

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 \$760 million in additional loans from capitalization grants, State match, BIL Supplemental capitalization grants, State match, loan repayments, and investment earnings between FFY 2024 and FFY 2027 IUPs. This is in addition to the \$4.09 billion capacity of existing IUPs (FFY 1989-2023). This analysis assumes annual Maryland Federal Capitalization Grant of ~\$18 million per year and annual BIL Supplemental Capitalization Grant of ~\$50 million. The cumulative loan financial capacity of the WQSRF is projected to be over \$4.85 billion by FFY 2027.
- **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, documented public health concerns, relative effectiveness of nutrient reduction to the Chesapeake Bay, compliance status, cost efficiency, and co-benefits including climate mitigation, adaptation, and resiliency, and sustainability. In addition, the IPPS targets projects that limit human exposure to perfluoroalkyl and polyfluoroalkyl substances (PFAS) and other emerging contaminants in the environment (other than drinking water) via an eligible use under section 603(c) of the Federal Water Pollution Control Act.
- **Reasonable User and Project Unit Cost** – To ensure facilities are constructed and maintained at a reasonable cost for the users of the system, MWIFA 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 MWIFA 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 MWIFA 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 MWIFA 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/FFY2023 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 Maryland legislative session (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 2023 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 2023 IUP funding list identifies several such projects. In addition, MWIFA continues to work closely with facility owners to maintain system financial capacity. MWIFA’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 that support community sustainability such as proximity to transit, Brownfield revitalization, and/or community legacy areas, those for which at least 50% of the project cost or project scope serves, protects, or benefits an Environmental Justice or overburdened community as identified by a Socioeconomic Score (Distribution Across Maryland) of 75 or more using [MDE’s Environmental Justice Screening Tool](#), and those that provide for reuse/recycling of stormwater, wastewater, or treatment products are awarded sustainability points on the project rating system.
- **Green Infrastructure, Water and Energy Efficiency and Environmental Innovation Projects** – The MWIFA has actively solicited “green” projects to be included in the FFY 2023 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 on the IUP are identified as green to receive \$43,500,000 (240%) of the FFY 2023 Federal Capitalization Grant, \$7,596,000 (15%) of the BIL Supplemental Capitalization Grant, \$2,261,000 (100%) of the FFY22 BIL Clean Water Emerging Contaminants Capitalization Grant, and \$5,143,000 (100%) of the FFY22 BIL Clean Water Emerging Contaminants Capitalization Grant. Based on the above, the FFY 2023 IUP currently has exceeded the assumed 10% minimum of the federal capitalization grant award amounts allocated towards green projects.
- **Additional Subsidization and Eligible Recipients** –The FFY 2023 Enacted Appropriation Authority requires a minimum of 10% of the capitalization grant (\$1,814,300) 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), at least 10%(\$1,814,300) but no more than 30% (\$5,442,900) of the capitalization grant must be provided as additional subsidization above/beyond the 10% statutory minimum. Under the BIL Clean Water SRF supplemental, 49% of the BIL appropriation (\$24,702,370) must be provided as additional subsidies (e.g., loan principal forgiveness). Under the BIL Clean Water SRF for Emerging Contaminants, 100% of the BIL Emerging Contaminants appropriation (\$2,261,000 in FFY 2022 and \$5,143,000 in FFY 2023) must be provided as additional subsidies (loan principal forgiveness). Additional subsidies are predominantly provided to DAC applicants in priority ranking order and readiness to proceed to construction, until the statutory limit is reached. Typically, DACs are eligible to receive up to 50% of the WQSRF financing as loan principal forgiveness. It has been MWIFA’s policy to provide loan principal forgiveness not to 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 also revised to incorporate WRRDA requirements after providing an opportunity of public hearing, as follows:

Require at least 2 of the following 4 criteria to qualify as a disadvantaged community

- (1) Project is physically located and benefits a community with a poverty level above 110% of the statewide poverty rate; and/or
- (2) Project is physically located and benefits a community with median household income (MHI) less than 80% of State MHI; and/or
- (3) Project is physically located and benefits a community with an unemployment rate above 120% of the State unemployment rate; and/or
- (4) Project is physically located and benefits a community with a change in population < -1.2%.

Or, if 50% or more of project cost or project scope serves, protects, or benefits an Environmental Justice or overburdened community as identified by a Socioeconomic Score (Distribution Across Maryland) of 75 or more using MDE’s Environmental Justice Tracking Tool at <https://mdewin64.mde.state.md.us/EJ/>.

