

b Includes State General Fund/GO Bond Match through FFY/GY2022					
c Funds transferred from Water Quality SRF to DWSRF (prior years).					
d State General Fund/GO Bond Match to FFY 2023 Capitalization Grant					
Excludes EC-SDC grant as directed by EPA					

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 \$612 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 2023 and FFY 2027 IUPs. This is in addition to the \$763 million capacity on existing IUPs (1998 – 2022). This analysis assumes an annual Maryland Federal Capitalization Grant of ~\$10 million per year and BIL Supplemental Grants of ~\$43M per year. The cumulative loan capacity of the DWSRF is projected to reach \$1.4 billion by FFY 2027.
- 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 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

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 2023 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 FFY 2022 and FFY 2023 capitalization grants: 1) the Congressional Additional Subsidy as authorized by the FFY 2022 and FFY 2023 appropriations require 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 12% 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 MWIFA'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 FY 2015, the DAC eligibility criteria was revised to make it consistent with Water Quality SRF program, which was revised in FY 2023 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 population trend of less than 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 the 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.

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

Financial Assistance Applications for drinking water projects were solicited by MWIFA from December 15, 2022 through January 31, 2023 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 2023 and State FY 2025 Drinking Water Funds (Appendix A). The PPL was used to select projects for the FFY 2023 IUP, based on their priority ranking, applicant's interest in DWSRF loan, and readiness to proceed to construction by December 2024 (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 2023 IUP includes \$172,541,637 in project funding. Below is a summary of the sources and uses of funds:

Sources:		Uses:	
		Set-Asides (Non Project Funds)	
Federal Base Cap Grant 23	\$ 10,260,000	Technical Assistance (up to 2%) Base, BIL Gen, EC,LSL	\$ 1,080,140
State Match @ 20%	\$ 2,052,000	DWSRF Admin. Expenses (up to 4%)	\$ 410,400
Federal Base Re-Allotment	\$ 186,000	DW Program Support (up to 10%)Base, BIL Gen,EC,LSL	\$ 5,400,700
20% State Match (Reallotment)	\$ 37,200	Local Assist./St.Activities (up to 15%) Base,BIL Gen,EC,LSL(10%)	\$ 8,101,050
Federal BIL-supp gen grant 23	\$ 43,747,000	Partial Set Asides for LSL 22&23	\$ 5,190,000
State Match @ 10%	\$ 4,374,700	Partial Set Asides for EC 22&23	\$ 2,770,000
Federal EC Grant 22&23	\$ 29,714,000	Subtotal	\$ 22,952,290
Federal LSL Grant 22&23	\$ 80,584,000		

Revenue Bonds	\$ -		
Est. Repayments/Inv earnings	\$ 24,539,027		DWSRF Capital Projects Loans and Grants \$ 172,541,637
Total	\$ 195,493,927		\$ 195,493,927

Capital Projects (Project Funds)

Table 1 shows funding for DWSRF projects totaling \$172,541,637. 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 \$41,675,328 (24%) 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 2023 IUP identifies approximately 3% for source water, 19% for treatment, 77% for transmission/distribution, 0% for finished water storage and 0% for other.

Subsidies for Disadvantaged Communities: There are two distinct and additive additional subsidy authorities regarding the FFY 2022 and FFY 2023 capitalization grants: 1) the Congressional Additional Subsidy as authorized by the FFY 2022 and FFY 2023 appropriations require states to provide 14% (\$1,462,440) of the capitalization grant (including Base Re-Allotment) 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 12% (\$1,253,520) of the capitalization grant and no more than 35% (\$3,656,100) of capitalization grant. In addition, the BIL Drinking Water SRF supplemental Federal Capitalization Grant requires 49% (\$21,436,030) to be provided as additional subsidy. Also, the BIL Emerging Contaminants Grant requires 100% of the grant (\$25,834,000) to be provided as additional subsidy. Moreover, the BIL Lead Service Line Grant requires 49% of the grant (\$39,486,160) to be provided as additional subsidy. 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 2023 IUP (Table 1) identifies \$4,987,728 (or 39%) of the capitalization grant in additional subsidies in the form of loan principal forgiveness, \$21,436,030 (or 49%) of BIL Drinking Water supplemental as loan principal forgiveness, \$26,944,000 (100%) in BIL emerging contaminants as loan principal forgiveness, and \$39,486,160 (49%) in BIL lead service line funding as loan principal forgiveness.

Program Income (Non Federal)

The MWIFA 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 2023, MWQFA estimates the fee revenues to be ~\$900,000.

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

The following are examples of the types of projects selected for financial assistance in the FFY2023 IUP.

Roop’s Meadow Spring Water Treatment Facility (rank 1/125 points) in Carroll County will construct a water filtration and chlorination system and approximately 500 linear feet of 6-inch diameter pipe to treat the Roop’s Meadow Spring water currently designated as groundwater under direct influence (GWUDI) source in order to provide system-wide redundancy for the Town of New Windsor drinking water supply, which serves approximately 1,700 residential users. The reintroduction of the Roop’s Meadow Spring water supply will reduce the Town’s reliance on the Dennings Well and Main Spring and their associated aging infrastructure and provide system-wide redundancy for peak water demand.

Hampstead PFAS Treatment/Centralization Project (rank 3/115 points) in Carroll County will construct approximately 7,000 linear feet of 3-inch and 4-in raw water pipelines and four (4) water treatment facilities that will employ dilution and/or granular activated carbon (GAC) to reduce PFAS concentrations in the Town of Hampstead’s drinking water supply sources, currently supplied by 21 wells. The system currently serves

approximately 6,300 residential users. The treatment is expected to reduce PFAS and PFOS contamination levels to below 4 parts per trillion (ppt).

Karla Lane Water Main Replacement (rank 13/90 points) in Prince George's County will replace approximately 1.47 miles of small diameter (4-inch and 8-inch) water mains, house connections and large water services in the Fort Washington area of Prince George's County. Portions of the water system are more than 80 years old and subject to tuberculation, causing reduced flow and discoloration at the customer's tap, and reduced flows for fire-fighting. This portion of the system currently serves approximately 250 customers.

Briercrest Apartments Water Service (rank 4/105 points) and Springview and Gilbert's Mobile Home Parks Water Service (rank 5/100 points) in Frederick County will extend public water service to community water systems contaminated with PFAS. The Briercrest Apartments project will construct approximately 94 linear feet of 8-inch water main, a 2-inch water service connection, and appurtenances to extend public water service to 60 residents in 24 apartment units currently served by a single, private well contaminated with PFAS. Springview and Gilbert's Mobile Home Parks project will construct approximately 2,760 linear feet of 8-inch water main, a 2-inch water service connection, and appurtenances to extend public water service to 150 residents in 56-58 mobile homes currently served by a single, community well contaminated with PFAS. Frederick County has agreed to supply water from the existing nearby water systems to these very small communities.

Delmar Lead Service Line Inventory (rank 64/50 points) in Wicomico County will develop a comprehensive list of all lead service lines within the Town of Delmar with the intent to replace identified lead service lines in the future.

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 DWSRF projects.

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

The projected binding commitments will occur at or around construction start date indicated for each project listed 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