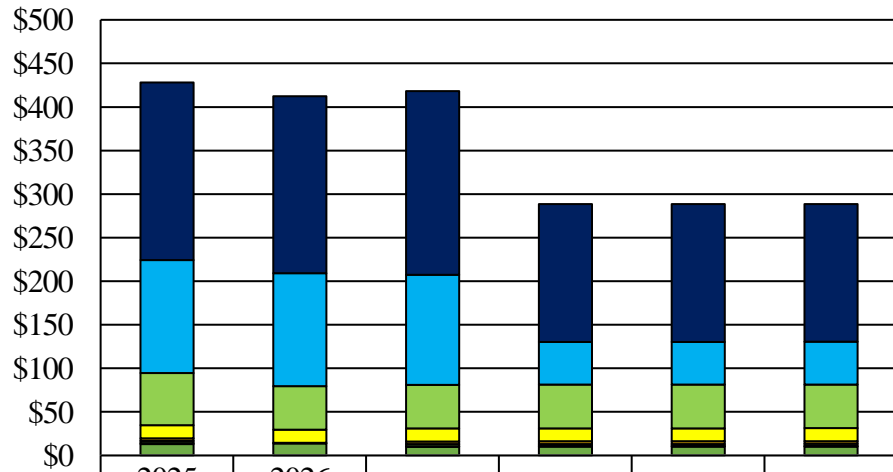


**UA01**  
**Department of the Environment – Capital**

***Capital Budget Summary***

**Grant and Loan *Capital Improvement Program***  
(\$ in Millions)



|  | 2025<br>Approp. | 2026<br>Request | 2027      | 2028      | 2029      | 2030      |
|--|-----------------|-----------------|-----------|-----------|-----------|-----------|
| Total  | \$428.280       | \$412.365       | \$418.301 | \$288.350 | \$288.350 | \$288.450 |
| ■ MD Water Quality Revolving Loan Fund       | 203.890         | 203.339         | 211.000   | 158.000   | 158.000   | 158.000   |
| ■ MD Drinking Water Revolving Loan Fund      | 129.718         | 129.534         | 126.151   | 49.100    | 49.100    | 49.100    |
| ■ Bay Restoration Fund – Wastewater Projects | 60.000          | 50.000          | 50.000    | 50.000    | 50.000    | 50.000    |
| ■ Septic System Upgrade Program              | 15.000          | 15.000          | 15.000    | 15.000    | 15.000    | 15.000    |
| ■ Supplemental Assistance Program            | 3.000           | 0.000           | 3.000     | 3.000     | 3.000     | 3.000     |
| ■ Water Supply Financial Assistance Program  | 2.614           | 0.000           | 2.500     | 2.500     | 2.500     | 2.500     |
| ■ Hazardous Substance Clean-up Program       | 1.000           | 0.625           | 0.650     | 0.750     | 0.750     | 0.850     |
| ■ Comprehensive Flood Management Program     | 13.059          | 13.867          | 10.000    | 10.000    | 10.000    | 10.000    |

For further information contact: Andrew D. Gray

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## ***Key Observations***

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- ***Infrastructure Investment and Jobs Act Funding:*** The Maryland Department of the Environment (MDE) did not receive any applications for federal Infrastructure Investment and Jobs Act (IIJA) funding in fiscal 2026 for emerging contaminants in the Water Quality Revolving Loan Fund (WQRLF) and thus did not apply for the federal funding. In addition, the only project programmed to receive federal emerging contaminants funding in fiscal 2025 was dropped from the project list. The apparent lack of demand appears to be in contradiction to the requirements of Chapters 556 and 557 of 2024, which require the development of mitigation plans for addressing polyfluoroalkyl substances (PFAS) – a class of emerging contaminants – from industrial discharge for pretreatment permits by September 1, 2025. As for the Drinking Water Revolving Loan Fund (DWRLF), Maryland’s data on lead service lines is incomplete despite the requirement to submit final statewide lead service line data in October 2024. The rapidly closing period in which federal IIJA funding is available to replace lead service lines is of particular concern.
- ***Bay Restoration Fund (BRF) Revenues Still Varying; Revenue Bond Rating Upgraded:*** BRF revenues still have not stabilized. While the majority of the inter-year variation is due to the timing of the receipt of revenues, there are still concerns about the timeliness and detail of Comptroller BRF revenue reporting. Moody’s Ratings announced on September 12, 2024, that it upgraded the rating on approximately \$140.0 million of BRF revenue bonds issued by MDE from Aa3 to Aa2.

## ***PAYGO Recommended Actions***

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1. Concur with Governor’s allowance for the Maryland Department of the Environment.

## ***GO Bond Recommended Actions***

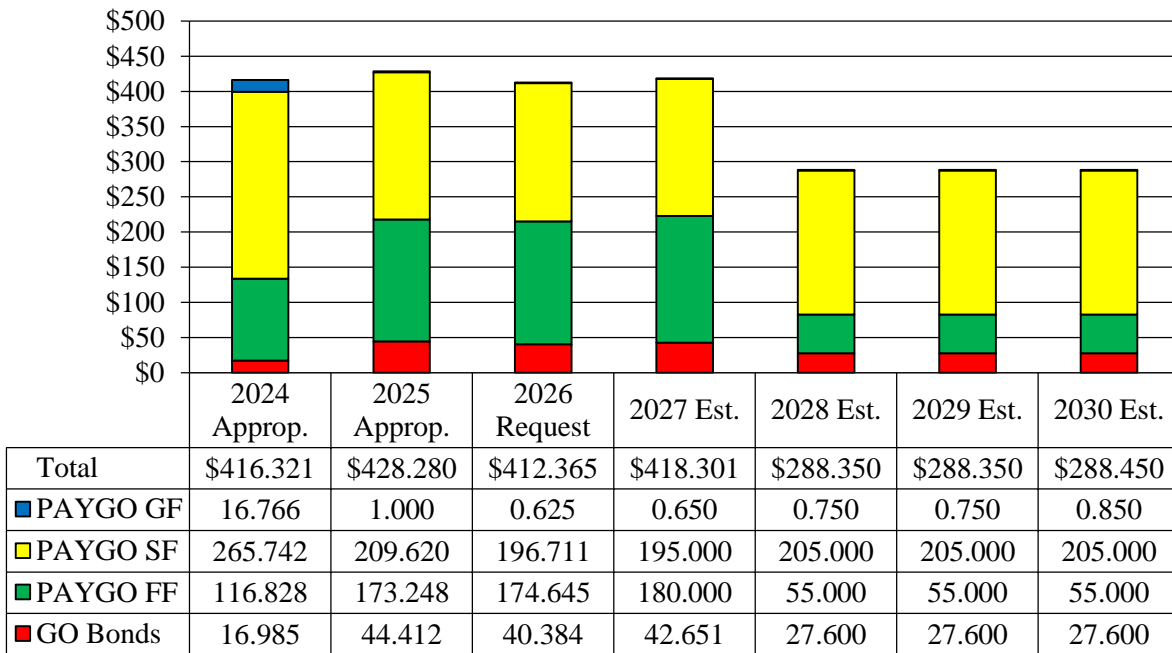
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1. Approve all authorizations for the Maryland Department of the Environment.

## Budget Overview of Grant and Loan Programs

The MDE fiscal 2026 capital program totals \$412.4 million, \$15.9 million less than fiscal 2025, and is comprised of \$0.6 million in general funds, \$196.7 million in special funds, \$174.6 million in federal funds, and \$40.4 million in general obligation (GO) bonds. As shown in **Exhibit 1**, the difference includes (1) \$12.9 million less of special funds, including \$10.0 million less for BRF – Wastewater Projects and \$2.2 million less for the WQRLF and (2) \$4.0 million less of GO bonds, including \$3.0 million less for the Supplemental Assistance Program and \$2.6 million less for the Water Supply Financing Assistance Program. This is offset partially by a net increase of \$1.4 million in federal funds, primarily due to the \$3.6 million increase for the DWRLF.

