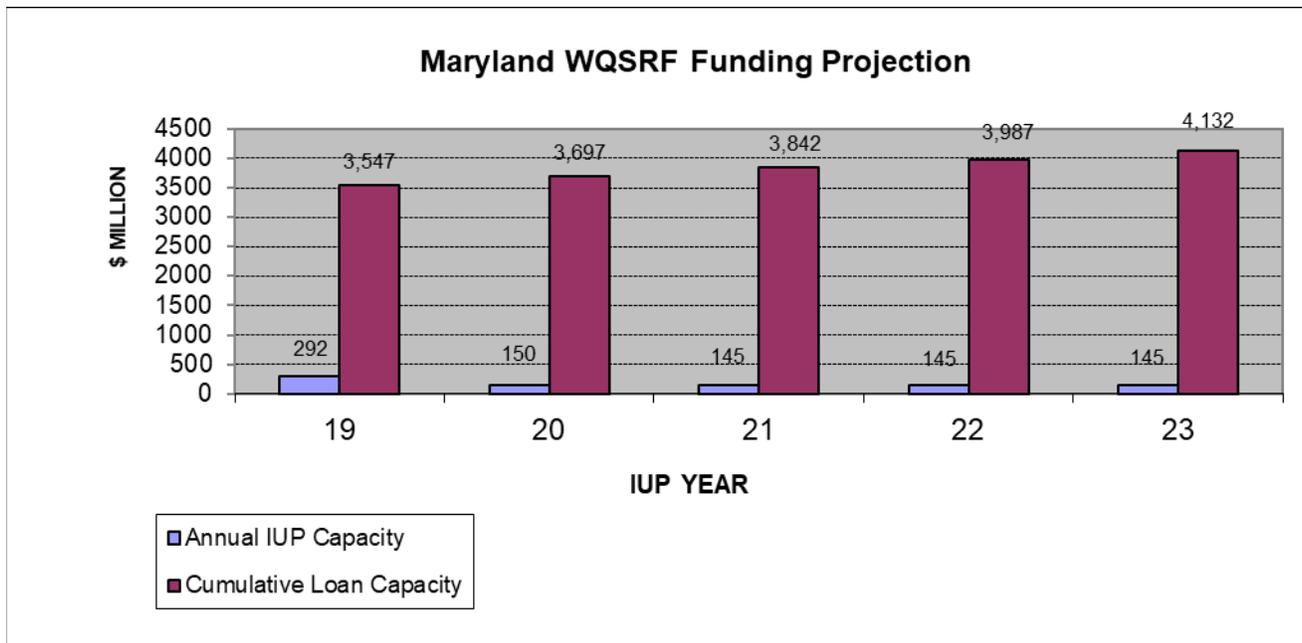
	Thru 2018 IUP	2019 IUP
Sources:		
Federal Capitalization Grants	\$ 974,137,946	a \$ 38,429,000
Federal Stimulus Grants 08 IUP (ARRA)	\$ 94,784,600	
State Match Appropriated	\$ 194,885,200	b \$ 7,685,800
Total Revenue Bond Proceeds	\$ 236,222,390	\$ -
Investment Earnings (thru SFY 18)	\$ 169,012,325	
Loan Principal Repayments (thru SFY 18)	\$ 1,091,347,485	
Loan Interest Repayments (thru SFY 18)	\$ 267,296,498	
Subtotal	\$ 3,027,686,444	\$ 46,114,800
Estimated Loan Principal (SFYs 19 & 20)	\$ 190,000,000	
Estimated Loan Interest Repayments (SFYs 19 & 20)	\$ 29,000,000	
Estimated Investment Earnings (SFYs 19 & 20)	\$ 9,700,000	
Estimated Loan Principal (SFY 21)		\$ 93,000,000
Estimated Loan Interest Repayments (SFY 21)	\$ -	\$ 14,000,000
Estimated Investment Earnings (SFY 21)		\$ 3,800,000
Estimated Cumulative LD Invest.prin repays(SFY 21)	\$ 15,068,950	\$ 354,886
Estimated Future Revenue Bond Proceeds	\$ 440,000,000	\$ 140,000,000
Subtotal	\$ 683,768,950	\$ 251,154,886
Total Sources	\$ 3,711,455,394	\$ 297,269,686
Uses:		
Loan/Grt Agreements Entered as of 06/30/2018	\$ 2,505,457,430	\$ -
Projects- IUPs with loans/grt pending as of 04/30/2019	\$ 608,049,800	\$ 291,825,836
Loans executed SFY 19 as of 04/30/2019	\$ 184,257,050	\$ -
Funds Transferred to Drinking Water SRF (98/99 IUPs)	\$ 10,634,580	\$ -
Bond Principal Repaid	\$ 213,287,390	\$ 2,515,000
Bond Interest Expense	\$ 138,630,814	\$ 928,850
Bond Cost of Issuance/Underwriter Discount	\$ 4,949,910	\$ -
Stimulus Administrative Expense	\$ 2,000,000	\$ -
4% Administrative Expensed as of 06/30/2015	\$ 16,935,812	\$ -
4% Administrative Expense/Reserve	\$ -	\$ -
Transfer to Admin (WRRDA provision)	\$ 2,500,000	\$ 2,000,000
Allocated Non-point Source Projects (Linked Deposit)	\$ 23,000,000	\$ -
Total Uses	\$ 3,709,702,786	\$ 297,269,686
^a Total federal grant award through FFY 2018 Capitalization Grant, excluding ARRA.		
^b Includes State General Fund/GO Bond Match of \$7,764,000 for FFY 2018 IUP		

