



Maryland

Department of
the Environment

**MARYLAND WATER QUALITY FINANCING ADMINISTRATION
WATER QUALITY REVOLVING LOAN FUND PROGRAM
FEDERAL FISCAL YEAR 2018
DRAFT INTENDED USE PLAN
May 16, 2016**

**Larry Hogan
Governor**

**Ben Grumbles
Secretary**

**Boyd Rutherford
Lt. Governor**

MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

DRAFT

**Federal Fiscal Year 2018 Intended Use Plan
Maryland Water Quality Revolving Loan Fund**

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

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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 2018 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 06/30/2017, the maximum amount allowed would be \$2,614,721 (Total Net Position of \$1,307,360,524 * 0.2% = \$2,614,721).

Table 1 shows the proposed list of projects for inclusion in the FFY 2018 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, 2019. 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
DRAFT Federal Fiscal Year 2018 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 2017 IUP		2018 IUP
<u>Sources:</u>			
Federal Capitalization Grants	\$ 935,317,946	a	\$ 38,820,000
Federal Stimulus Grants 08 IUP (ARRA)	\$ 94,784,600		
State Match Appropriated	\$ 187,122,000	b	\$ 7,764,000
Total Revenue Bond Proceeds	\$ 236,222,390		\$ -
Investment Earnings (thru SFY 17)	\$ 164,472,256		
Loan Principal Repayments (thru SFY 17)	\$ 1,002,057,976		
Loan Interest Repayments (thru SFY 17)	\$ 255,730,055		
Subtotal	\$ 2,875,707,223		\$ 46,584,000
Estimated Loan Principal (SFYs 18 & 19)	\$ 182,000,000		
Estimated Loan Interest Repayments (SFYs 18 & 19)	\$ 24,500,000		
Estimated Investment Earnings (SFYs 18 & 19)	\$ 8,200,000		
Estimated Loan Principal (SFY 20)			\$ 94,000,000
Estimated Loan Interest Repayments (SFY 20)	\$ -		\$ 12,000,000
Estimated Investment Earnings (SFY 20)			\$ 3,000,000
Estimated Cumulative LD Investment prin repays	\$ 14,000,000		\$ 2,568,950
Estimated Future Revenue Bond Proceeds	\$ 350,000,000		\$ 175,000,000
Subtotal	\$ 578,700,000		\$ 286,568,950
Total Sources	\$,454,407,223		\$ 333,152,950
<u>Uses:</u>			
Loan Agreements Entered as of 06/30/2017	\$ 2,337,270,506		\$ -
Projects on IUPs with loans pending as of 04/30/2018	\$ 700,934,811		\$ 327,695,000
Loans executed SFY 18 as of 04/30/2018	\$ 11,642,164		\$ -
Funds Transferred to Drinking Water SRF (98/99 IUPs)	\$ 10,634,580		\$ -
Bond Principal Repaid	\$ 208,957,390		\$ 4,330,000
Bond Interest Expense	\$ 136,014,408		\$ 1,127,950
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	\$ -	c	\$ -
Allocated Non-point Source Projects (Linked Deposit)	\$ 23,000,000		\$ -
Total Uses	\$ 3,452,339,581		\$ 333,152,950

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

^a Total awards through FFY 2017 Capitalization Grant, excluding ARRA.

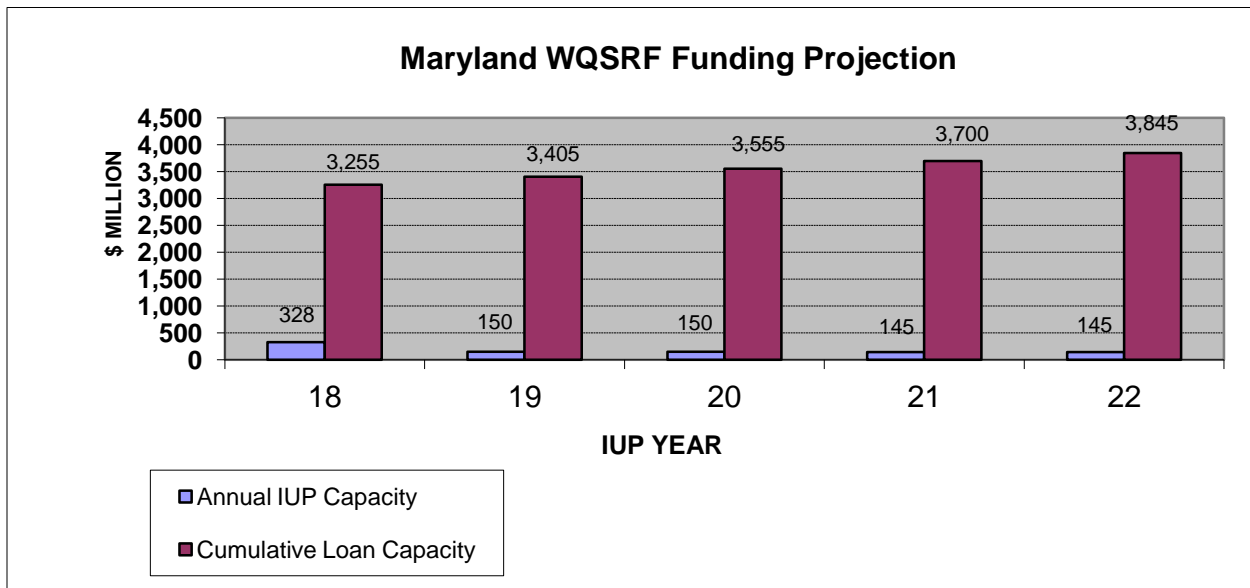
^b Includes State General/Bond Fund match of \$6.6 million for FFY 2017 IUP (available July 1, 2018).