**Exhibit 1**  
**MDE Capital Programs Funding – Fiscal 2026 Request by Fund Source**  
**Fiscal 2024-2030 Est.**  
**(\$ in Millions)**



FF: federal funds  
 GF: general funds  
 GO: general obligation

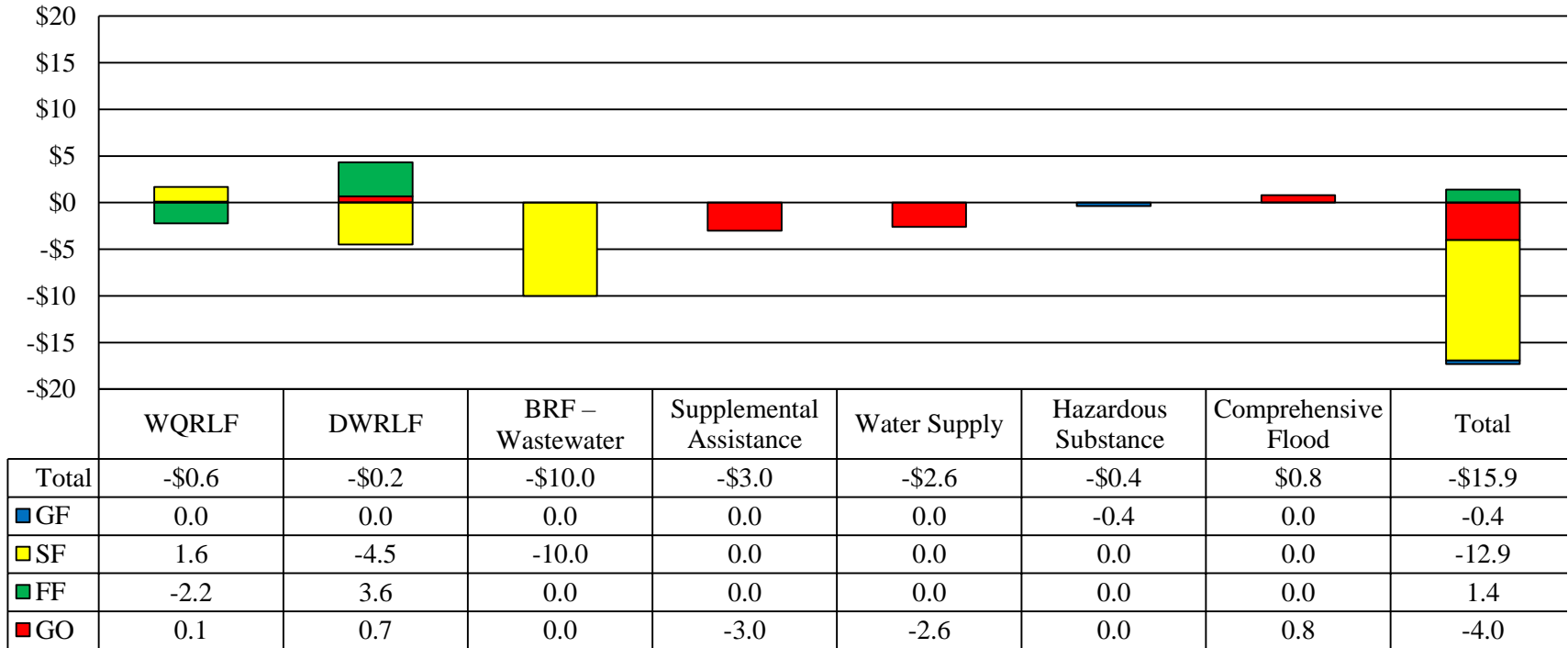
MDE: Maryland Department of the Environment  
 PAYGO: pay-as-you-go  
 SF: special funds

Note: The fiscal 2024 appropriation includes \$11.0 million for the Conowingo Dam Watershed Implementation Plan that is spent from the Dedicated Purpose Account as special funds and \$3.0 million in GO bonds for the Zero Emission Vehicle School Bus Transition Fund.

Source: Department of Budget and Management

**Exhibit 2** illustrates MDE’s capital programs with changes between fiscal 2025 and 2026. The one program that does not have a change is the Septic System Upgrade Program, which remains at \$15.0 million. The deletion of funding for the Supplemental Assistance Program and the Water Supply Financial Assistance Program reflects the availability of loan forgiveness under the WQRLF and DWRLF, respectively. The Supplemental Assistance and Water Supply Financial Assistance programs fund projects in small and sometimes disadvantaged jurisdictions. In recent years, the federal government has required a greater amount of the federal capitalization funding for the two State revolving loan funds to be used for subsidies or loan forgiveness. The Governor Wes Moore Administration decided that there was sufficient subsidy funding available through the revolving loan funds to cover the need usually addressed by the Supplemental Assistance Program and the Water Supply Financial Assistance Program and thus did not provide new funding for the programs. To the degree that MDE does not grant more loan forgiveness than is required for the federal capitalization funds, there is no long-term impact to funding, and the only in-year impact is that other projects may not receive funding. The *Capital Improvement Program* (CIP) programs a return of annual funding for both programs starting in fiscal 2027. MDE’s overall available capital funding remains at around \$415 million through fiscal 2027, and then subsequently decreases with the projected end of the IJA funding budgeted in the WQRLF and the DWRLF.

**Exhibit 2**  
**Maryland Department of the Environment Capital Funding Changes**  
**Fiscal 2025-2026**  
**(\$ in Millions)**



BRF: Bay Restoration Fund  
 DWRLF: Drinking Water Revolving Loan Fund  
 FF: federal funds  
 GF: general funds  
 GO: general obligation funds  
 SF: special funds  
 WQRLF: Water Quality Revolving Loan Fund

Source: Department of Budget and Management; Department of Legislative Services

## Water Quality Revolving Loan Fund

**Program Description:** The WQRLF was created to provide low-interest loans to counties and municipalities to finance water quality improvement projects. Projects eligible for funding include wastewater treatment plants (WWTP), failing septic systems, and nonpoint source projects, such as urban stormwater control projects.

| <b>Fund Sources:</b>    |                         |                         |                  |                  |                  |                  |
|-------------------------|-------------------------|-------------------------|------------------|------------------|------------------|------------------|
| <b>(\$ in Millions)</b> | <b>2025<br/>Approp.</b> | <b>2026<br/>Request</b> | <b>2027</b>      | <b>2028</b>      | <b>2029</b>      | <b>2030</b>      |
| <b>SF</b>               | \$109.126               | \$110.713               | \$110.000        | \$110.000        | \$110.000        | \$110.000        |
| <b>FF</b>               | 79.827                  | 77.597                  | 85.000           | 40.000           | 40.000           | 40.000           |
| <b>GO Bonds</b>         | 14.937                  | 15.029                  | 16.000           | 8.000            | 8.000            | 8.000            |
| <b>Total</b>            | <b>\$203.890</b>        | <b>\$203.339</b>        | <b>\$211.000</b> | <b>\$158.000</b> | <b>\$158.000</b> | <b>\$158.000</b> |

| <b>Fund Uses (\$ in Millions):</b>   |                      |                        |                         |                           |                                  |
|--|----------------------|------------------------|-------------------------|---------------------------|----------------------------------|
| <b>Project (Jurisdiction)</b>  | <b>Est.<br/>Cost</b> | <b>Prior<br/>Auth.</b> | <b>2026<br/>Request</b> | <b>Future<br/>Request</b> | <b>Total<br/>State<br/>Share</b> |
| Prince George’s County Clean Water Project Water Quality Projects – Phase I (Prince George’s)                | \$44.809             | \$0.000                | \$28.029                | \$0.000                   | 62.6%                            |
| Middle Branch Resiliency Initiative Stage 2 (Baltimore City)   | 178.142              | 0.000                  | 20.670                  | 0.000                     | 11.6%                            |
| Patapsco Wastewater Treatment Plant Clarifiers and Thickeners Rehabilitation (Baltimore County)              | 54.560               | 0.000                  | 18.170                  | 0.000                     | 33.3%                            |
| Ellicott City North Tunnel Extension Project (Howard)  | 199.832              | 23.500                 | 18.170                  | 0.000                     | 20.9%                            |
| Jones Falls Sewershed Inflow and Infiltration Reduction – Area A (SC-1006) (Baltimore City)                  | 30.384               | 10.376                 | 16.970                  | 0.000                     | 90.0%                            |
| Herring Run Sewershed Inflow and Infiltration Reduction – Project 01 (Baltimore City)                        | 30.139               | 10.545                 | 16.579                  | 0.000                     | 90.0%                            |
| Herring Run Sewershed Inflow and Infiltration Reduction – Area A (Baltimore City)                            | 27.095               | 8.920                  | 15.436                  | 0.000                     | 89.9%                            |
| Washington Suburban Sanitary Commission – Sewer Basin Reconstruction Program (Loan 6) (Section 9) (Regional) | 59.845               | 0.000                  | 13.170                  | 0.000                     | 22.0%                            |