The above does not include program income generated from loan fees, used for administrative expenses.

B. Goals of the Maryland Water Quality Revolving Loan Fund

1. Long-Term Goals

- **Fund Perpetuity & Utilization** – To utilize the total financial resources of the Fund by providing low interest rate financing while maintaining a perpetual source of capital funds for future water quality projects. The goal is to achieve a fund utilization rate (loans executed/total funds available) of 98% or greater. This is a Program Activity Measure (PAM) under EPA’s strategic plan for the WQSRF. The WQSRF could finance approximately \$877 million in additional loans from capitalization grants, State match, loan repayments, and investment earnings between FFY 2019 and FFY 2023 IUPs (see graph below). This is in addition to the \$3.25 billion capacity of existing IUPs (FFY 1989-2018). This analysis assumes annual Maryland Federal Capitalization Grant of ~\$32 million per year. The cumulative loan financial capacity of the WQSRF is projected to be over \$4.1 billion by FFY 2023.



- **Funding Prioritization** – The updated IPPS rating and ranking system targets financial assistance to projects that help meet the Maryland’s Final Watershed Implementation Plan (WIP) to address the Chesapeake Bay Total Maximum Daily Load (TMDL). The IPPS focuses on the proposed project water quality benefits or documented public health concerns, relative effectiveness of nutrient reduction to the Chesapeake Bay, compliance status, cost efficiency and sustainability elements.
- **Reasonable User and Project Unit Cost** – To ensure facilities are constructed and maintained at a reasonable cost for the users of the system. To this end, MWQFA will continue to provide disadvantaged communities (DACs) a lower interest rate and additional subsidies such as partial loan principal forgiveness. For projects that have high unit cost per household, the MWQFA will continue to coordinate its State grant programs with other Federal/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 & Disadvantaged Community 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/FFY2019 IUP Operating Goals