^c Starting with FFY 2015 IUP, program operating expenses are covered by the loan administrative fee and funds from the WQSRF fund balance, as authorized under the Water Resources Reform and Development Act of 2014 (WRRDA), if needed (see C. Administrative Expenses, below).

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 90% or greater. This is a Program Activity Measure (PAM) under EPA’s strategic plan for the WQSRF. For FFY 2018, MWQFA is projecting WQSRF fund utilization rate of over 95%. The WQSRF could finance approximately \$918 million in additional loans from capitalization grants, State match, loan repayments, and investment earnings between FFY 2018 and FFY 2022 IUPs (see graph below). This is in addition to the \$3.06 billion capacity of existing IUPs (FFY 1989-2017). 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 \$3.8 billion by FFY 2022.



- **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/FFY2018 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 2018 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 2017 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. Applicants that have full-cost pricing (revenue generated for replacement cost/depreciation recovery) in their sewer user rates are awarded sustainability points on the project rating system. Similarly, 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 2018 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. Four (4) projects are identified for green loan totaling \$61,217,600 (157.7% of the federal cap grant amount), which is being offered priority for loan funding. Based on the above, the FFY 2018 IUP currently has exceeded the assumed 10% minimum of the federal cap grant award amount allocated towards green projects.
- **Additional Subsidization and Eligible Recipients** – The FFY 2018 federal appropriation act requires WQSRF to provide a minimum of 10% of the Capitalization Grant (\$3,882,000) as additional subsidies (e.g., loan principal forgiveness); between 0% and 30% (\$11,646,000) 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, not to exceed \$1.5 million per project and/or applicant. 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 not to exceed \$1.5 million, 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 2018 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 2018 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 2018 IUP

1. **Financial Assistance Applications** for water quality projects were solicited by the MWQFA in December 2017 through January 2018 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 2018 and State FY 2020 Clean Water Funds. This PPL was used to select projects for the FFY 2018 IUP, based on their priority ranking, applicant’s interest in CWSRF loan, and readiness to proceed to construction by December 2019 (unless specifically requesting a planning/design phase loan).

The FFY 2018 IUP includes \$327,695,000 in project funding. Below is a summary of the sources and uses of funds:

SOURCES		USES	
Capitalization Grant	\$ 38,820,000	WQSRF Admin. Exp. (up to 4% of grant)	\$ -
State (Bond/Gen. Fund) Match (20%)	\$ 7,764,000	Capital Projects – Loans & Grants	\$ 327,695,000
Revenue Bonds	\$ 175,000,000	SRF Revenue Bond Debt Service (P&I)	\$ 5,457,950
Est. Invest. Earnings/Repayments	\$ 111,568,950	Linked Deposit Program Bank Loans	\$ -
Total	\$ 333,152,950	Total	\$ 333,152,950

All projects identified on the FFY 2018 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, 2019.

2. **Subsidies for Disadvantaged Communities:** The FFY 2018 appropriation requires WQSRF to provide a minimum 10% of the capitalization grant (or \$3,882,000); between 0% and 30% (\$11,646,000) 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 2018 IUP (Table 1) identifies \$11,611,325 (or 30%) of the capitalization grant in additional subsidies in the form of loan principal forgiveness.
3. **Green Project Reserve:** The FFY 2018 appropriation act is assumed to require WQSRF to provide a minimum 10% of the capitalization grant (or \$3,882,000) to Green Project Reserve projects. The FFY 2018

IUP Table 1 identifies \$61,217,600 (or 157.7%) of the capitalization grant in green project reserve funding.