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| <b>Fund Uses (\$ in Millions):</b>  |                  |                    |                     |                       |                          |
|---|------------------|--------------------|---------------------|-----------------------|--------------------------|
| <b>Project (Jurisdiction)</b>   | <b>Est. Cost</b> | <b>Prior Auth.</b> | <b>2026 Request</b> | <b>Future Request</b> | <b>Total State Share</b> |
| Patapsco Wastewater Treatment Plant Clarifiers and Thickeners Rehabilitation (Baltimore City) | 54.560           | 0.000              | 13.064              | 0.000                 | 23.9%                    |
| Remaining Projects  | 192.110          | 24.920             | 43.080              | 0.000                 | Varies                   |
| <b>Total</b>  | <b>\$871.471</b> | <b>\$78.262</b>    | <b>\$203.339</b>    | <b>\$0.000</b>        |                          |

- Changes:** The fiscal 2026 budget reflects \$7.7 million less than the amount planned for fiscal 2026 in the 2024 CIP. The decrease is primarily attributable to a reduction of \$7.4 million in available federal funds, because a portion of the national State Revolving Fund base is being used by the U.S. Congress for earmarks. The State match will be funded with GO bonds, which is programmed in the CIP to continue through fiscal 2030. The State match is \$15.0 million and is comprised of \$4.0 million for the 20% match for the base grant and \$11.0 million for the 20% match for the IIJA general supplemental funding. **Exhibit 3** shows the budgeted federal State match for MDE’s pay-as-you-go (PAYGO)/capital budget. The budget provides \$77.6 million of federal funds, of which \$55.0 million is attributable to the IIJA. These funds are comprised of \$20.1 million for the base grant, \$55.0 million for IIJA general supplemental funding, and \$2.5 million for the new Sewer Overflow and Stormwater Reuse Municipal Grants Program. The U.S. Environmental Protection Agency (EPA) announced the nationwide allocation of the \$41.0 million in Sewer Overflow and Stormwater Reuse Municipal Grants Program funding on May 9, 2024. The funding is in addition to the IIJA funding. MDE did not receive any applications for IIJA emerging contaminants funding in fiscal 2026 and thus did not apply for the available \$5.1 million in federal funding.

**Exhibit 3**  
**Water Quality Revolving Loan Fund Funding**  
**Fiscal 2026**  
**(\$ in Millions)**

|  | <u>PAYGO/Capital</u> | <u>Note</u>  |
|--|----------------------|--|
| <b>Federal</b>   |                      |  |
| Base Grant   | \$20.1               | Match requirement.                                 |
| IIJA General Supplemental                                    | 55.0                 | Match requirement. 49% required as subsidy.        |
| IIJA Emerging Contaminants                                   | 0.0                  | No match requirement.<br>100% required as subsidy. |
| Sewer Overflow and Stormwater Reuse Municipal Grants Program | 2.5                  | No match requirement.                              |
| <b>Total</b>   | <b>\$77.6</b>        |  |
| <b>State Match (GO Bonds)</b>                                |                      |  |
| Base Grant (20%)   | \$4.0                |  |
| IIJA General Supplemental (20%)                              | 11.0                 |  |
| <b>Total</b>   | <b>\$15.0</b>        |  |

GO: general obligation

IIJA: Infrastructure Investment and Jobs Act

PAYGO: pay-as-you-go

Source: Department of Budget and Management

- Encumbrances and Expenditures:** The fiscal 2024 encumbrance level of \$70.8 million reflects the second year of an improving trend for encumbrances relative to the encumbrance level in fiscal 2022. The WQRLF booked a negative encumbrance of \$8.4 million in fiscal 2022. This reflected the cancellation of \$10.7 million in previously encumbered loans and grants offset by only \$2.3 million in encumbrances for new loans and grants. In contrast, in fiscal 2020, the WQRLF encumbered \$122.5 million. In fiscal 2021, MDE encumbered \$424.5 million, which appears to be the highest encumbrance level for the program since at least fiscal 2010. The average annual encumbrance levels between fiscal 2021 and 2024 is \$134.1 million.
- Concerns:** Funding requests do not appear to be in line with emerging contaminants policy. As shown in Exhibit 3, the budget does not include any federal IIJA funding in fiscal 2026 to address emerging contaminants, such as PFAS. Last year’s analysis noted that \$5.1 million in fiscal 2025 federal IIJA funding and \$2.1 million from a fiscal 2022 federal reallocation would support a portion of the costs of the \$10.0 million Anne Arundel County Thermal Processing Demonstration Facility, which was the only project that was



allocated federal IJA funds for emerging contaminants. The Anne Arundel County project is intended to construct a demonstration biosolids facility at the Patuxent Water Reclamation Facility and to use pyrolysis/gasification technology to destroy PFAS contaminants before scaling up to a regional biosolids facility. However, the project appears to have been removed from the fiscal 2025 project list, and no projects sought funding for fiscal 2026 for emerging contaminants. In addition, Chapters 556 and 557 place additional requirements on MDE, publicly owned treatment works, and significant industrial users to address by September 1, 2025, PFAS contamination by developing mitigation plans for addressing in pretreatment permits PFAS contamination from industrial discharge. However, this requirement does not appear to have spurred any applications for federal IJA emerging contaminants funding in fiscal 2026. **MDE should comment on why the Anne Arundel County Thermal Processing Demonstration Facility was removed from the fiscal 2025 project list for federal IJA emerging contaminants funding, why no funding requests were made for fiscal 2026 despite the PFAS mitigation plan requirements in Chapters 556 and 557, the overall need for emerging contaminants funding, and the overall plan for the use of the remaining IJA emerging contaminants funding to be allocated in fiscal 2027, including whether MDE has a role in assisting local jurisdictions to apply for emerging contaminants funding.**

- **Other Comments:** The budget funds 22 projects serving 11 jurisdictions plus 3 regional projects and includes \$55 million of federal IJA funding. MDE anticipates receiving \$23.1 million through IJA to the program from fiscal 2023 through 2027.

### Drinking Water Revolving Loan Fund

**Program Description:** The DWRLF was established in accordance with a federal capitalization grant approved by the U.S. Congress in calendar 1996 in anticipation of future federal capitalization grants. This program was authorized by the General Assembly to provide loans to counties and municipalities to finance water supply improvements and upgrades. In accordance with federal law, these funds may also be loaned to private parties.

| <b>Fund Sources:</b>    |                     |                     |                  |                 |                 |                 |
|-------------------------|---------------------|---------------------|------------------|-----------------|-----------------|-----------------|
| <b>(\$ in Millions)</b> | <b>2025 Approp.</b> | <b>2026 Request</b> | <b>2027</b>      | <b>2028</b>     | <b>2029</b>     | <b>2030</b>     |
| <b>SF</b>               | \$25.495            | \$20.998            | \$20.000         | \$30.000        | \$30.000        | \$30.000        |
| <b>FF</b>               | 93.421              | 97.048              | 95.000           | 15.000          | 15.000          | 15.000          |
| <b>GO Bonds</b>         | 10.802              | 11.488              | 11.151           | 4.100           | 4.100           | 4.100           |
| <b>Total</b>            | <b>\$129.718</b>    | <b>\$129.534</b>    | <b>\$126.151</b> | <b>\$49.100</b> | <b>\$49.100</b> | <b>\$49.100</b> |