- **Finance Advanced Treatment at WWTPs for Nutrient Reduction** – To provide low-cost financing to local governments for the local share, in tandem with Maryland’s Bay Restoration Fund Wastewater Program (BRF Wastewater) grant funding for Enhanced Nutrient Removal (ENR), to upgrade targeted wastewater treatment facilities with advanced treatment to reduce nitrogen and phosphorus discharges as part of the Maryland’s WIP. Maryland’s far-reaching legislation (Bay Restoration Fund), which was signed into law in the 2004 (amended in 2012 to increase the fee from \$2.50/month per equivalent dwelling to \$5.00) to address Bay restoration created a dedicated fund to initially upgrade the 67 largest wastewater treatment plants to ENR standards. ENR upgrades at Maryland’s largest 67 wastewater treatment plants are expected to reduce 7.5 million pounds of nitrogen and 260,000 pounds of phosphorus from entering into the Bay each year, which is required for Maryland to meet its load cap under the Chesapeake Bay TMDL. Maryland is now encouraging the upgrade of minor wastewater treatment plants to ENR, where cost-effective. ENR projects are expected to receive up to 100% state grants for ENR eligible components. Some non-eligible ENR components can be covered by WQSRF loans. See Table 1 for ENR projects identified for funding in the FFY 2019 IUP.
- **Community & Utility Sustainability** – To provide low-cost capital financing to local governments for existing facility (fix-it-first) upgrades for water quality improvements necessary to achieve or maintain permit compliance. The FFY 2019 IUP funding list identifies several such projects. In addition, MWQFA continues to work closely with facility owners to maintain system financial capacity. MWQFA’s credit capacity analysis includes detailed discussions with potential loan recipients to ensure that their sewerage enterprise fund remains fiscally solvent. Fiscal solvency includes reliable and dedicated sources of revenue for the debt service on capital improvements and the cost of operations and maintenance. Projects with growth that support community sustainability such as proximity to transit, Brownfield revitalization, community legacy areas, decentralized sewage system or projects that support green infrastructure (effluent or digester gas reuse, etc.), energy efficiency and environmental innovation are awarded sustainability points on the project rating system.
- **Green Infrastructure, Water and Energy Efficiency and Environmental Innovation Projects** – The MWQFA has actively solicited “green” projects to be included in the FFY 2019 IUP for funding to help restore Maryland’s waterways as part of the larger Chesapeake Bay restoration goals. Green projects are integral to the innovative approach Maryland has taken through the Chesapeake Bay WIP to address water quality issues throughout the Maryland portion of the Bay watershed. Three (3) projects are identified for green loan totaling \$82,160,028 (213.8% of the federal capitalization grant amount), which is being offered priority for loan funding. Based on the above, the FFY 2019 IUP currently has exceeded the assumed 10% minimum of the federal capitalization grant award amount allocated towards green projects.
- **Additional Subsidization and Eligible Recipients** – The FFY 2019 federal appropriation act requires WQSRF to provide a minimum of 10% of the Capitalization Grant (\$3,842,900) as additional subsidies (e.g., loan principal forgiveness); between 0% and 30% (\$11,528,700) may be provided as additional subsidization above/beyond the 10% statutory minimum. Additional subsidies are provided to DAC applicants in priority ranking order and readiness to proceed to construction, until the statutory limit is reached. DACs are eligible to receive up to 50% of the WQSRF financing as loan principal forgiveness. 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. The DAC eligibility criteria was revised to incorporate WRRDA requirements after providing an opportunity of public hearing, as follows:
 - (1) Sewer 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 sewer user rate would increase by more than 20% to achieve financial capacity as determined by MDE. Note: No project on the FFY 2019 IUP is identified for additional subsidy under this section. This may change based on the MWQFA financial review of the borrower undertaken prior to loan closing, which may require user rate increase to achieve financial capacity.

- **Finance Nonpoint Source (NPS) Projects -- Linked Deposit (LD)** – Continue funding privately owned nonpoint source projects using the LD Program. Since more private entities do not receive a formal mail solicitation to apply for WQSRF loans as local governments do, information regarding the WQSRF LD Program is provided through a cooperative effort between Department of Natural Resources, Department of Agriculture, Local Soil Conservation Districts, Local Health Departments, and Maryland Department of the Environment (MDE). Information on the LD Program is also available on the MWQFA website. The MWQFA has previously allocated \$23 million of recycled funds (investment earnings/repayments) for eligible private NPS projects to be funded on a first come, first served basis using the LD Program. Based on low demand, MWQFA is not requesting new funds for Linked Deposit activity with the FFY 2019 IUP.

For additional information on the LD program, see weblink:
http://mde.maryland.gov/programs/Water/WQFA/Pages/linked_deposit.aspx

C. Project Selection and Fund Activities under the FFY 2019 IUP

Financial Assistance Applications for water quality projects were solicited by the MWQFA in December 2018 through January 2019 to develop the Maryland Project Priority List (PPL). Project applications were rated and ranked based on the Clean Water Integrated Project Priority Rating/Ranking Criteria (IPPS) and identified in the Maryland PPL for Federal FY 2019 and State FY 2021 Clean Water Funds. This PPL was used to select projects for the FFY 2019 IUP, based on their priority ranking, applicant’s interest in CWSRF loan, and readiness to proceed to construction by December 2020 (unless specifically requesting a planning/design phase loan).

