



Maryland

Department of
the Environment

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

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Governor**

**Boyd Rutherford
Lt. Governor**

**Ben Grumbles
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Deputy Secretary**

MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

FINAL

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

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* MDE, by policy, can change the SRF loan interest rate at any time. Interest rates are updated monthly and are posted on the MWQFA website.

Loan Term	Up to 30 Years, based on the life of the assets being constructed.
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 cover program operating expenses. The Administration is not requesting any WQSRF federal 4% administrative funds from the FFY 2020 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 06/30/2019, the maximum amount allowed would be \$2,814,108 (Total Net Position of \$1,407,053,820 * 0.2% = \$2,814,108).

Table 1 shows the proposed list of projects for inclusion in the FFY 2020 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, 2021.

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 2020 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:

Sources:	Thru 2019 IUP		2020 IUP
Federal Capitalization Grants	\$1,012,566,946	a	\$ 38,435,000
Federal Stimulus Grants 08 IUP (ARRA)	\$ 94,784,600		
State Match Appropriated	\$ 202,571,000	b	\$ 7,687,000
Total Revenue Bond Proceeds	\$ 236,222,390		\$ -
Investment Earnings (thru SFY 19)	\$ 173,876,706		
Loan Principal Repayments (thru SFY 19)	\$1,182,052,076		
Loan Interest Repayments (thru SFY 19)	\$ 278,924,489		
Subtotal	\$3,180,998,207		\$ 46,122,000
Estimated Loan Principal (SFYs 20 & 21)	\$ 186,000,000		
Estimated Loan Interest Repayments (SFYs 20&21)	\$ 26,000,000		
Estimated Investment Earnings (SFYs 20 & 21)	\$ 6,300,000		
Estimated Loan Principal (SFY 22)			\$100,000,000
Estimated Loan Interest Repayments (SFY 22)	\$ -		\$ 16,000,000
Estimated Investment Earnings (SFY 22)			\$ 2,515,300
Estimated Cumulative LD Invest.prin repays (thru SFY21)	\$ 16,732,884		\$ 423,933
Estimated Future Revenue Bond Proceeds	\$ 562,000,000		\$ 18,000,000
Subtotal	\$ 797,032,884		\$136,939,233
Total Sources	\$3,978,031,091		\$183,061,233
Uses:			
Loan/Grt Agreements Entered as of 06/30/2019	\$2,731,235,167		\$ -
Projects- IUPs with loans/grt pending as of 04/30/2020	\$ 704,880,115		\$176,823,133
Loans executed SFY 20 as of 04/30/2020	\$ 123,092,348		\$ -
Funds Transferred to Drinking Water SRF (98/99 IUPs)	\$ 10,634,580		\$ -
Bond Principal Repaid	\$ 216,802,390		\$ 2,635,000
Bond Interest Expense	\$ 139,559,664		\$ 803,100
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) (thru SFY19)	\$ 4,900,000		\$ 2,800,000
Allocated Non-point Source Projects (Linked Deposit)	\$ 23,000,000		\$ -
Total Uses	\$3,977,989,986		\$183,061,233

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

^b Includes State General Fund/GO Bond Match through FFY/GY 2019 IUP

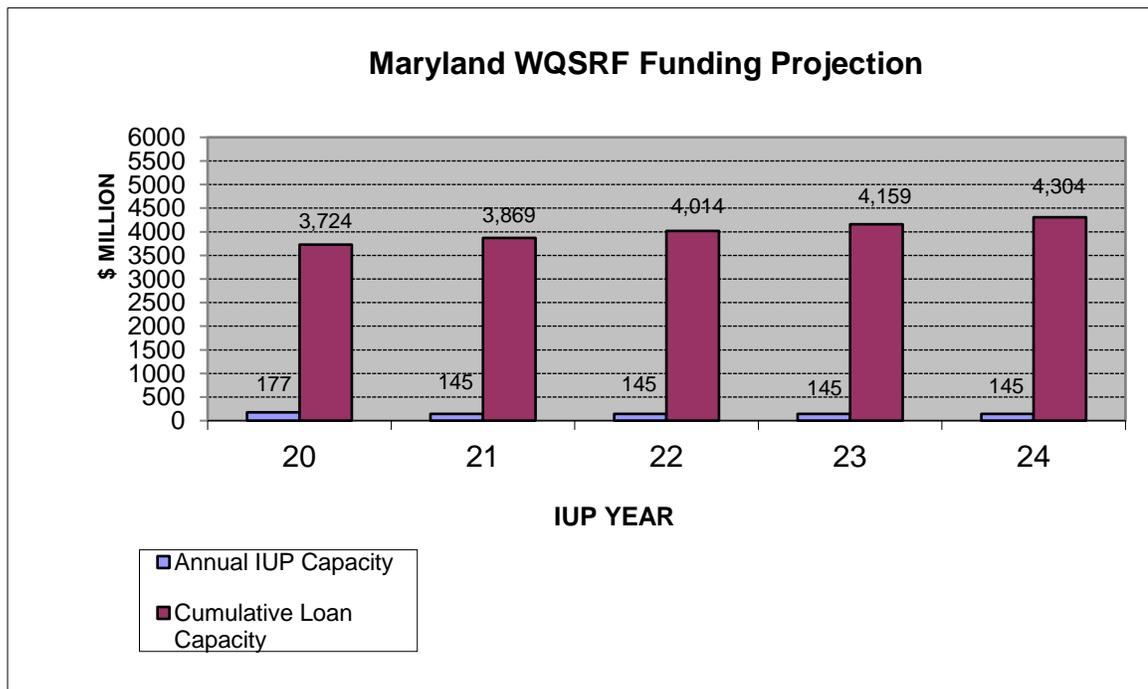
The above does not include program income generated from loan fees, used for administrative expenses.