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| <b>Fund Uses (\$ in Millions):</b>   |                  |                    |                     |                       |                          |
|--|------------------|--------------------|---------------------|-----------------------|--------------------------|
| <b>Project (Jurisdiction)</b>  | <b>Est. Cost</b> | <b>Prior Auth.</b> | <b>2026 Request</b> | <b>Future Request</b> | <b>Total State Share</b> |
| Washington Suburban Sanitary Commission Lead Service Line Inventory (Regional)           | \$20.330         | \$1.080            | \$12.049            | \$0.000               | 64.6%                    |
| Furman Parkway Water Main Replacement (Prince George's)                                  | 11.508           | 0.000              | 11.508              | 0.000                 | 100.0%                   |
| Kent Village Water Main Replacement (Prince George's)                                    | 9.275            | 0.000              | 9.275               | 0.000                 | 100.0%                   |
| Larkwood Water Main Replacement (Prince George's)  | 8.927            | 0.000              | 8.927               | 0.000                 | 100.0%                   |
| Annapolis Road Transmission Water Main Replacement Phase I (Prince George's)             | 7.817            | 0.000              | 7.817               | 0.000                 | 100.0%                   |
| Princess Anne Water Supply and Treatment Improvements (Somerset)                         | 6.635            | 0.000              | 6.590               | 0.000                 | 99.3%                    |
| Manchester Water Treatment Plant Improvements (Carroll)                                  | 6.533            | 0.000              | 6.504               | 0.000                 | 99.6%                    |
| Washington Suburban Sanitary Commission Lead Service Line Replacement Program (Regional) | 45.000           | 21.107             | 6.103               | 0.000                 | 59.7%                    |
| Fruitland Water Treatment Plant Emerging Contaminants Upgrades (Wicomico)                | 5.318            | 0.000              | 5.318               | 0.000                 | 100.0%                   |
| Alexandria Drive Water Main Replacement (Prince George's)                                | 5.296            | 0.000              | 5.296               | 0.000                 | 100.0%                   |
| Weldon Drive Water Main Replacement (Prince George's)                                    | 5.019            | 0.000              | 5.019               | 0.000                 | 100.0%                   |
| Remaining Projects   | 50.775           | 2.551              | 45.128              | 0.000                 | Varies                   |
| <b>Total</b>   | <b>\$182.433</b> | <b>\$24.738</b>    | <b>\$129.534</b>    | <b>\$0.000</b>        |                          |

- Changes:** The fiscal 2026 budget provides essentially the same level of funding as fiscal 2025 but is \$3.7 million more than the amount planned for fiscal 2026 in last session's CIP. The increase is primarily attributable to \$2.4 million of additional federal funds, which is at least partially due to the reallocation of federal fiscal 2022 funding. The increased level of federal funds requires a larger State match, which accounts for the increased amount of GO bond funds. The total match funding is \$11.5 million, which is comprised of \$1.9 million for the 20% match for the base grant and \$9.6 million for the 20% match for the IJA general supplemental funding. **Exhibit 4** shows the federal funding and matching State funding for MDE's operating and PAYGO/capital budgets. The budget provides \$97.0 million in federal funds of which \$88.4 million is attributable to the IJA. These funds are comprised of \$8.6 million for the base grant, \$44.4 million for IJA general supplemental funding, \$12.6 million for IJA emerging contaminants, \$24.8 million for IJA lead service line work, \$2.1 million for small or

disadvantaged communities – emerging contaminants, and \$4.6 million in reallocated federal funds from federal fiscal 2022. The State match is calculated using the total federal funding, which includes funding in MDE’s operating budget.

**Exhibit 4**  
**Drinking Water Revolving Loan Fund Funding**  
**Fiscal 2026**  
**(\$ in Millions)**

|  | <u>Operating</u> | <u>PAYGO/<br/>Capital</u> | <u>Total</u>   | <u>Note</u>                                    |
|--|------------------|---------------------------|----------------|--|
| <b>Federal</b>   |                  |                           |                |  |
| Base Grant   | \$1.1            | \$8.6                     | \$9.7          | Match requirement.                             |
| IJA General Supplemental   | 3.3              | 44.4                      | 47.8           | Match requirement.<br>49% required as subsidy. |
| IJA Emerging Contaminants  | 0.0              | 12.6                      | 12.6           | 100% required as subsidy.                      |
| IJA Lead Service Line  | 0.0              | 24.8                      | 24.8           | 49% required as subsidy.                       |
| Small or Disadvantaged<br>Communities – Emerging<br>Contaminants | 0.0              | 2.1                       | 2.1            |  |
| Reallocated Federal Funds  | 0.0              | 4.6                       | 4.6            |  |
| <b>Total</b>   | <b>\$4.4</b>     | <b>\$97.0</b>             | <b>\$101.5</b> |  |
| <b>State Match (GO Bonds)</b>                                    |                  |                           |                |  |
| Base Grant (20%)   | \$0.0            | \$1.9                     | \$1.9          |  |
| IJA General Supplemental<br>(20%)                                | 0.0              | 9.6                       | 9.6            |  |
| <b>Total</b>   | <b>\$0.0</b>     | <b>\$11.5</b>             | <b>\$11.5</b>  |  |

GO: general obligation

IJA: Infrastructure Investment and Jobs Act

PAYGO: pay-as-you-go

Source: Department of Budget and Management

- Encumbrances and Expenditures:*** The program encumbered \$12.9 million in fiscal 2022, \$1.5 million in fiscal 2023, and \$14.7 million in fiscal 2024. In comparison, the program encumbered \$116.3 million in fiscal 2021. The average annual encumbrance level between fiscal 2021 and 2024 is \$36.4 million, primarily due to the large encumbrance level in fiscal 2021. **MDE should comment on whether the encumbrance of \$14.7 million in fiscal 2024 reflects a trend of higher encumbrance levels going forward. MDE should also comment on, in general, the project readiness to proceed for selected projects given the low encumbrance levels, whether there is any distinction between loan and**

**subsidy recipients in terms of the associated level of timely encumbrance activity, and what technical assistance or process changes that MDE or other State agencies could effectuate to help local jurisdictions encumber funding in a timely manner.**

- **Performance Measures:** The EPA *7th Drinking Water Infrastructure Needs Survey and Assessment* was reported to the U.S. Congress in September 2023. Maryland reported \$14.6 billion in drinking water infrastructure needs over the next 20 years in the following categories: distribution/transmission (\$12.8 billion); treatment (\$1.0 billion); storage (\$0.5 billion); source (\$0.3 billion); and other (\$0.1 billion). The \$14.6 billion funding need was expressed by drinking water system size as follows: large (\$12.0 billion); medium (\$1.3 billion); small (\$0.9 billion); and not-for-profit noncommunity water systems (\$0.4 billion).
- **Concerns:** Lead service line replacement is the second largest component of MDE’s fiscal 2026 federal IIJA funding. MDE’s fiscal 2025 and 2026 project lists both reflect funding for lead service line inventorying and replacement, with smaller jurisdictions appearing to be more focused on inventorying. In terms of Maryland’s need, the *7th Drinking Water Infrastructure Needs Survey and Assessment* noted that there are 8,099 services lines with lead content, 20,196 with unknown material, 1,712 that are standalone galvanized, 155,938 with no lead content, and 1,270,475 that were not reported per Maryland survey information. Maryland was not alone in having a large unreported inventory service line material inventory. Therefore, the states were offered an opportunity to provide more service line data in fall 2023 and were required to submit a complete inventory in October 2024. It is concerning that the October 2024 deadline has passed and jurisdictions, particularly smaller jurisdictions but also the Washington Suburban Sanitary Commission, with its \$12.0 million authorization, are still requested for lead service line inventorying as opposed to funding for lead service line removal. The period of federal IIJA funding is rapidly ending, and Maryland still does not appear to have a good understanding of its lead service line inventory and the overall scope of the problem. For instance, on October 15, 2024, Baltimore County and Baltimore City submitted their initial lead service line inventory to MDE. The inventory reflected that approximately 5,700 self-reporting surveys were completed in Baltimore County and 4,600 self-reporting surveys in Baltimore City, which left 120,054 remaining service lines of unknown material in Baltimore County and 215,666 remaining service lines in Baltimore City. **MDE should comment on the outcome of the statewide lead service line survey required by EPA by October 2024, the overall status of lead service line inventorying in Maryland, and the public health repercussions if Maryland is not able to take full advantage of the time-limited federal IIJA funding for replacing lead service lines.**
- **Other Comments:** The budget funds 53 projects serving 18 jurisdictions plus 2 regional projects and includes \$88.4 million of federal IIJA funding. MDE anticipates receiving \$295.1 million through the IIJA to the program from fiscal 2023 through 2027.

