



**MARYLAND DEPARTMENT OF THE ENVIRONMENT
DRINKING WATER REVOLVING LOAN FUND PROGRAM**

**FINAL
FEDERAL FISCAL YEAR 2014
INTENDED USE PLAN**

JUNE 26, 2014



Prepared By

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

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MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND WATER QUALITY FINANCING ADMINISTRATION

FINAL

**Federal Fiscal Year 2014 Intended Use Plan
Maryland Drinking Water Revolving Loan Fund**

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MARYLAND WATER QUALITY FINANCING ADMINISTRATION
FINAL
Federal Fiscal Year 2014 Intended Use Plan
Maryland Drinking Water Revolving Loan Fund**

EXECUTIVE SUMMARY

The Intended Use Plan (IUP) is the document that the Maryland Water Quality Financing Administration (MWQFA) will submit to the United States Environmental Protection Agency (USEPA) to request the Federal Fiscal Year (FFY) 2014 Capitalization Grant under the Safe Drinking Water Act (SDWA), to be matched with 20% of State bond/general funds, for financing of capital projects from the Maryland Drinking Water Revolving Loan Fund (DWRLF or DWSRF). The Maryland DWSRF was established by amendments to the Maryland Water Quality Financing Administration Act, Title 9, Subtitle 16 of the Environment Article, Annotated Code of Maryland, to provide below market interest rate loans and other subsidies to local governments and eligible private entities for certain eligible drinking water capital improvement projects.

During FFY 2014, Maryland is eligible to receive \$15,012,000 in Federal Capitalization Grant, which may be used for Capital Projects (Project Funds) and for Set-Asides (Non-Project Funds). Under this IUP, Federal Capitalization Grant funds of \$10,958,760 or 73% is being allocated towards Drinking Water capital projects and the balance of \$4,053,240 or 27% is being allocated for set-aside activities. The Federal project funds combined with a 20% State general fund/GO bond match, plus loan repayments/investment earnings will be used to provide low interest loans and other financial subsidies for eligible DWSRF capital improvements, totaling \$24,000,000.

The Maryland Department of the Environment (MDE) Water Management Administration will be providing US EPA a separate work plan for the use of the three programmatic set-asides (2%, 10%, 15%) totaling \$4,053,240 in July 2014.

Figure 1, shows a summary of the Sources and Uses of funds under the FFY 2014 IUP.

Figure 1

Sources:		Uses: FFY 2014 Appropriation	
Federal Cap Grant	\$ 15,012,000	Set-Asides (Non Project Funds)	
		Technical Assistance (up to 2%)	\$ 300,240
		DWSRF Admin. Expenses (up to 4%)	\$ -
		Drinking Water Prog. Suprt (up to 10%)	\$ 1,501,200
		Local Assist/State Activities (up to 15%)	\$ 2,251,800
		Subtotal	\$ 4,053,240
State Match (@ 20%)	\$ 3,002,400	DWSRF Capital Projects Loans and Grants	\$ 24,000,000
Est. Repayments	\$ 10,038,840		
Total	\$ 28,053,240	Total	\$ 28,053,240

Capital Project Selection

To provide applicants an opportunity to seek DWSRF funding, Financial Assistance Applications for drinking water (drinking water, source, treatment, storage and distribution, green infrastructure, water or energy efficiency and environmental innovation) capital projects were accepted by MWQFA from December 1, 2013 through January 31, 2014. Table 1 on this IUP shows the proposed list of capital projects including “green” projects for inclusion on the FFY 2014 IUP for DWSRF financial assistance. These projects were selected from the Project Priority List (PPL) based on their: (1) public health, compliance, sustainability benefits, reliability and affordability benefits per the project priority ranking/scoring criteria; (2) compliance with technical, managerial, and preliminary financial capacity; and (3) readiness to proceed to construction by December 31, 2015. 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 detailed financial capacity/credit analysis by the MWQFA.

Capital Projects (Project Funds): A total of \$24,000,000 is available for Drinking Water capital projects identified in Table 1. The DWSRF loan terms are outlined below:

Current Interest Rate*	Standard Rate = 50% of Market Rate Disadvantaged Community (DAC) Rate = 25% of Market (Market Interest Rate is defined as the average of the Bond Buyer 11-Bond Index for the month preceding the loan closing). * MDE, by policy, can change the SRF loan interest rate at any time. Interest rates are posted on the MWQFA web site.
Loan Term	Up to 20 Years (up to 30 years for DACs)
Loan Origination Fee	None
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. The administrative fee is used to help meet program operating expenses. These funds are in addition to any funds provided for DWSRF program expenses from the Federal Capitalization Grant (4% set-aside).