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. Any future impacts to revenues or special funds 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 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 \$757 million in additional loans from capitalization grants, State match, loan repayments, and investment earnings between FFY 2020 and FFY 2024 IUPs (see graph below). This is in addition to the \$3.54 billion capacity of existing IUPs (FFY 1989-2019). This analysis assumes annual Maryland Federal Capitalization Grant of ~\$38 million per year. The cumulative loan financial capacity of the WQSRF is projected to be over \$4.3 billion by FFY 2024.



- 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 co-benefits.
- 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/FFY2020 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 2020 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 2020 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 2020 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. Two (2) projects are identified for green loan totaling \$30,031,736 (78% of the federal capitalization grant amount), which is being offered priority for loan funding. Based on the above, the FFY 2020 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 2020 Enacted Appropriation Authority requires a minimum of 10% of the capitalization grant (\$3,843,500) be provided as additional subsidies (e.g., loan principal forgiveness); per the Clean Water Act Authority (as amended by WRRDA and WIIN Act of 2016), between 0% and 30% (\$11,530,500) 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 2020 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 2020 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 2020 IUP

Financial Assistance Applications for water quality projects were solicited by the MWQFA in December 2019 through January 2020 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 2020 and State FY 2022 Clean Water Funds. This PPL was used to select projects for the FFY 2020 IUP, based on their priority ranking, applicant’s interest in CWSRF loan, and readiness to proceed to construction by December 2021 (unless specifically requesting a planning/design phase loan).

The FFY 2020 IUP includes \$176,823,133 in project funding. Below is a summary of the sources and uses of funds:

SOURCES		USES	
Capitalization Grant	\$ 38,435,000	WQSRF Admin. Exp. (up to 4% of grant)	\$ -
State(Bond/Gen.Fund) Match (20%)	\$ 7,687,000	Transfer to Admin(WRRDA provision)	\$ 2,800,000
		Capital Projects -- Loans & Grants	\$ 176,823,133
Revenue Bonds	\$ 18,000,000	SRF Revenue Bond Debt Service (P&I)	\$ 3,438,100
Est.Invest. Earnings/Repayments	\$ 118,939,233	Linked Deposit Program Bank Loans	\$ -
Total	\$ 183,061,233	Total	\$ 183,061,233

All projects identified on the FFY 2020 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, 2021.

1. **Subsidies for Disadvantaged Communities:** The FFY 2020 Enacted Appropriation Authority requires a minimum of 10% of the capitalization grant (\$3,843,500) be provided as additional subsidies (e.g., loan principal forgiveness); per the Clean Water Act Authority (as amended by WRRDA and WIIN Act of 2016),

between 0% and 30% (\$11,530,500) may be provided as additional subsidization above/beyond the 10% statutory minimum. 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 2020 IUP (Table 1) identifies \$7,014,485 (or 18%) of the capitalization grant in additional subsidies in the form of loan principal forgiveness.

2. **Green Project Reserve:** The FFY 2020 appropriation act specifies that a minimum 10% of the capitalization grant (or \$3,843,500) should be provided to Green Project Reserve projects, provided sufficient applications are received. The FFY 2020 IUP Table 1 identifies \$30,031,736 (or 78%) of the capitalization grant for green project reserve funding.
3. **Administrative Expenses:** With this FFY 2020 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 06/30/2019, the maximum amount allowed would be \$2,814,108 (Total Net Position of \$1,407,053,820 * 0.2% = \$2,814,108).
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 2021, MWQFA estimates the fee revenues to be \$5.4 million.

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

The following are examples of the types of projects selected for financial assistance in the FFY 2020 IUP. The environmental benefits of each Section 212 project below, as well as Section 319 projects funded through the direct loan program and LD projects, will be included in the annual report and entered into the Clean Water Benefits Reporting (CBR) System upon loan closing.

- Town of Hancock Wastewater System project (rank 1/135 points) in Washington County involves upgrading the existing 0.38 mgd secondary wastewater treatment plant (WWTP) to an Enhanced Nutrient Removal (ENR) WWTP. The existing WWTP is a four-cell aerated lagoon with chemical disinfection that has historical issues with meeting effluent limits and is under a Consent Order with MDE. In addition to reducing nutrient loading to the local watershed and the Chesapeake Bay, this project benefits existing sustainable community needs, and increases the resilience of a treatment works to manmade or natural disasters (as part of this project, tanks will be relocated out of the 100-year flood plain). As a disadvantaged community, Town of Hancock is identified to receive a portion of SRF financing as loan principal forgiveness.
- Southern Kent Island Sanitary Project, Phase 3 (rank 4/100 points) in Queen Anne's County is the third of a four-phase project to connect 1,518 predominantly failing septic systems on Maryland's Eastern Shore to the Kent Narrows/Stevensville/Graysonville WWTP, an ENR facility. Phase 3 consists of construction of 30,250 linear feet of sewer main and installation of 338 STEP units to connect all existing homes and four businesses in the Kenmorr and Queen Anne Colony subdivisions. In addition to significant public health benefit and reduction of nutrient loads to the Chesapeake Bay, this project benefits existing sustainable community needs.
- Urban Stormwater Retrofit Program Public-Private Partnership, Phase 4 (rank 26/80 points) in Prince George's County involves retrofit of 867 impervious acres on multiple sites within the County. 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.

- SC-866 Replacement of the Southwest Diversion Pressure Sewer, Phase 1 (rank 28/55 points) in Baltimore City involves replacement of approximately 7,300 linear feet of sewer main in accordance with the Modified Consent Decree to address sanitary sewer overflows. In addition to public health benefits, this project benefits existing sustainable community needs. As a disadvantaged community, Baltimore City is identified to receive a portion of 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 CWSRF (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 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.