## Bay Restoration Fund – Wastewater Projects

**Program Description:** The BRF (Chapter 428 of 2004) was created to address the significant decline in Chesapeake Bay water quality due to overenrichment of nutrients, such as phosphorus and nitrogen. This dedicated fund, financed in large part by WWTP users, initially was used to provide grants to local governments to upgrade Maryland’s 67 major WWTPs with enhanced nutrient removal (ENR) technology. This was part of the effort to reduce an additional 7.5 million pounds of nitrogen per year to reach Maryland’s commitment under the Total Maximum Daily Load (TMDL) as implemented by the Watershed Implementation Plan (WIP). The BRF is one of the specified sources for the Whole Watershed Fund supporting the Whole Watershed Restoration Partnership, established by Chapters 558 and 559 of 2024 (Whole Watershed Act).

| <b>Fund Sources:</b>    |                         |                         |                 |                 |                 |                 |
|-------------------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>(\$ in Millions)</b> | <b>2025<br/>Approp.</b> | <b>2026<br/>Request</b> | <b>2027</b>     | <b>2028</b>     | <b>2029</b>     | <b>2030</b>     |
| <b>SF</b>               | \$60.000                | \$50.000                | \$50.000        | \$50.000        | \$50.000        | \$50.000        |
| <b>Total</b>            | <b>\$60.000</b>         | <b>\$50.000</b>         | <b>\$50.000</b> | <b>\$50.000</b> | <b>\$50.000</b> | <b>\$50.000</b> |

| <b>Fund Uses (\$ in Millions):</b>  |                      |                        |                         |                           |                                  |  |
|---|----------------------|------------------------|-------------------------|---------------------------|----------------------------------|--|
| <b>Project (Jurisdiction)</b>   | <b>Est.<br/>Cost</b> | <b>Prior<br/>Auth.</b> | <b>2026<br/>Request</b> | <b>Future<br/>Request</b> | <b>Total<br/>State<br/>Share</b> |  |
| Middletown Wastewater Treatment Plant Enhanced Nutrient Removal Upgrade (Frederick) | \$39.299             | \$0.050                | \$29.424                | \$0.000                   | 75.0%                            |  |
| Middle Branch Resiliency Initiative State 2 (Baltimore City)                        | 178.142              | 0.000                  | 10.000                  | 0.000                     | 5.6%                             |  |
| Whole Watershed Act Implementation (Statewide)                                      | 5.000                | 0.000                  | 5.000                   | 0.000                     | 100.0%                           |  |
| Funkstown Wastewater Treatment Plant Enhanced Nutrient Removal Upgrade (Washington) | 2.894                | 0.000                  | 2.650                   | 0.000                     | 91.6%                            |  |
| Trappe Wastewater Treatment Plant Enhanced Nutrient Removal Upgrade (Talbot)        | 13.613               | 8.783                  | 1.652                   | 0.000                     | 76.6%                            |  |
| Remaining Projects  | 5.404                | 0.000                  | 1.274                   | 0.000                     | Varies                           |  |
| <b>Total</b>  | <b>\$244.352</b>     | <b>\$8.832</b>         | <b>\$50.000</b>         | <b>\$0.000</b>            |                                  |  |

- Changes:** The 2024 CIP included \$20.0 million in GO bond funding each year from fiscal 2027 through 2029. The 2025 CIP does not include this GO bond funding due to the projected cash flow needs of projects but otherwise maintains the \$50.0 million special fund appropriation through fiscal 2030. Of note, the Bay Restoration Fee sunsets to half its current rate, effectively from \$60 per household to \$30 per household, beginning July 1, 2030. Of the \$50.0 million appropriation, \$5.0 million is allocated for

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implementation of the Whole Watershed Act in fiscal 2026, which appears to be a permanent addition to the list of BRF uses.

- ***Encumbrances and Expenditures:*** The BRF unencumbered and unexpended funding levels have decreased substantially since last year’s analysis as follows: (1) 2024 session – \$109.1 million to be encumbered and \$242.9 million to be expended from before fiscal 2022; and (2) 2025 session – no funding to be encumbered or expended before fiscal 2022. The reduction is related to the accounting for the BRF revenue bonds. A total of \$590.0 million in revenue bonds have been authorized and previously were reflected in MDE’s fund summary, but only \$330.0 million in revenue bonds has been issued. The 2025 session data reflects the removal of the \$260.0 million in unused revenue bond authorization. The fiscal 2025 spending plan reflects \$31.5 million in beginning balance from fiscal 2024; \$171.6 million in revenues, which presumably includes the \$60.0 million fiscal 2025 appropriation and \$111.6 million from some indeterminate source; and the encumbering of \$203.1 million. The planned \$203.1 million encumbrance level in fiscal 2025 would be higher than even the \$117.9 million encumbrance high water mark in fiscal 2019 and is much higher than the average annual encumbrance level of \$33.4 million between fiscal 2021 and 2024. As a result, the fiscal 2025 spending plan leaves an unrealistic \$0 balance for fiscal 2026.
- ***Projects Selected:*** The fiscal 2026 budget includes funding for seven projects in five jurisdictions and two statewide projects. The projects are broken down into the following categories: three minor WWTPs related to upgrades to ENR technology; three septic system connections to WWTPs; one flood management project (Middle Branch Resiliency Project – Stage 2); and the two statewide projects – planning for cost-effective upgrade of minor WWTPs and Whole Watershed Act implementation.
- ***Performance Measures:*** Of the 67 major WWTPs, 66 have been upgraded to ENR technology and are in operation; the Princess Anne WWTP is in the planning phase. MDE has noted that there are more than 300 minor WWTPs that are eligible for funding, and of these 300, a total of 80 minor facilities may meet the cost-effectiveness criteria and could be upgraded if they apply. Of the 80 minor facilities that may meet the cost-effectiveness criteria, 35 minor plants have signed the funding agreement and started the process. Of these 35 minor plants, 16 are in planning or design, 3 are under construction, and 16 have completed the upgrade. In addition, 2 more minor WWTPs were upgraded using other fund sources. MDE has noted that it anticipates more applications in the future due to continued interest and treatment technology advances that are increasing the cost effectiveness of these upgrades.
- ***Concerns:*** BRF revenues still have not stabilized. While the majority of the inter-year variation is due to the timing of the receipt of revenues, there are still concerns about the timeliness and detail of Comptroller BRF revenue reporting. **MDE should comment on the status of efforts to improve the timeliness and detail of Comptroller BRF revenue reporting.**

- **Other Comments:** Moody’s Ratings announced on September 12, 2024, that they upgraded the rating on approximately \$140.0 million of BRF revenue bonds issued by MDE from Aa3 to Aa2. MDE is no longer considering issuing \$100.0 million in new revenue bonds.

### Bay Restoration Fund – Septic System Projects

**Program Description:** The BRF includes a separate program to fund the replacement of failing septic systems. This program is funded as part of the BRF legislation by a fee on users of septic systems and sewage holding tanks, of which 60% of the revenue is allocated to MDE for the Septic System Upgrade Program and 40% to the Maryland Department of Agriculture (MDA) for the Cover Crop Program.

| <b>Fund Sources:</b>    |                     |                     |                 |                 |                 |                 |
|-------------------------|---------------------|---------------------|-----------------|-----------------|-----------------|-----------------|
| <b>(\$ in Millions)</b> | <b>2025 Approp.</b> | <b>2026 Request</b> | <b>2027</b>     | <b>2028</b>     | <b>2029</b>     | <b>2030</b>     |
| <b>SF</b>               | \$15.000            | \$15.000            | \$15.000        | \$15.000        | \$15.000        | \$15.000        |
| <b>Total</b>            | <b>\$15.000</b>     | <b>\$15.000</b>     | <b>\$15.000</b> | <b>\$15.000</b> | <b>\$15.000</b> | <b>\$15.000</b> |

- **Encumbrances and Expenditures:** The program encumbers and expends funding efficiently – only \$7.6 million remains to be expended from fiscal 2024. The program’s annual average encumbrance rate is \$15.1 million between fiscal 2021 and 2024. The fiscal 2025 spending plan reflects a \$0 opening balance from fiscal 2024, the \$15.0 million appropriation for fiscal 2025, and the encumbrance of the entire \$15.0 million in fiscal 2025, leaving a \$0 unencumbered balance for fiscal 2026.
- **Performance Measures:** As of June 30, 2024, the program had funded 16,315 best available technology (BAT) upgrades, of which 9,959 were completed within Maryland’s Critical Areas – all land within 1,000 feet of the landward edge of tidal waters and tidal wetlands – and helped connect 1,646 homes to public sewers.
- **Other Comments:** The fiscal 2026 budget provides for approximately 1,000 septic system upgrades. For comparison purposes, there are approximately 420,000 onsite septic systems in Maryland. There is also \$1.5 million in MDE’s operating budget that is programmed by Chapter 379 of 2014. Chapter 379 requires that up to 10% of the funds in the BRF septic account be distributed to a local public entity delegated by MDE – local health departments – to cover reasonable costs associated with implementation of regulations pertaining to septic systems that use BAT for nitrogen removal. Chapter 413 of 2020 expanded the authorized uses of the BRF to include costs associated with connecting a property using a septic system to an existing municipal wastewater facility that has signed a funding agreement with MDE and is under construction to achieve ENR or biological nutrient removal level treatment. This provision was scheduled to terminate June 30, 2024, but was made permanent by Chapter 545 of 2024.