The FFY 2019 IUP includes \$291,825,836 in project funding. Below is a summary of the sources and uses of funds:

SOURCES		USES	
Capitalization Grant	\$ 38,429,000	WQSRF Admin. Exp. (up to 4% of grant)	\$ -
State(Bond/Gen.Fund) Match (20%)	\$ 7,685,800	Transfer to Admin(WRRDA provision)	\$ 2,000,000
		Capital Projects -- Loans & Grants	\$ 291,825,836
Revenue Bonds	\$ 140,000,000	SRF Revenue Bond Debt Service (P&I)	\$ 3,443,850
Est.Invest. Earnings/Repayments	\$ 111,154,886	Linked Deposit Program Bank Loans	\$ -
Total	\$ 297,269,686	Total	\$ 297,269,686

All projects identified on the FFY 2019 IUP Table 1 for WQSRF financing are being considered for both below market interest rate loan and loan principal forgiveness funding, provided they are ready-to-proceed to construction by December 31, 2020.

1. **Subsidies for Disadvantaged Communities:** The FFY 2019 appropriation requires WQSRF to provide a minimum 10% of the capitalization grant (or \$3,842,900); between 0% and 30% (\$11,528,700) may be provided as additional subsidization above/beyond the 10% statutory minimum 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, loan principal forgiveness) is determined based on the DAC Criteria described in Section B-2, above. The FFY 2019 IUP (Table 1) identifies \$5,739,139 (or 15%) of the capitalization grant in additional subsidies in the form of loan principal forgiveness.
2. **Green Project Reserve:** The FFY 2019 appropriation act specifies that a minimum 10% of the capitalization grant (or \$3,842,900) should be provided to Green Project Reserve projects, provided sufficient applications are received. The FFY 2019 IUP Table 1 identifies \$82,160,028 (or 213.8%) of the

capitalization grant for green project reserve funding.

3. **Administrative Expenses:** With this FFY 2019 IUP, the MWQFA continues to not request the federal (4%) funds for WQSRF program administration. Program administration will be funded from loan administrative fees (see Program Income & Non-Program Income (Non-Federal) below). If the administrative fee is insufficient to cover program operating expenses, the excess will be transferred from the program Total Net Position up to the 1/5% of net asset limit authorized under WRRDA in accordance with FWPCA section 603(d)(7). Based on the most recent audited financial statements as of 06/30/2018, the maximum amount allowed would be \$2,713,858 (Total Net Position of \$1,356,928,959 * 0.2% = \$2,713,858).
4. **Program Income & Non-Program Income (Non-Federal):** The MWQFA charges loan fees equal to 5% of annual debt service. The details related to the program and non-program income revenue and expenses are provided each year in the annual report. During State FY 2020, MWQFA estimates the fee revenues to be \$5.3 million.

D. Project Scope of Work/Environmental Benefits – FFY 2019 IUP Projects

The following are examples of the types of projects selected for financial assistance in the FFY 2019 IUP. The detailed Environmental Benefits Reporting (EPA one-pager) for each Section 212 project below will also be provided in the annual report to EPA. In addition, Section 319 projects funded through the direct loan program and LD projects will be identified in the one-pagers by specific categories as part of the annual report.