Set-Asides (Non-Project Funds): A total of up to \$4,053,240 is being allocated for the three drinking water program set-aside activities. The use of set-aside funds is specifically identified in Section 1452 of the SDWA. The set-aside funds are targeted for use by the State for implementation of the primacy and administrative related activities. The MWQFA is not requesting any 4% set-aside funds in the FFY 2014 IUP as sufficient funding is available from prior year grant awards to cover the administrative expenses associated with the DWSRF program.

1. Technical Assistance to Small Systems (up to 2%)

The funds allotted for Technical Assistance for Small Systems (water systems serving 10,000 population or fewer) are up to 2% of the FFY 2014 Capitalization Grant totaling \$300,240. These funds will be used for the MDE Water Supply Program activities (on-site technical assistance) and for contracts with organizations with expertise in dealing with small systems such as Maryland Rural Water Association and the Maryland Center for Environmental Training (MCET) for continuation of the Circuit Rider program.

2. Drinking Water Program Funds (up to 10%)

The funds allotted for the Drinking Water Program Funds are up to 10% of the FFY 2014 Capitalization Grant totaling \$1,501,200. These funds will be used to fund additional program requirements under the SDWA, such as reporting, monitoring and enforcement. The funds will also be used to administer/provide technical assistance for source water protection, develop/implement the capacity development strategy and the operator certification program. In addition, the funds will be used to continue executing Delegation Agreements with 20 counties in Maryland for the regulation of SDWA activities of transient non-community water systems within their jurisdiction. This fund requires a 1:1 State match outside of the 20% State match to the Capitalization Grant (Details to be provided with the Set-asides Work Plan).

3. Local Assistance and Other State Projects (up to 15%)

The funds allotted for the Local Assistance and Other State Projects are up to 15% of the Capitalization Grant or \$2,251,800. These funds will be used to provide technical and financial assistance to water systems for capacity development and wellhead protection; additionally, if there is demand, funds can be allocated for SDWA Section 1452(k) loans for land acquisition/conservation easements for source water protection for which the funding details will be provided in the set-aside work plan. The proposed loan terms for SDWA Section 1452(k) loans will be:

Interest Rate:	0%	Loan Term:	Up to 20 years	Loan Origination/Admin. Fee:	None
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All prior year 1452(k) loan repayments and interest earnings currently being received are being transferred into the DWSRF capital fund and made available for DWSRF capital activities, unless these funds are needed to make new 1452(k) loans.

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A. Sources and Uses of Funds

A comprehensive summary of DWSRF Sources and Uses of Funds are as follows:

Sources:	Thru 2013 IUP		2014 IUP (\$ Million)	
Federal Capitalization Grants	\$ 194,046,706	a	\$ 15,012,000	d
State Match	\$ 38,849,000	b	\$ 3,002,400	
Federal Stimulus ARRA Grant 08 IUP	\$ 26,832,000	c		
Funds Transferred from Water Quality SRF	\$ 10,634,580			
Investment Earnings thru SFY 2013	\$ 8,299,727			
Loan Interest Repayments thru FY 2013	\$ 13,676,462			
Loan Principal Repayments thru SFY 2013	\$ 46,200,347			
Subtotal	\$ 338,538,822		\$ 18,014,400	
Estimated Loan Principal (SFYs 14 & 15)	\$ 14,200,000			
Estimated Loan Interest (SFYs 14)	\$ 1,500,000			
Investment Earnings (SFYs 14 & 15)	\$ 730,000			
Estimated Loan Principal (SFYs 16)	\$ -		\$ 7,500,000	
Estimated Loan Interest (SFYs 15 & 16)			\$ 3,000,000	
Investment Earnings (SFY 16)			\$ 400,000	
Total	\$ 354,968,822		\$ 28,914,400	
Uses:				
Loan/Grants Agreements Entered (6/30/13)	\$ 277,794,673			
Projects on IUPs with loans pending	\$ 10,000,000		\$ 24,000,000	
SFY 14 Loan Agreements Entered (5/15/2014)	\$ 13,844,882			
Stimulus Administrative Expenses	\$ 400,000			
Federal Funds for Set asides	\$ 52,877,979		\$ 4,053,240	
Total	\$ 354,917,534		\$ 28,053,240	

^a Total federal appropriation through FFY 2013 Capitalization Grant excluding ARRA

^b State General Fund or GO Bond Match thru FFY 2013 IUP

^c Funds Transferred from Water Quality SRF to DWSRF (prior years)