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 2023 IUP is identified for additional subsidy under this section. This may change based on the MWIFA 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. MWIFA is continuing to work with Department of Agriculture and other stakeholders to expand the LD Program to include Concentrated Animal Feeding Operations (CAFOs) and promote this new eligibility with the agricultural community. 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 MWIFA website. The MWIFA 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, MWIFA is not requesting new funds for Linked Deposit activity with the FFY 2023 IUP. For additional information on the LD program, see weblink: http://mde.maryland.gov/programs/Water/WQFA/Pages/linked_deposit.aspx
- **Expand Financing Options to Include Loan Guarantees** – State law was amended to expand loan guarantee authority under the Maryland Water Quality Revolving Loan Fund ([Ch 292 of 2021 – Environment – Water Quality Revolving Loan Fund – Uses of Fund](#)). Previously State law restricted SRF loan guarantees to financing all or a portion of the cost of a wastewater facility. State law was expanded to match all of the allowable uses of loan guarantee authority under federal law. MWIFA did not receive any FFY23 applications to access MWIFA's new guarantee authority.
- **Explore the establishment of a revolving loan fund for land conservation** – State law was amended to emphasize the financing of blue and green infrastructure (Ch 237 and 238 of 2022 – [Conservation Finance Act](#)). One of the items MWIFA will explore under this new authority is capitalizing a new revolving loan fund for an organization engaged in land conservation.

C. Project Selection and Fund Activities under the FFY 2023 IUP

Financial Assistance Applications for water quality projects were solicited by the MWIFA in December 2022 through January 2023 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 2023 and State FY 2025 Clean Water Funds. This PPL was used to select projects for the FFY 2023 IUP, based on their priority ranking, applicant's interest in WQSRF financing (including BIL funding), and readiness to proceed to construction by December 31, 2024 (unless specifically requesting a planning/design phase loan).

The FFY 2023 IUP includes \$198,889,343 in project funding. Below is a summary of the sources and uses of funds:

| SOURCES: | | USES: | |
|------------------------------|---------------|--------------------------------------|---------------|
| Capitalization Grant-Base | \$ 18,143,000 | WQSRF Admin Exp (up to 4% of grant) | \$ - |
| State Match to Base (20%) | \$ 3,628,600 | Transfer to Admin (WRRDA provision) | \$ 3,200,000 |
| BIL Grant-Supplem Gen | \$ 50,413,000 | BIL- Admin 2% (Technical Assistance) | \$ - |
| State Match to Bil_gen (10%) | \$ 5,041,300 | | |
| BIL: Supplemental EC | \$ 7,404,000 | | |
| Revenue Bonds | \$ - | Capital Projects -- Loans & Grants | \$198,889,343 |
| Reprogrammed Funding | \$ - | SRF Revenue Bond Debt Service (P&I) | \$ 3,439,750 |

| | | | |
|-------------------------------------|---------------|-----------------------------------|---------------|
| Est. Invest. Earnings/Repayments | \$120,899,193 | Linked Deposit Program Bank Loans | \$ - |
| Total | \$205,529,093 | Total | \$205,529,093 |

All projects identified on the FFY 2023 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, 2024.

1. **Subsidies for Disadvantaged Communities:** The FFY 2023 Enacted Appropriation Authority requires a minimum of 10% of the capitalization grant (\$1,814,300) 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), at least 10% (\$1,814,300) but no more than 30% (\$5,442,900) of the capitalization grant must be provided as additional subsidization above/beyond the 10% statutory minimum. Under the BIL Clean Water SRF supplemental, 49% of the BIL appropriation (\$24,702,370) must be provided as additional subsidies (e.g., loan principal forgiveness). Under the BIL Clean Water SRF for Emerging Contaminants, 100% of the BIL Emerging Contaminants appropriation (\$2,261,000 in FFY 2022 and \$5,143,000 in FFY 2023) must be provided as additional subsidies (loan principal forgiveness). 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 2023 IUP (Table 1) identifies \$4,350,037 (or 24%) of the capitalization grant, and \$24,702,370 (or 49%) of the BIL supplemental funding, and \$2,261,000 (or 100%) of the BIL Emerging Contaminants funding for FFY22 and \$5,143,000 (or 100%) of the BIL Emerging Contaminants funding for FFY23 in additional subsidies in the form of loan principal forgiveness.
2. **Green Project Reserve:** The FFY 2023 appropriation act specifies that a minimum 10% of the capitalization grant, the BIL general supplemental grant, and the BIL Clean Water SRF for Emerging Contaminants (a total of \$7,596,000) should be provided to Green Project Reserve projects, provided sufficient applications are received. Three (3) projects on the FFY 2023 IUP Table 1 are identified as green to receive \$43,500,000 (240%) of the FFY 2023 Federal Capitalization Grant, \$7,596,000 (15%) of the BIL Supplemental Capitalization Grant, \$2,261,000 (100%) of the FFY22 BIL Clean Water Emerging Contaminants Capitalization Grant, and \$5,143,000 (100%) of the FFY22 BIL Clean Water Emerging Contaminants Capitalization Grant. Based on the above, the FFY 2023 IUP currently has exceeded the assumed 10% minimum of the federal capitalization grant award amounts allocated towards green projects.
3. **Administrative Expenses:** With this FFY 2023 IUP, the MWIFA 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 06/30/2022, the maximum amount allowed would be \$3,213,963 (Total Net Position of \$1,606,981,576*0.2% = \$3,213,963).
4. **Program Income & Non-Program Income (Non-Federal):** The MWIFA 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 2023, MWIFA estimates the fee revenues to be \$5.6 million.

