



Maryland

Department of
the Environment

**WATER QUALITY REVOLVING LOAN FUND
ANNUAL REPORT
STATE FISCAL YEAR 2019
(JULY 1, 2018 – JUNE 30, 2019)**

Prepared by
**MARYLAND WATER QUALITY FINANCING ADMINISTRATION
SEPTEMBER 2019**

**Larry Hogan
Governor**

**Boyd Rutherford
Lt. Governor**

**Ben Grumbles
Secretary**

**Horacio Tablada
Deputy Secretary**

**Annual Report
Maryland Water Quality Financing Administration
Water Quality Revolving Loan Fund
State Fiscal Year 2019 (SFY 2019)
July 1, 2018 – June 30, 2019**

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 3

I. SUMMARY OF WATER QUALITY REVOLVING LOAN FUND OPERATIONS..... 5

 A. Intended Use Plans (IUP) and Capitalization Grants..... 5

 B. Financial Status..... 5

 C. Minority/Women’s Business Enterprise (M/WBE) Activity..... 6

 D. Follow-up Actions to Prior Year (SFY 2018) EPA Program Evaluation Report (PER)..... 6

 E. Provisions of the Operating Agreement..... 6

 F. Clean Water Benefit Reporting (CBR) & National Information Mgmt. System (NIMS) Database..... 6

II. GOALS AND ACCOMPLISHMENTS..... 7

Table 1: Status of Intended Use Plans as of June 30, 2019

Table 2: Federal Cap. Grants, State Match, Retained Earnings & Binding Commitments as of June 30, 2019

Table 3: Loan Accounts Receivable and Borrower Credit Quality as of June 30, 2019

Table 4: Summary of Salary and Program Expenses – SFY 2019

Appendix A: MWQFA Financial Statements & Independent Public Accountants Report – SFY 2019

Appendix B: MWQFA A-133 Supplemental Financial Report (Single Audit) – June 30, 2019

Appendix C: Maryland WQSRF CWNIMS Report as of June 30, 2019 (See CWNIMS Database online)

Appendix D: Maryland WQSRF Environmental Benefits as of June 30, 2019 (see CBR Database Online)

**Annual Report
Maryland Water Quality Financing Administration
Water Quality Revolving Loan Fund
State Fiscal Year 2019
July 1, 2018 – June 30, 2019**

EXECUTIVE SUMMARY

This Annual Report is prepared for submission to the United States Environmental Protection Agency (EPA) in compliance with the reporting requirements under the Federal Clean Water Act and the Capitalization Grant Operating Agreement between the EPA and the Maryland Department of the Environment (MDE or Department), amended as of April 2014, and February 2016. The report describes the operational and financial activities of the Maryland Water Quality Revolving Loan Fund (WQRLF or WQSRF or Fund) for State Fiscal Year (SFY) 2019. This report covers the period July 1, 2018 through June 30, 2019 and provides the overall status of Maryland WQRLF program as of June 30, 2019.

The Maryland WQRLF was established in 1988 pursuant to the Maryland Water Quality Administration (MWQFA or Administration) Act, Title 9, Subtitle 16 of the Environmental Article, Annotated Code of Maryland consistent with the Federal Clean Water Act. The primary purpose of the WQRLF is to make low interest rate loans, and other permitted subsidies such as grants/loan forgiveness, to local governments and other eligible entities for construction of eligible water quality infrastructure projects. Maryland's WQSRF finances capital improvements across the State to improve water quality by reducing pollution from both point sources and nonpoint sources. The WQSRF supports the State's goals and objectives for smart growth, sustainability and watershed implementation plan for Chesapeake Bay nutrient reduction.

Since 1988, MDE has received approximately \$1.07 billion from federal capitalization grants , which have been leveraged with revenue bonds, state match, loan principal and interest repayments, and investment earnings, resulting in almost \$2.73 billion of loan and grant financing. The following is a brief summary of the WQSRF program:

Water Quality State Revolving Loan Fund

FY 2019 – Executive Summary

<u>WQSRF Program</u>	<u>As of 6/30/2019</u>		<u>As of 6/30/2018</u>	
Total Assets	\$1,427,142,594		\$1,380,214,629	
Total Liabilities	20,088,774		23,285,670	
Total Net Position	1,407,053,820		1,356,928,959	
Total Loans/Grants (excl Linked Deposit)	2,731,235,167		2,505,457,430	
Linked Deposit Loans	21,027,810		18,818,877	
Bonds Payable Balance	17,805,000		20,320,000	
Federal Grant Awards	1,068,922,546	(thru 2018 IUP)	1,030,102,546	(thru 2017 IUP)
Federal Grant Expended	1,030,102,546		998,036,546	
State Match Appropriated	194,885,200	(thru 2018 IUP)	187,121,200	(thru 2017 IUP)
	<u>FY 2019</u>		<u>FY 2018</u>	
Capitalization Grant Award	\$38,820,000	(FFY 2018 IUP)	\$32,066,000	(FFY 2017 IUP)
State Match Appropriated	7,764,000		6,413,200	
Federal Grant Expenditure	32,066,000		32,315,000	
Net New Financing (excl Linked Deposit)	225,777,737	(7 projects)	168,186,924	(5 projects)
Wt Average Interest Rate	0.80%		0.82%	
Linked Deposit Loans	2,208,933	(5 projects)	356,810	(9 projects)
Loan Principal Repayments	90,704,591		89,289,509	
Total Interest Repayments	11,627,991		11,566,443	
Bond Principal Repaid	2,515,000	Cash	4,330,000	Cash
Bond Interest Expense	928,850	Cash	1,127,950	Cash
Total Investment Earnings	4,864,381	Accrual	4,540,069	Accrual

Annual Report
Maryland Water Quality Financing Administration
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State Fiscal Year 2019
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I. SUMMARY OF WATER QUALITY REVOLVING LOAN FUND OPERATIONS

A. Intended Use Plans (IUP) and Capitalization Grants

Table 1, Status of Intended Use Plans, provides a summary of projects identified on all existing IUPs as of June 30, 2019. The existing IUPs identify WQSRF project financing totaling \$2,752,262,977, consists of \$21,027,810 in Linked Deposit (LD) bank loans and \$2,731,235,167 in direct loans and grants. During SFY 2019, net new WQSRF direct loans and grants executed totaled \$225,777,737 (7 projects) and 5 LD new loans totaled \$2,208,933 for a grand total of \$227,986,670. The weighted average interest rate on direct loans was 0.80%. Table 1 also shows total sources of funds at approximately \$3.1 billion with a 100.3% fund utilization rate as of June 30, 2019.

Table 2 provides a summary of the total Federal Capitalization Grant awards of \$1,068,922,546 as of June 30, 2019 and total State Match appropriation of \$194,885,200. The State Match, for capital projects, is deposited into the fund concurrently as federal grant funds are drawn in proportion to the draw down percentage in the grant agreement (generally 83.33% federal, 16.67% state). Capital projects disbursements are first applied to the oldest open federal capitalization grant/State match and then to recycled funds once the grants are fully expended. The maximum binding commitment required based on the total federal grant and State match is \$1,263,750,135, which was exceeded based on the total direct loans and grants achieved totaling \$2,731,235,167 as of June 30, 2019, netting a surplus of \$1,467,485,032 (as indicated in Table 2). Table 2 also shows a summary of the WQSRF retained earnings of \$208,765,885 as of June 30, 2019, as reported in the audited financial statements; this retained earnings excludes the \$87,871,011 in permitted or required grant/loan forgiveness disbursed, demonstrating no loss of federal and state equity and overall funding perpetuity, and demonstrates the long term financial health of the funds.

B. Financial Status

The MWQFA Annual Financial Statements and Independent Public Accountants Report for the period ending June 30, 2019 is included as Appendix A and the Annual Financial Report (Single Audit) for the same period is included as Appendix B to this Annual Report. As of June 30, 2019, the Balance Sheet shows Assets of \$1,427,142,594 and Liabilities of \$20,088,774 and Total Net Position of \$1,407,053,820.

Table 3 shows a summary of WQSRF loans made to borrowers and the receivable principal balance as of June 30, 2019. Of the total \$2,641,402,348 in loans (base/ARRA) executed (excluding LD), the principal outstanding as of June 30, 2019 was \$1,173,377,190. The above does not include \$89,832,819 awarded as permitted grants and/or loan forgiveness. Table 3 also provides a summary of the Borrower Credit Quality that shows 93% of the loan principal outstanding is associated with borrowers Rated “Baa” or higher (investment grade) by Moody’s, while 7% of loans are with borrowers that are Not Rated by the Bond rating agencies. The MWQFA undertakes an annual financial review of non-rated borrowers to identify any as “credit watch.” In addition, prior to loan closing, MWQFA reviews the financial status of all borrowers to ensure financial capacity that meets the MWQFA loan underwriting criteria.

