

Department of Legislative Services  
Maryland General Assembly  
2025 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 461 (Senator M. Washington)

Education, Energy, and the Environment and  
Budget and Taxation

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Environment - Maryland Water Quality Revolving Loan Fund - Renaming and  
Alterations

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This bill renames the Maryland Water Quality Revolving Loan Fund (WQRLF) to be the Maryland Water Quality *Improvement* Revolving Loan Fund (WQIRLF), expands the authorized uses of the fund, and alters the stated purpose of the fund. The bill also alters requirements related to the creation of an intended use plan for the fund by, among other things, requiring the plan to include a scoring system to evaluate applications and to review and consider certain applications that were previously denied. **The bill takes effect July 1, 2025.**

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Fiscal Summary

**State Effect:** The bill may have a significant impact on the Maryland Department of the Environment's (MDE) federal fund revenues (that capitalize the revolving loan fund) and corresponding expenditures, with resulting impacts on WQIRLF finances. Among other things, the bill may jeopardize as much as approximately \$80.0 million annually in federal grant funding beginning in FY 2026, as discussed below.

**Local Effect:** Potential significant decrease in local grant revenues and corresponding expenditures to the extent that federal funding decreases under the bill, as discussed below. Beyond the potential decrease in available funding, the bill likely results in a shift in the prioritization of funding and a corresponding shift (and potential decrease) in local grant revenues and expenditures, as discussed below.

**Small Business Effect:** Potential meaningful.

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## Analysis

### Bill Summary/Current Law:

#### *Maryland Water Infrastructure Financing Administration*

*Under current law and the bill*, the mission of MDE's Maryland Water Infrastructure Financing Administration (MWIFA) is to provide financial assistance in the form of low-interest rate loans, grant funding, and/or loan forgiveness for, among other things, clean water and drinking water capital projects across the State. MWIFA administers WQRLF (renamed WQIRLF under the bill).

#### *Maryland Water Quality Revolving Loan Fund*

*Authorized Uses and Stated Purpose:* *Under current law*, the stated purpose of WQRLF is to provide financial assistance in accordance with the provisions of Subtitle 16 of Title 9 of the Environment Article and Title VI of the Federal Water Pollution Control Act. *Under the bill*, the purpose of WQIRLF is to provide financial assistance *to preserve, maintain, and improve the water resources of the State* in accordance with Subtitle 16 of Title 9 of the Environment Article and Title VI of the Federal Water Pollution Control Act.

*Under current law*, WQRLF provides low-interest loans to public entities for wastewater and other water quality capital projects. Other assistance is provided through purchasing, guaranteeing, or refinancing debt. Authorized uses of the fund include grants, negative interest loans, forgiveness of principal, subsidized interest rates, and other forms of assistance as authorized or required by specified federal statute.

*Under the bill*, the authorized uses of WQIRLF are expanded. Specifically, the fund may be used to support projects that involve decentralized wastewater systems, stormwater management infrastructure, floodwaters, floodplains, streams, tributaries, wetlands, and technical assistance for such projects.

*Federal Funding and Intended Use Plans:* *Under current law and the bill*, the fund receives federal funding from the U.S. Environmental Protection Agency (EPA). In order to receive funding from EPA, states must fulfill certain requirements, which include establishing and submitting an intended use plan as part of the application process. An intended use plan lists proposed projects eligible for financing from EPA.

*Under current law*, in creating an intended use plan for the fund, MWIFA must prioritize (1) opportunities to provide assistance to disadvantaged communities or communities disproportionately burdened by environmental risks and harms and (2) green and blue infrastructure, with particular focus on natural areas or natural features.

*Under the bill*, in creating an intended use plan for the fund, MWIFA must *include in the plan* (1) opportunities to provide technical assistance to overburdened communities that have been disproportionately impacted by environmental harms and risks and (2) green and blue infrastructure. In addition, under the bill, MWIFA must use a scoring system that (1) evaluates applications to ensure that funding priority is given to underserved communities that are disadvantaged by one of three specified factors and (2) reviews and considers applications that were previously denied and that included projects that:

- aligned with the State’s laws and goals involving climate change, flood mitigation, and water quality;
- provided technical assistance for improving insufficient or failed infrastructure; and
- involved overburdened communities and areas with significant environmental harm.