D. Project Scope of Work/Environmental Benefits – FFY 2023 IUP Projects

The following are examples of the types of projects selected for financial assistance in the FFY 2023 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 OWSRF Clean Water Database upon loan closing.

Manchester WWTP ENR Upgrade (rank 4/110 points) in Carroll County will upgrade the existing 0.5 MGD wastewater treatment plant which serves approximately 4,700 residential users to enhanced nutrient removal level of treatment. The upgrade will also implement the nitrate level reduction action plan for the plant and

bring the facility in compliance with the discharge permit. The proposed project will not upgrade the capacity of the plant.

Anne Arundel County Thermal Processing Demonstration Facility (rank 6/100 points) in Anne Arundel County will construct a biosolids facility utilizing pyrolysis/gasification technology to confirm PFAS contaminant destruction in a demonstration facility before scaling up to a regional biosolids facility. The project will be constructed at the Patuxent Water Reclamation Facility, which serves approximately 610,000 users.

Middle Branch Resiliency Project Stage 1 (rank 8/90 points) in Baltimore City will improve water quality in the Middle Branch of the Patapsco River in Baltimore City by re-establishing natural habitats and creating new nature-based resiliency infrastructure, while enhancing public green open space and recreational opportunities for the largely minority, low-income neighborhoods surrounding the Middle Branch.

Greensboro Regional Wastewater System Extension Phases 3 & 4 (rank 9/85 points) in Caroline County will expand the regional wastewater system to serve the Towns of Henderson, Marydel, and Templeville, and Harman subdivision and Caroline Acres and Cedars mobile home parks to replace failing septic systems and aging secondary treatment systems, thereby reducing nitrogen discharged to the Chesapeake Bay and providing public health benefits.

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

The EPA and MDE negotiated fair share goals for FFYs 2019, 2020, and 2021 based on the Maryland Department of Transportation 2018 disparity/availability study. Based on these negotiations, MDE set goals of 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. While EPA suspended the requirement for fair share negotiations via RAIN-2019-G10 in October 2019, MDE has elected to keep these previously negotiated percentages in place to serve as aspirational goals on WQSRF projects.

These goals will be applicable to all projects financed using WQSRF (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

The projected binding commitments will occur at or around the construction start date indicated for each project in Table 1.

H. Public Review of the Draft FFY 2023 IUP

The 30-day public comment period started June 28, 2023. 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. The interested parties list includes representatives from state and local government, environmental consultants/engineers, community groups, neighborhood associations, environmental organizations, etc. Additionally, MWIFA provided an email notification to the following Maryland Commissions/Committees to share with their membership and interested parties' lists: the Commission on Environmental Justice and Sustainable Communities, the Children's Environmental Health and Protection Advisory Council, and the Bay Restoration Fund Advisory Committee. MWIFA also coordinated with MDE's

Communications Office to ensure that the draft IUP documents are shared via the Department's various social media accounts. MWIFA will also share the draft IUP with the Maryland General Assembly. Public comments will be received through July 28, 2023, and the comment period will close on that date. MWIFA will be available to answer any questions that arise during the comment period to ensure the public fully understands what is being proposed in the IUP. MWIFA will be as responsive as possible regarding any comments or concerns raised during the public comment period. The Public Hearing Responsiveness Summary and all comments received will be shared with EPA as Appendix C to the final document. The Responsiveness Summary will indicate what action MDE took on comments submitted.