Table 4 shows a summary of administrative expenses of the WQSRF program during SFY 2019 totaling \$7,085,799, which were made wholly from fees charged on loans (5% funds). No federal 4% funds were used. Table 4 also shows the use of 5% (program income) funds by MDE organizational units for eligible activities. The funds available for program expenses for SFY 2020 and beyond is estimated at \$6.25 million. MWQFA is not requesting any additional WQSRF federal 4% administrative funds from capitalization grants. If the loan administrative fee is insufficient to cover program operating expenses, the additional 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). In SFY 2019, \$2.4 million was transferred under this WRRDA provision. All unused 4% federal administrative funds from capitalization grants prior to FFY 2008 have been capitalized (i.e., allocated towards loans).

C. Minority/Women's Business Enterprise (M/WBE Activity)

M/WBE participation on new procurements approved by MDE during SFY 2019 will be provided in a separate report.

D. Follow-up Actions to Prior Year (SFY 2018) EPA Program Evaluation Report (PER)

The SFY 2018 EPA Program Evaluation Report (PER) included the following two recommendations:

- That MDE fill the positions of MWQFA Director and Program Administrator, vacant since September 30, 2017, with permanent replacements. *Both positions have been filled with permanent replacements.*
- That MDE expedite loans that are receiving additional subsidy; per EPA's 2013 memorandum, there is an expectation that the additional subsidy should be in executed loans within two years of the additional subsidy authority becoming available. *MDE works closely with borrowers to keep projects moving forward in as timely a manner as possible; however, some delays are inevitable, the causes of which are often beyond our control. Anticipated closing timeframes for projects with additional subsidy from FFY17 and earlier are provided in Table 1.*

E. Provisions of the Operating Agreement

The MWQFA has complied with the provisions of the Capitalization Grant Operating Agreement between EPA and MDE, amended as of April 2014, and February 2016. The EPA, during their annual WQSRF Program Evaluation, will have an opportunity to review the project files and financial reports to affirm compliance with the Operating Agreement and Capitalization Grant Agreements.

F. Clean Water Benefit Reporting (CBR) & National Information Management System (NIMS) Database

The CBR and NIMS databases have been updated for all WQSRF projects financed during SFY 2019. The database reports are being incorporated here by reference and are not included as a hard copy in this annual report. Below are examples of environmental benefits provided by some of the WQSRF projects financed during SFY 2019:

Back River Headworks Improvement SC-918H: MWQFA is phase-funding this project, which is cost-shared by Baltimore City and Baltimore County. This is the second of two contracts to

construct a new headworks facility at Baltimore City's Back River Wastewater Treatment Plant. This contract includes construction of a new influent pump station, screening facilities, emergency storage tanks, grit removal facilities, odor control system, and other related work. The overall project will provide wet weather equalization to protect the plant treatment processes and relieve hydraulic restrictions to reduce backups and sanitary sewer overflows in the collection system. This project is part of Baltimore City's improvements to comply with the Consent Decree.

“ **Westminster Wastewater Treatment Plant (WWTP) Enhanced Nutrient Removal (ENR)**

Upgrade: This project entails the planning, design, and construction of Enhanced Nutrient Removal & Biosolids Upgrades at the Westminster Wastewater Treatment Plant at an existing capacity of 5.0 million gallons per day. This will allow the plant to produce effluent with a Total Nitrogen goal of 3.0 mg/L and a Total Phosphorus of 0.3 mg/L. The purpose of the project is to reduce nutrients to the Chesapeake Bay. Additionally, this project includes a Septage Receiving Facility upgrade and the installation of a Geothermal System to provide energy savings.

Piscataway WWTP Bio-Energy Project, Loan 1: This project involves the design and construction of bio-energy facilities at the existing site of the WSSC Piscataway WWTP in Prince George's County to receive sludge from the other WSSC wastewater treatment plants. The project will include a high-temperature thermal hydrolysis solids treatment process to precondition sludge prior to anaerobic digestion, anaerobic digestion facilities, and facilities to provide a dewatered Class A Biosolids. In addition, a combined heat and power facility will be constructed to capture the biogas from the digesters to be used for the production of steam and electrical power for the plant. Odor control, process water treatment, generators, and boilers are also included in the project. The anticipated project outcomes are: production of Class A Biosolids for beneficial uses, recovery of renewable energy from biomass and reduction in energy, chemical and sludge disposal costs.