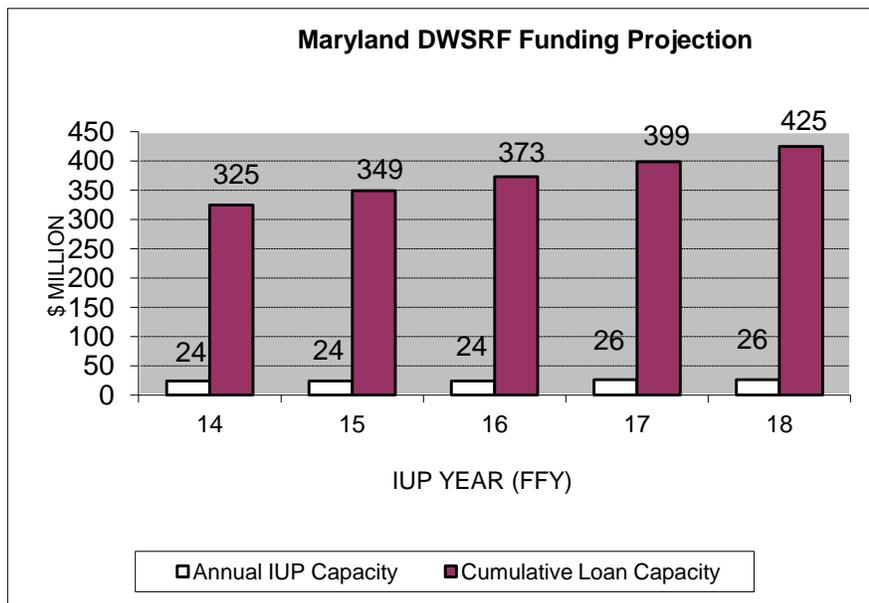
^d State General Fund/GO bond Match to FFY 2014 Capitalization Grant will be available July 1, 2015.

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 90% or greater. This is one Program Activity Measure (PAM) under USEPA's strategic plan for the DWSRF. For FFY 2014, MWQFA is projecting a DWSRF fund utilization rate of 95%. The DWSRF could finance approximately \$124 million in additional loans [excluding revenue bond leveraging from capitalization grants (not including 31% allocated toward set-asides annually), State match, repayments, and investment earnings between FFY 2014 and FFY 2018 IUPs - see graph below]. This is in addition to the \$301 million capacity on existing IUPs (1997 – 2013). This analysis takes into account stimulus funds, existing and anticipated investment earnings, and loan repayments, and assumes Maryland's annual Federal Capitalization Grant of ~\$15 million per year. The cumulative loan capacity of the DWSRF is projected to reach \$425 million by FFY 2018.



- 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 DAC Criteria provides additional subsidies, including grants and 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 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/FFY2014 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 2014 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.

Applicants that have full cost pricing (revenue generated for replacement cost/depreciation recovery) in their water user rates are awarded sustainability points on the project rating system. Similarly, projects that support other 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.

- Green Infrastructure, Water and Energy Efficiency and Environmental Innovation Projects - The State of Maryland has made a concerted effort to actively solicit “green” projects to be included in the FFY 2014 IUP. The FFY 2014 PPL includes eight “green” projects totaling \$5,881,610, only one of which (Piney Point (rank 13/76 points)) ranked high enough to be included in the FFY 2014 IUP.
- Additional Subsidization and Eligible Recipients - The FFY 2014 federal appropriation act specifies the DWSRF provide additional subsidies (e.g., loan principal forgiveness, grants) in the amount no less than 20% of the Capitalization grant and no more than 30% of 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. DAC projects are eligible to receive up to 50% of the DWSRF financing as grant or loan-principal forgiveness, not to exceed \$1.5 million per project and/or applicant. The DAC eligibility criteria is as follows:
 1. Water 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

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-forgiveness not to exceed \$1.5 million, 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. Note: No project on the FINAL FFY 2014 IUP is identified for additional subsidy under this section.

SET ASIDES

The MDE Water Management Administration will be providing EPA a separate work plan by July 2014, for the use of the three programmatic set-asides (2%, 10%, 15%) totaling \$4,053,240. This work plan will include the set-aside goals and details on how these funds will be used. The purpose of the different set-asides is outlined in the Executive Summary.

C. Project Selection and Fund Activities under the FFY 2014 IUP

Financial Assistance Applications for drinking water projects were solicited by MWQFA in December 2013 through January 2014 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 2014 and State FY 2016 Drinking Water Funds (Appendix A). The PPL was used to select projects for the FFY 2014 IUP, based on their priority ranking, applicant’s interest in DWSRF loan, and readiness to proceed to construction by December 2015 (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 2014 IUP includes \$24,000,000 in project funding. Below is a summary of the sources and uses of funds.