### **State Fiscal Effect:**

#### *Potential Impact on Federal Funding and Resulting Effects on the Revolving Loan Fund*

According to MDE, some of the bill’s changes are incompatible with federal standards for the use of federal grant funding, which may jeopardize some or all of the federal funding available for the revolving loan fund. MDE anticipates receiving nearly \$80.0 million annually in federal grant revenues for the fund.

According to MDE, the federal Clean Water Act and corresponding regulations list the types of projects that may be financed using federal capitalization grant funding. MDE advises that while some of the expanded uses of the fund under the bill overlap with projects that are currently eligible under federal law, some of the expanded uses under the bill (particularly those that concern quantity of water instead of quality of water and cannot be otherwise tied to a water quality benefit or resiliency of treatment facilities) may not be eligible under the terms of the federal grant program.

MDE also notes that although the terms of the federal grant program allow for some limited set-aside funding for technical assistance, not everyone is eligible for that assistance. Funding for technical assistance is limited to eligible borrowers (*e.g.*, rural, small, and tribal treatment works) and is limited to set-aside funding – typically 2% of available funding – as compared to the broader project funding available for capital projects. Thus, establishing technical assistance as an authorized project type under State law conflicts with the federal standards and may jeopardize federal funding.

Finally, MDE notes that with regard to intended use plans and the review of applications, states are ultimately responsible for prioritizing applications and have latitude in developing scoring criteria. However, intended use plans must be reviewed by EPA prior

to finalization to ensure compliance with both legal requirements (such as funding conditions) and EPA's policy initiatives. Thus, MDE advises that the bill's changes relating to the intended use plan must be submitted to EPA for approval. To the extent the changes to the intended use plan conflict with federal eligibility requirements, EPA may not approve Maryland's plan, which may jeopardize federal funding.

Any impact on federal funding has corresponding impacts on spending from WQIRLF, which ultimately affects special fund revenues from loan repayments in future years (and corresponding special fund expenditures).

### *Operational and Other Implementation Impacts*

MDE notes that to the extent federal funding is still available and the program remains viable under the bill, MDE can generally implement the bill's changes with existing budgeted resources. However, MDE notes that depending on the intent of the requirement that the intended use plan use a scoring system that, among other things, reviews and considers applications that were previously denied, there could be additional costs. More specifically, to the extent that the bill's changes relating to the scoring system codify existing practice, which is to reevaluate any previously denied applications that are resubmitted during the normal annual review application solicitation and review process, there is no impact. On the other hand, to the extent that the bill requires MDE to actively go back through all previously denied applications to reevaluate the applications using the bill's review standards, there is a much more significant impact; in that case, MDE may require additional staff, and MDE's expenditures increase accordingly.

**Local Fiscal Effect:** Local governments are the primary recipients of financial assistance from WQIRLF under current law. Therefore, to the extent that the bill results in less federal funding for the fund, local government grant revenues and expenditures decrease correspondingly.

Beyond the availability of federal funding, to the extent that the bill results in shifts in the recipients of financial assistance from the fund, local grant revenues and expenditures are affected accordingly beginning as early as fiscal 2026. MDE advises that the bill may result in more funding going to private entities (for decentralized wastewater systems and nonpoint source projects), which would reduce the amount of funding available for local government projects. Several local governments also note that the new scoring system under the bill likely increases the administrative burden related to the application process.

**Small Business Effect:** MDE advises that some small businesses may receive funding under the bill for decentralized wastewater systems and nonpoint source projects. Private entities typically do not receive funding under current law.

## **Additional Information**

**Recent Prior Introductions:** Similar legislation has not been introduced in the last three years.

**Designated Cross File:** None.

**Information Source(s):** Maryland Environmental Service; Harford County; Maryland Association of Counties; Washington Suburban Sanitary Commission; City of Frostburg; Maryland Municipal League; Maryland Department of the Environment; U.S. Environmental Protection Agency; Department of Legislative Services

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Analysis by: Kathleen P. Kennedy

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510