II. GOALS AND ACCOMPLISHMENTS

The key goals identified in the prior year Intended Use Plans and the achievements towards these goals during SFY 2019 are summarized below:

- To utilize the total financial resources of the fund by providing low interest loan financing and grant/loan forgiveness, while maintaining a perpetual source of capital funds for future water quality capital projects.

During SFY 2019, the WQSRF awarded \$225,777,737 in net new financing (excluding LD), which included \$220,962,975 in loans and \$4,814,762 in grants/loan forgiveness. The loans were at a weighted average interest rate of 0.80% for 30-year term. Including LD bank loans (5 in FY 2019) and adjusting for prior year project closeout of \$2,439,286 in reversions, the net amount of WQSRF financing recorded in NIMS database for FY 2019 is \$227,986,670. Based on cumulative sources and uses of WQSRF funds as of June 30, 2019, the financing utilization rate is 100.32%. As of June 30, 2019, after accounting for cumulative grant/loan forgiveness disbursement of over \$87.8 million, the total of all WQSRF funds had retained earnings of \$296.6 million.

Additional subsidy in the form of grant/loan forgiveness is provided to disadvantaged communities (DAC), not to exceed the cumulative federal statutory limit applicable to each federal grant for both green and other projects. The DAC criteria is detailed in the annual IUP.

- To implement the Department's Smart Growth, Priority Places and Environmental Benefit District (EBD) goals:

During FY 2019, all projects funded were consistent with the State's Priority Funding Area (PFA) requirements.

- To provide low-cost financing to local governments, in tandem with the Maryland Bay Restoration Fund (BRF) Wastewater Program (formerly the Biological and Enhanced Nutrient Removal (BNR & ENR) Grant Programs), to upgrade targeted wastewater treatment facilities with advanced treatment to meet the load reductions required by the Chesapeake Bay Watershed Implementation Plan (WIP):

In Maryland, a major State initiative is to continue reducing nutrient loading to the Chesapeake Bay through agreements between the EPA; the States of Maryland, Virginia, and Pennsylvania; the District of Columbia; and the Chesapeake Bay Commission. The State of Maryland, to meet its nutrient load cap under the Chesapeake Bay TMDL, has targeted 67 major WWTPs for the construction of BNR/ENR facilities and is now upgrading minor WWTPs as well. For BNR upgrades (TN reduction from 18 mg/l to 8 mg/l), the State provided grants up to 50% of eligible capital costs and low interest WQSRF loans for the balance of project costs. For ENR upgrades, the State provides grants up to 100% of eligible ENR capital costs from the Maryland BRF Wastewater Program and low interest WQSRF loans for the balance of non-ENR related project costs. During SFY 2019, the MWQFA provided WQSRF direct gross financing to four for BNR/ENR projects: Denton WWTP ENR Refinement Upgrades; Westminster ENR Upgrade; Preston WWTP ENR Upgrade; and Gas House Pike WWTP ENR Upgrade.

- To provide low-cost financing for water quality projects that: (1) benefit the priority watersheds under the Maryland WIP strategy; (2) address Combined Sewer Overflows and Sanitary Sewer Overflows; (3) address water quality problems resulting from non-compliance with NPDES permits or public health problems associated with failing septic systems, and upgrade aging water quality infrastructure; and, (4) address nonpoint source of pollution and/or green infrastructure projects.

During SFY 2019, all of the \$228.2 million in direct gross WQSRF financing was to treatment works projects, with no funding for non-treatment works projects. Of the above, no financing was awarded to green projects. The above does not include any nonpoint source LD bank loan projects (5 in 2019).

Projects on the IUP are selected in priority order based on readiness to construct, except for meeting the green reserve requirements, if applicable.

- To ensure facilities are constructed and maintained at a reasonable cost for the users of the system, and continue coordination of State grant programs with other Federal/State financial assistance programs.

During SFY 2019, WQSRF awarded approximately \$4.8 million in additional subsidy (grant/loan forgiveness) to Disadvantaged Communities. MDE WQSRF and State grant programs (FY 2019 grant budget \$85 million) did not co-fund projects with the U.S. Department of Agriculture (USDA) this year. During SFY 2019, the MWQFA continued to use its financial model to assist communities in developing affordable user rates and in determining disadvantaged community status. This process involved meeting with communities to discuss how best to fund needed projects.