### Supplemental Assistance Program

**Program Description:** The Supplemental Assistance Program provides grant assistance to local governments for planning, designing, and constructing WWTP improvements; for connection of older communities with failing septic systems; for correction of combined sewer overflow (CSO) and sanitary sewer overflows (SSO); and for correction of excessive infiltration and inflow throughout the State. Funds are targeted principally to two types of projects: (1) maintaining compliance at existing WWTPs; and (2) eliminating failing septic systems in older communities.

| <b>Fund Sources:</b>    |                     |                     |                |                |                |                |
|-------------------------|---------------------|---------------------|----------------|----------------|----------------|----------------|
| <b>(\$ in Millions)</b> | <b>2025 Approp.</b> | <b>2026 Request</b> | <b>2027</b>    | <b>2028</b>    | <b>2029</b>    | <b>2030</b>    |
| <b>GO Bonds</b>         | \$3.000             | \$0.000             | \$3.000        | \$3.000        | \$3.000        | \$3.000        |
| <b>Total</b>            | <b>\$3.000</b>      | <b>\$0.000</b>      | <b>\$3.000</b> | <b>\$3.000</b> | <b>\$3.000</b> | <b>\$3.000</b> |

- **Changes:** The Supplemental Assistance Program receives no funding in fiscal 2026, which is \$3.0 million less than the planned amount. This is due to the availability of loan forgiveness under the WQLRF. There is no change in the out-year planned project funding in the 2025 CIP.

### Water Supply Financial Assistance Program

**Program Description:** The Water Supply Financial Assistance Program provides grants to assist small communities in the acquisition, construction, equipping, rehabilitation, and improvement of publicly owned water supply facilities. The State may provide up to 87.5% of total eligible project costs (not to exceed \$1.5 million per project), and a minimum 12.5% local match is required.

| <b>Fund Sources:</b>    |                     |                     |                |                |                |                |
|-------------------------|---------------------|---------------------|----------------|----------------|----------------|----------------|
| <b>(\$ in Millions)</b> | <b>2025 Approp.</b> | <b>2026 Request</b> | <b>2027</b>    | <b>2028</b>    | <b>2029</b>    | <b>2030</b>    |
| <b>GO Bonds</b>         | \$2.614             | \$0.000             | \$2.500        | \$2.500        | \$2.500        | \$2.500        |
| <b>Total</b>            | <b>\$2.614</b>      | <b>\$0.000</b>      | <b>\$2.500</b> | <b>\$2.500</b> | <b>\$2.500</b> | <b>\$2.500</b> |

- **Changes:** The Water Supply Financial Assistance Program receives no funding in fiscal 2026, which is \$2.5 million less than the planned amount. This is due to the availability of loan forgiveness under the DWRLF. There is no change in the out-year planned project funding in the 2025 CIP.

### Hazardous Substance Clean-Up Program

**Program Description:** The Hazardous Substance Clean-Up Program provides funds for the State’s required 10% share of assessing and cleaning up of contaminated sites listed on the federal National Priorities List (Superfund) and other sites with the potential to impact human health and



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the environment due to contamination that meet the following criteria: there is no responsible party within the State and the sites do not qualify for federal funding through the Superfund program.

| <b>Fund Sources:</b>    |                     |                     |                |                |                |                |
|-------------------------|---------------------|---------------------|----------------|----------------|----------------|----------------|
| <b>(\$ in Millions)</b> | <b>2025 Approp.</b> | <b>2026 Request</b> | <b>2027</b>    | <b>2028</b>    | <b>2029</b>    | <b>2030</b>    |
| <b>GF</b>               | \$1.000             | \$0.625             | \$0.650        | \$0.750        | \$0.750        | \$0.850        |
| <b>Total</b>            | <b>\$1.000</b>      | <b>\$0.625</b>      | <b>\$0.650</b> | <b>\$0.750</b> | <b>\$0.750</b> | <b>\$0.850</b> |

| <b>Fund Uses (\$ in Millions):</b>   |                  |                    |                     |                       |                          |
|--|------------------|--------------------|---------------------|-----------------------|--------------------------|
| <b>Project (Jurisdiction)</b>  | <b>Est. Cost</b> | <b>Prior Auth.</b> | <b>2026 Request</b> | <b>Future Request</b> | <b>Total State Share</b> |
| Site Assessments (Statewide)   | \$1.300          | \$0.950            | \$0.150             | \$0.200               | 100.0%                   |
| 407 Anne Street Site Remediation (Wicomico)                                | 0.567            | 0.442              | 0.125               | 0.000                 | 100.0%                   |
| Former Simkins Industries Site Contamination Assessment (Baltimore County) | 0.750            | 0.000              | 0.100               | 0.650                 | 100.0%                   |
| Tome School – Bainbridge Site Contamination Assessment (Cecil)             | 0.400            | 0.150              | 0.100               | 0.150                 | 100.0%                   |
| Linden Lane Contaminated Groundwater Assessment (Montgomery)               | 0.600            | 0.350              | 0.100               | 0.150                 | 100.0%                   |
| Anacostia River Hazardous Substance Assessments (Regional)                 | 0.700            | 0.500              | 0.050               | 0.150                 | 100.0%                   |
| <b>Total</b>   | <b>\$4.317</b>   | <b>\$2.392</b>     | <b>\$0.625</b>      | <b>\$1.300</b>        |                          |

- Changes:** The Hazardous Substance Clean-Up Program’s fiscal 2026 appropriation of \$625,000 in general funds is \$375,000 less than the amount that the program received in fiscal 2025 and the amount programmed for fiscal 2026 in last session’s CIP. The reduction is due to project delays and lower project costs. To account for the assessment delays, the 2025 CIP also reduces planned out-year funding. The 2024 CIP programmed \$1.0 million from fiscal 2024 through 2029. The 2025 CIP rebases the program at \$625,000 in fiscal 2026 and then slowly increases the funding each year until it reaches \$850,000 in fiscal 2030.
- Encumbrances and Expenditures:** Encumbrances are essentially unchanged from last year’s analysis, with approximately \$33,000 in fiscal 2020 funding and approximately \$56,000 in fiscal 2022 funding that remains to be encumbered. The largest encumbrances in recent years were \$0.8 million in fiscal 2020 and again in fiscal 2022. The average annual encumbrance between fiscal 2021 and 2024 is \$0.3 million, which reflects a decrease from the fiscal 2020 to 2023 period and thus a slowdown in the program. The fiscal 2025 spending plan reflects an opening balance of \$1.1 million from fiscal 2024, the \$1.0 million

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fiscal 2025 appropriation, and \$1.0 million in encumbrances in fiscal 2024, leaving \$1.1 million for fiscal 2026.

- **Projects Selected:** The following Hazardous Substance Clean-Up Program project and two assessments are in underserved and overburdened communities: project (407 Anne Street Site Remediation (Wicomico County)); and site assessments (Anacostia River Hazardous Substance Assessments and Tome School – Bainbridge Site Contamination Assessment). The fiscal 2026 project list includes two projects that are associated with Department of Natural Resources (DNR) properties. The Former Simkins Industries Site Contamination Assessment project in both Baltimore County and Howard County addresses contamination at the Simkins Mill property adjacent to Patapsco Valley State Park – considered a possible new access point to the park. The Friends of the Patapsco Valley State Park, Ltd. received \$540,000 in GO bonds in fiscal 2022 and \$300,000 in GO bonds in fiscal 2023 for acquisition and improvement of the property. The current assessments will inform the level of remediation needed and thus inform DNR’s planned purchase of the property. The Tome School – Bainbridge Site Contamination Assessment project in Cecil County is located on property that currently is planned to be part of the Port of Deposit State Historical Park established by Chapter 39 of 2022. Originally, Chapter 39 required the transfer of a portion of the Bainbridge Naval Training Center, including the historic Tome School, to DNR for the Port of Deposit State Historical Park by June 1, 2023. Subsequently, Chapter 602 of 2023 pushed out the required transfer date to June 1, 2025. SB 477/HB 1184 has been introduced in the 2025 session to remove the Tome School as part of the required transfer to DNR, which raises the question of whether funding will be needed for the Tome School – Bainbridge Site Contamination Assessment project in fiscal 2026. **MDE should comment on whether the \$100,000 in general funds programmed for the Tome School – Bainbridge Site Contamination Assessment project in Cecil County will be needed if SB477/HB 1184 passes with the provision to remove the Tome School as a component of the proposed Port of Deposit State Historical Park.**
- **Performance Measures:** As of July 2024, there are 962 active Brownfield Master Inventory sites and 1,041 archived Inventory sites.
- **Other Comments:** The fiscal 2026 budget provides for investigation and contamination clean up at four sites serving four jurisdictions and one regional site as well as provides for new site assessments throughout Maryland.