4. **Administrative Expenses:** With this FFY 2018 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 06/30/2017, the maximum amount allowed would be \$2,614,721 (Total Net Position of \$1,307,360 * 0.2% = \$2,614,721).
5. **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 \$4.8 million.

D. Project Scope of Work/Environmental Benefits – FFY 2018 IUP Projects

The following are examples of the types of projects selected for financial assistance in the FFY 2018 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.

- Westminster Wastewater Treatment Plant (WWTP) ENR Upgrade project (rank 4/83 points) in Carroll County involves upgrading the existing 5.0 mgs Biological Nutrient Removal WWTP to ENR treatment. In addition to treatment upgrades, the project scope includes construction of a new solids processing building, construction of solids processing odor control and chemical storage, upgrade of air diffusers in the aeration tanks, and lime silo relocation. Additionally, the City of Westminster is pursuing the option of biosolids disposal/use as a fuel source for a local cement manufacturing plant, which currently employs the practice; doing so requires purchase of a sludge dryer, which will have the added benefit of producing a class A biosolids product that can be used for fertilizer. This project benefits existing sustainable community needs. Upon completion, nutrient loads to the Chesapeake Bay will be reduced by 76,103 lbs per year TN and benefits 15,691 households.
- Region II Sewer System – Extension of Sewer (Resolution 235) project (rank 17/55 points) in Talbot County involves connecting 318 existing homes currently served by failing septic systems to the Region II WWTP, which is an ENR facility. The homes to be connected are in communities built along the Miles River, a tidal tributary to the Chesapeake Bay. Upon completion, nutrient loads to the Chesapeake Bay will be reduced by 6,646 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.
- Braddock and Jennings Run Sewage Conveyance Improvements project (rank 20/50 points) in Allegany County is a regional project involving the replacement of two deteriorating pump stations (one in La Vale Sanitary District's system, the other in Allegany County's) and approximately 9,500 linear feet of force main that conveys flow to Cumberland WWTP. Both pump stations and the force main are approximately 4 – 50 years old and have outlived their useful lives. Completion of this project, which will be done in three concurrent phases, is another step in addressing the Consent Decree and Judgment against City of Frostburg, La Vale Sanitary Commission, Allegany County, and City of Cumberland to eliminate combined sewer overflows. This project benefits existing sustainable community needs; as a disadvantaged community, Allegany County has been identified to receive a portion of SRF financing as loan principal forgiveness.
- SC-977 Improvements to the Gwynns Falls Sewershed Collection System - Area C project is cost-shared by Baltimore City (rank 27/48 points) and Baltimore County (rank 28/48 points); although the sewer system is owned and operated by Baltimore City, it serves both Baltimore City and Baltimore County users. This project involves replacing 6,200 linear feet of sewer line; 37,000 linear feet of cured-in-place pipe lining; 330 vertical linear feet of new sanitary sewer manholes; 305 manhole rehabilitations; rehabilitation of 270 sanitary house connections; and approximately 10,700 linear feet of sewer cleaning and closed circuit television (CCTV) inspection. This project will reduce inflow/infiltration that contributes to sanitary sewer

overflows, which Baltimore City must address per consent order. This project benefits the existing sustainable community needs of 374,400 homes.

- Urban Stormwater Retrofit Public-Private Partnership Phase 2 project (rank 47/43 points) in Prince George's County involves continued work for retrofit of 2,000 acres of impervious surface 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 to large urban retrofit solutions involving suburban drain inlet modifications, pond retrofits, stream restorations, public schools, County right-of-way Best Management Practices (BMPs) as well as 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 17,105 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 2016, 2017, and 2018 based on the Maryland Department of Transportation 2011 disparity/availability study which showed an increase in availability numbers. As a result, the new MDE goals are 18% MBE and 16% WBE for the "construction" category (total 34% M/WBE).

These goals will be applicable to all projects financed using WQSRF (loans and 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 31.36(e). 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. 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 2018 IUP

Applicants that submitted Financial Assistance Applications were sent an e-mail on Wednesday, May 16, 2018, informing them of the availability of the Draft IUP/PPL on MDE's website. The Draft FFY 2018 IUP will be the subject of a public hearing on Thursday, June 14, 2018 at 10:00 AM at the Maryland Department of Environment, 1800 Washington Boulevard, Baltimore, Maryland 21230 (Terra Conference Room/Lobby). The public hearing record will be closed on June 21, 2018. The Public Hearing Responsiveness Summary, Hearing Sign-In Sheet, and all comments received will be included as Appendix C to the FINAL FFY 2018 IUP. The Responsiveness Summary will indicate what action MDE took on comments submitted.