



Maryland

Department of the Environment

Larry Hogan
Governor

Boyd Rutherford
Lieutenant Governor

Ben Grumbles
Secretary

March 24th, 2021

The Honorable Paul G. Pinsky, Chair
Senate Education, Health, and Environmental Affairs Committee
2 West, Miller Senate Office Building
Annapolis, MD 21401

Re: House Bill 94 – Environment – Water Quality Revolving Loan Fund – Use of Fund

Dear Chairman Pinsky and Members of the Committee:

The Maryland Department of the Environment (MDE) has reviewed House Bill 94, entitled *Environment – Water Quality Revolving Loan Fund – Use of Fund* and would like to provide additional information regarding this bill.

This bill expands the use of guarantee authority under the Clean Water State Revolving Fund (CWSRF). Currently the state statute limits the use of guarantee authority to obligations “*issued by a local government for the purpose of financing all or a portion of a wastewater facility . . .*” The existing state statute restricts MDE from using the guarantee authority for the full range of uses permitted under federal law. House Bill 94, including the sponsor’s amendments, would align state statute with federal statute and broaden the use of guarantee authority to include any eligible project type under federal law, not just wastewater facilities.

Guarantee authority is one of the uses of funding under the CWSRF. A guarantee is a component of a financing agreement whereby a guarantor promises to meet the borrower’s obligations if it defaults on a loan. In the CWSRF a state program can guarantee a bond or other financial agreement for another entity. Due to this guarantee, the entity’s bond will adopt the credit rating of the CWSRF program which is typically AAA rated. The guarantee can be a powerful tool to lowering the interest rate of the entity receiving the guarantee. The guaranteed bond is secured by the entity’s own repayment mechanism, with the CWSRF’s cash flows as an underlying security. If the entity defaults on its debt, the CWSRF would be required to step in and cover the debt service on the bond, per the guarantee agreement. The guarantee can therefore provide the entity with a lower interest rate by offering the CWSRF’s higher credit rating. At the same time, unless the entity defaults on the bond, the CWSRF would not have to make any actual cash outlays in support of the project and the state would gain the environmental benefits of the project.

Thank you for your consideration. We will continue to monitor House Bill 94 during the Committee’s deliberations, and I am available to answer any questions you may have. Please feel free to contact me at 410-260-6301 or by email at tyler.abbott@maryland.gov.

Sincerely,

Tyler Abbott

cc: The Honorable Dana Stein