## **Comprehensive Flood Management Program**

**Program Description:** The program provides grant funding to local governments for projects that reduce the risk of loss of life and property from flooding. Grant funds may be used to acquire flood-prone properties for demolition or relocation; install flood warning systems; and construct flood control projects, including engineering studies required to support the design of these

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projects. Chapters 516 and 517 of 2024 authorize the Governor, for fiscal 2026 and each fiscal year thereafter, to include in the annual State budget an appropriation for the comprehensive flood management grant program of up to \$20.0 million. The Acts also require, that for fiscal 2026 and each fiscal year thereafter, at least 40% of funding provided under the program be used for projects located in or directly benefiting underserved or overburdened communities.

| <b>Fund Sources:</b>    |                         |                         |                 |                 |                 |                 |
|-------------------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>(\$ in Millions)</b> | <b>2025<br/>Approp.</b> | <b>2026<br/>Request</b> | <b>2027</b>     | <b>2028</b>     | <b>2029</b>     | <b>2030</b>     |
| <b>GO Bonds</b>         | \$13.059                | \$13.867                | \$10.000        | \$10.000        | \$10.000        | \$10.000        |
| <b>Total</b>            | <b>\$13.059</b>         | <b>\$13.867</b>         | <b>\$10.000</b> | <b>\$10.000</b> | <b>\$10.000</b> | <b>\$10.000</b> |

| <b>Fund Uses (\$ in Millions):</b>  |                      |                        |                         |                           |                                  |  |
|---|----------------------|------------------------|-------------------------|---------------------------|----------------------------------|--|
| <b>Project (Jurisdiction)</b>   | <b>Est.<br/>Cost</b> | <b>Prior<br/>Auth.</b> | <b>2026<br/>Request</b> | <b>Future<br/>Request</b> | <b>Total<br/>State<br/>Share</b> |  |
| Middle Branch Resiliency Initiative Stage 2 (Baltimore City)                        | \$178.142            | \$0.000                | \$7.000                 | \$0.000                   | 75.0%                            |  |
| Middletown Wastewater Treatment Plant Enhanced Nutrient Removal Upgrade (Frederick) | 39.298               | 0.000                  | 2.782                   | 0.000                     | 7.1%                             |  |
| Rolling Mill Water Treatment Plant – Finished Water Pump Station (Cecil)            | 2.829                | 0.000                  | 2.122                   | 0.000                     | 75.0%                            |  |
| Southern Crisfield Flood Mitigation Project (Somerset)                              | 40.022               | 0.000                  | 1.906                   | 0.000                     | 4.8%                             |  |
| Cumberland Dry Run Dam Overtopping Protection System Design (Allegany)              | 0.076                | 0.000                  | 0.057                   | 0.000                     | 75.0%                            |  |
| <b>Total</b>  | <b>\$260.368</b>     | <b>\$0.000</b>         | <b>\$13.867</b>         | <b>\$0.000</b>            |                                  |  |

- Changes:** The budget provides \$3.9 million more than the amount programmed for fiscal 2026 in the 2024 CIP due to the interest in funding high priority mitigation and resiliency projects. Previously, Chapters 651 and 652 of 2019 required the Governor to appropriate at least \$3.0 million for the program in fiscal 2021 and 2022, and at least \$2.0 million in fiscal 2023. Chapters 516 and 517 authorize but do not require the Governor, for fiscal 2026 and each fiscal year thereafter, to include in the annual State budget an appropriation for the comprehensive flood management grant program of up to \$20.0 million.
- Encumbrances and Expenditures:** The program was initially funded in fiscal 2020, so there are no large prior year unexpended or unencumbered balances. For instance, the unexpended funding from before fiscal 2022 is \$4.3 million. While the funding history is limited, program encumbrances have averaged just \$2.8 million annually from fiscal 2021 through 2024, well below annual funding levels over the same time period. Considering

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that the 2025 CIP includes annual funding of \$10 million in each of fiscal 2027 through 2030, the program will need to increase annual encumbrances above current levels to keep projects moving. As noted last session, the \$23.8 million authorized in fiscal 2022 may be difficult to encumber and expend in a timely fashion. The current fiscal 2026 spending plan reflects an opening balance of \$36.9 million, the \$13.1 million fiscal 2025 authorization, and \$32.9 million in encumbrances in fiscal 2025, which seems to be overly optimistic given recent history, leaving \$17.1 million for fiscal 2026 encumbrances.

- ***Projects Selected:*** The fiscal 2026 project list includes \$7.0 million for the Middle Branch Resiliency Initiative State 2 project. This is the second year of funding for the project, which currently is broken into two stages. The cost estimate for stage 1 (fiscal 2025 funding) is \$120.4 million and stage 2 (fiscal 2026 funding) is \$178.1 million. Notably, the fiscal 2025 project list no longer includes \$3.0 million for the Annapolis City Dock Stormwater and Flood Mitigation – Phase 2 project in Anne Arundel County. This funding was preauthorized in the fiscal 2024 capital budget for fiscal 2025, because construction was unlikely to begin before fiscal 2025. The three following projects qualify as underserved or overburdened communities and receive \$8,963,000, or 65% of the total project funding, which meets the 40% requirement in Chapters 516 and 517: (1) Middle Branch Resiliency Initiative Stage 2 (\$7,000,000); (2) Southern Crisfield Flood Mitigation Project (\$1,906,000); and (3) Cumberland Dry Run Dam Overtopping Protection System Design (\$57,000).
- ***Performance Measures:*** For fiscal 2026 funding, the program received 6 applications requesting \$113.5 million; this is down from the 11 applications requesting funding in fiscal 2025, while the total amount requested is more than the \$33.9 million requested in fiscal 2025. Thus, the average per project request increased from approximately \$3.1 million in fiscal 2025 to \$18.9 million in fiscal 2026. The fiscal 2026 funding will meet 12% of the project demand, which is a decrease relative to the 39% of project demand met with fiscal 2025 funding. The largest project type for which funding was requested was the \$50.0 million for flood mitigation. The second largest project category for which funding was requested was the “numerous” category, which presumably reflects multiple techniques or approaches to flood management for each project at \$41.8 million. The other categories include elevation/shoreline (\$20.7 million) and nuisance flooding (\$0.9 million). The stormwater/subsurface drainage category did not receive any requests for funding in fiscal 2026.
- ***Other Comments:*** The fiscal 2025 funding provides for five projects in five jurisdictions.

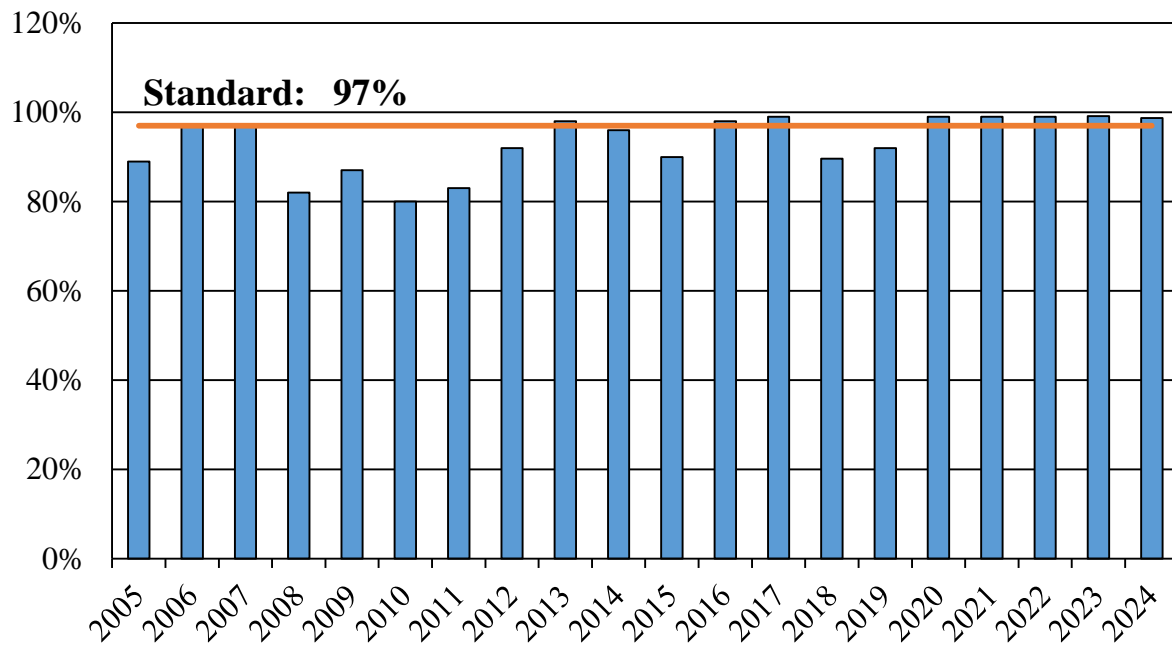
## Performance Measures and Outputs

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### Drinking Water Revolving Loan Fund