- Region II Sewer System – Extension of Sewer (Resolution 250) project (rank 1/63 points) in Talbot County involves connecting 529 existing homes, currently served by failing septic systems, and 81 vacant lots to the Region II Wastewater Treatment Plant, which is an ENR facility. The homes to be connected are in communities with a high groundwater table and poor draining soil which has led to ongoing discharges into the groundwater daylighting into nearby streams and rivers flowing into the Chesapeake Bay. Upon completion, nutrient loads to the Chesapeake Bay will be reduced by 11,370 lbs per year TN. This project benefits existing sustainable community needs; as a disadvantaged community, Talbot County has been identified to receive a portion of SRF financing as loan principal forgiveness.
- Washington Suburban Sanitary Commission (WSSC)'s Sanitary Sewer Reconstruction – Oxon Run Sewer Basin PGC Round 4 project (rank 5/50 points) involves repair, replacement and rehabilitation of 10.3 miles of 6"–12" diameter sewer main in Prince George's County. This project is part of an ongoing effort by WSSC to comply with a consent decree to minimize and eliminate, where possible, sewage overflows from its extensive sewer system. This project benefits existing sustainable community needs; as a disadvantaged community, Prince George's County has been identified to receive a portion of SRF financing as loan principal forgiveness.
- Frostburg CSO Elimination Project Phase IX-C Beall Street Corridor project (rank 9/48 points) in Allegany County involves construction of 1,500 LF of 8" sewer main and 650 LF of 12" storm pipe. This project will create a new storm system while replacing the existing combined sewer system with a new separated sanitary system. Sewer separation, which the City of Frostburg must address per consent order, will drastically reduce the frequencies and volumes of three of the most active overflows. This project will redirect raw sewage to the City of Cumberland's Wastewater Treatment Plant in order to remove TN and TP in accordance with State and Federal guidelines and only stormwater will be discharged into local waters. This project benefits existing sustainable community needs; as a disadvantaged community, the City of Frostburg has been identified to receive a portion of SRF financing as loan principal forgiveness.
- SC-927 Electrical Distribution System Reliability Improvements, Physical Security Upgrade, and On-Site Power Generation at the Back River Wastewater Treatment Plant (WWTP) project (rank 19/48 points) involves construction of improvements to the Back River WWTP essential to the operation of the SC-918H Back River Headworks facility currently under construction. Improvements include installing new switchgear, power correction capacitors, circuit breakers and other electrical components as well as the replacement of five primary substations and other site work. The power capabilities provided by this project will protect the Plant secondary and tertiary treatment processes from wet

weather flows by diverting flows in excess of the plant treatment capacity to wet weather storage tanks. This project is cost-shared with Baltimore County (Rank 20/48 points), a user of the City's sewerage system. This project benefits existing sustainable community needs; as a disadvantaged community, Baltimore City has been identified to receive a portion of SRF financing as loan principal forgiveness.

- Urban Stormwater Retrofit Program Public-Private Partnership Phase 3 project (rank 29/43 points) in Prince George's County involves the retrofit of the remaining 700 impervious acres on multiple sites within the County's MS4 permit. This project entails the planning, design and construction of multiple projects that utilize a wide array of structural treatment options ranging from small rain gardens on private property, as part of the Alternative Compliance Program, to large urban retrofit solutions involving suburban drain inlet modifications, pond retrofits, green streets and high-flow media treatment options. These efforts are intended to achieve compliance with the County's Municipal Separate Storm Sewer System Discharge Permit and the Chesapeake Bay Watershed Implementation Plan. The goal is to retrofit or install BMPs to store or treat stormwater runoff to reduce pollutant loads (e.g., nitrogen, phosphorus, sediments) and mitigate flooding to improve water quality in local watersheds and the Chesapeake Bay. Upon completion, total nutrient (TN) loads to the Chesapeake Bay will be reduced by 23,121 lbs per year.

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

The EPA and MDE have negotiated the new 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 WQSRF 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 payment schedule is shown on Table 1.

H. Public Review of the Draft FFY 2019 IUP

Applicants that submitted Financial Assistance Applications were sent an e-mail on Friday, May 17, 2019, informing them of the availability of the Draft IUP/PPL on MDE's website. The Draft FFY 2019 IUP was the subject of a public hearing on Monday, June 17, 2019 at 10:00 AM at the Maryland Department of Environment, 1800 Washington Boulevard, Baltimore, Maryland 21230 (MDE Stat Room/Lobby). The public hearing record closed on June 21, 2019. The Public Hearing Responsiveness Summary, Hearing Sign-In Sheet, and all comments received were included as Appendix C to the FINAL FFY 2019 IUP. The Responsiveness Summary indicates what action MDE took on comments submitted.