Sources:		Uses: FFY 2014 Appropriation	
Federal Cap Grant	\$ 15,012,000	Set-Asides (Non Project Funds)	
		Technical Assistance (up to 2%)	\$ 300,240
		DWSRF Admin. Expenses (up to 4%)	\$ -
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Est. Repayments	\$ 10,038,840		
Total	\$ 28,053,240	Total	\$ 28,053,240

Capital Projects (Project Funds)

Table 1 shows funding for DWSRF projects totaling \$24,000,000. 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 \$6,831,035 (28%) 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 FINAL FFY 2014 IUP identifies 38% for distribution, 6% for source water protection and 56% finished water storage.

Subsidies for Disadvantaged Communities: The FFY 2014 appropriation act specifies that no less than 20% of the Federal Capitalization Grant (or \$3,002,400) and no more than 30% (up to \$4,503,600) may be used to provide additional subsidies in the form of loan principal forgiveness or grants 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, up to 30-year loan term, principal forgiveness) is determined based on the DAC Criteria described in Section B-2, above. The FFY 2014 IUP (Table 1) identifies \$3,225,000 or 21% of the capitalization grant in additional subsidies in the form of grant/loan forgiveness.

Program Income (Non Federal)

The MWQFA 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 shown above. The details related to the program income revenue and expenses are provided each year in the annual report. During State FY 2014, MWQFA estimates the fee revenues to be ~\$425,000.

D. Project Scope and Public Health Benefits – FFY 2014 IUP Projects

The following are examples of the type of projects selected for financial assistance in the FFY2014 IUP.

- The Chesapeake Heights/Dares Beach Arsenic Treatment Project (Rank 5/95 points) in Calvert County involves the construction of a new production well in the Patapsco Aquifer and consolidation of the Chesapeake Heights and Dares Beach Water System through a system interconnection and rehabilitation of the existing water system in the Chesapeake Heights Subdivision. The existing Dares Beach and Chesapeake Heights drinking water systems supply groundwater pumped from one active production well in each subdivision, both of which have elevated levels of arsenic. This project will ensure continual compliance with the federal Safe Drinking Water Act maximum contaminant level for Arsenic (10 parts per billion) and provide safe drinking water to 475 homes.
- The Town of Williamsport Phase II Water Improvements Project (Rank 11/80 points) in Washington County involves the construction/replacement of 19,000 linear feet of ¾" water lines, 350 yokes (meter setters), and 775 antennas for remote meter reading. The Town of Williamsport has aging galvanized service lines which need to be replaced to reduce water loss and severe drops in pressure. In addition, approximately 350 yokes manufactured around 1918 are inoperable and without replacement parts. Replacing the yokes and

antennas will improve meter reading capabilities and improve system reliability. This project will ensure safe and adequate drinking water to 856 homes.

- The Druid Lake Tanks WC-1204 Project (Rank 16/73 points) in Baltimore City will involve the construction of an underground water tank to replace the existing open surface finished water reservoir in the Druid Lake area of Baltimore City. The City is required to cover or abandon its uncovered finished water reservoirs under the provision of the Long Term 2 Enhanced Surface Water Treatment Rule. The City is under a Consent Decree to complete the needed repairs. The project will ensure safe and adequate drinking water to 720,000 homes.

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

The EPA and MDE have negotiated the new fair share goals for FFYs 2013, 2014, and 2015 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 17% MBE and 16% WBE for the "construction" category (total 33% M/WBE).

These goals will be applicable to all projects financed using DWSRF (loans, loan-forgiveness/grants). 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 31.36(e). Failure to meet the M/WBE goals does not preclude the use of the SRF, as long as the good faith effort 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 www.mde.state.md.us/wqfa.

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.

G. Binding Commitments/Federal Payments

The projected binding commitments/federal payments schedule is shown on Table 1.

H. Public Review of the Draft FFY 2014 IUP

Applicants that submitted Financial Assistance Applications were sent an e-mail on Friday, May 16, 2014, informing them of the availability of the Draft IUP/PPL on MDE's website. This Draft FFY 2014 IUP was the subject of a public hearing on Monday June 16, 2014 at 10:00 AM at the Maryland Department of Environment, 1800 Washington Boulevard, Baltimore, Maryland, 21230. The public hearing record was closed on June 23, 2014. The Public Hearing Responsiveness Summary is included as Appendix C of the FINAL FFY 2014 IUP, and indicates what actions MDE will take on comments submitted.