**Exhibit 5** shows an overall trend toward a cleaner public water system in Maryland since fiscal 2018, with 99% of Marylanders served by systems that are compliant with all drinking water regulations between fiscal 2020 and 2024.

**Exhibit 5**  
**Percentage of Marylanders Served by Public Water Systems in Significant Compliance**  
**Fiscal 2005-2024**



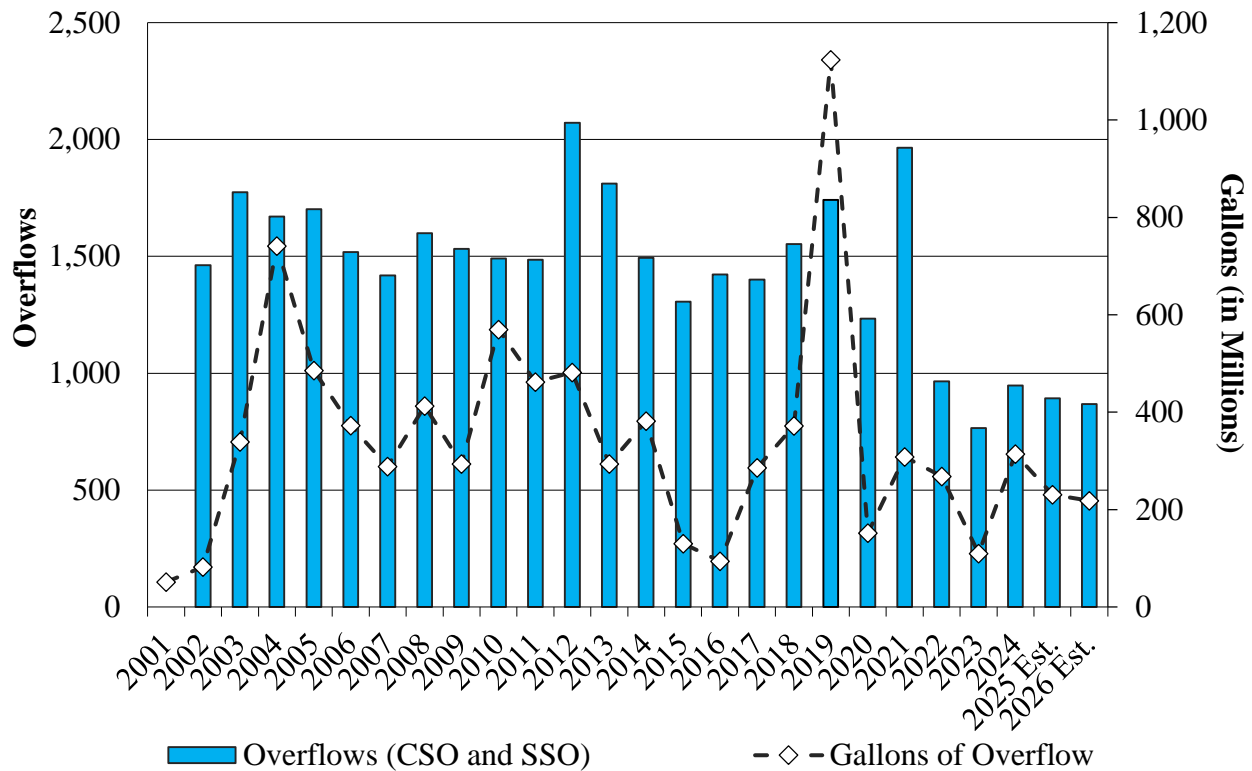
Source: Governor’s Fiscal 2008-2024 Budget Books; Department of Budget and Management

### Bay Restoration Fund – Wastewater Projects

A number of Maryland’s jurisdictions have signed consent decrees requiring the upgrade of their sewer systems due to the release of untreated sewage from facilities with National Pollutant Discharge Elimination System permits.

As illustrated in **Exhibit 6**, the number of gallons of overflow had been decreasing between fiscal 2010 and 2018, followed by a substantial increase in fiscal 2019. Large overflows in a particular year may be attributable to a few extreme events, such as in Cumberland and La Vale in Allegany County in recent years, and particularly due to substantial storms in calendar 2019 that increased CSO. Except for fiscal 2019, over the fiscal 2004 through 2024 period, there appears to be a downward trend in the number and gallons of overflows. The fiscal 2024 data reflects a slight increase in both the number and gallons of CSO and SSO. MDE has noted that funding for sewer rehabilitation, progress on improvements and repairs to collection systems, and the amount of rainfall will determine future sewer overflow reductions but that overall, MDE has very little control over either the number of overflows or the associated gallons.

**Exhibit 6**  
**CSO and SSO Overflows**  
**Fiscal 2001-2026 Est.**



CSO: combined sewer overflow  
SSO: sanitary sewer overflow

Note: The number of gallons of overflow is calculated by the annual net change in number of gallons of overflows from the fiscal 2003 to 2005 average.

Source: Governor’s Fiscal 2008-2026 Budget Books; Department of Budget and Management

## Appendix 1 Grant and Loan Program Descriptions

Descriptions of MDE’s current programs are as follows.

- **WQRLF:** The WQRLF was created to provide low-interest loans to counties and municipalities to finance water quality improvement projects. Projects eligible for funding include WWTPs, failing septic systems, and nonpoint source projects such as urban stormwater control projects. The federal Act requires a 20% State match. Matching requirements for additional federal funds vary from year to year. WQRLF projects are prioritized based on an EPA-approved Integrated Project Priority System. The priority system for WQRLF projects consists of a system for evaluating, rating, and ranking of both point source and nonpoint source water quality projects. Through June 2024, the program has executed approximately \$3.39 billion in loans, loan forgiveness, and grants.
- **DWRLF:** The DWRLF was established in accordance with a federal capitalization grant approved by the U.S. Congress in 1996 in anticipation of future federal capitalization grants. This program was authorized by the General Assembly to provide loans to counties and municipalities to finance water supply improvements and upgrades. In accordance with the federal law, these funds may also be loaned to private parties. The federal Act requires that a minimum of 20% of State matching funds for each year’s federal capitalization grant be deposited into the fund. Matching requirements for additional federal funds vary from year to year. Similar to WQRLF projects, DWRLF projects are prioritized based on an EPA-approved Drinking Water Project Priority System that focuses on many criteria, the most important being the public health benefit. Through June 2024, the program has executed more than \$617 million in loans, loan forgiveness, and grants.
- **BRF – Wastewater Projects:** The BRF (Chapter 428) was created to address the significant decline in Chesapeake Bay water quality due to overenrichment of nutrients such as phosphorus and nitrogen. This dedicated fund, financed in large part by WWTP users, initially was used to provide grants to local governments to upgrade Maryland’s 67 major WWTPs, with ENR technology as part of reducing an additional 7.5 million pounds of nitrogen per year in order to reach Maryland’s commitment under the TMDL as implemented by WIP. The current funding prioritization schedule is as follows: funding an upgrade of a wastewater facility with a design capacity of 0.5 million gallons or more per day from no upgrade all the way to ENR; and funding for the most cost-effective ENR upgrades at WWTPs with a design capacity of less than 0.5 million gallons per day from no upgrade all the way to ENR. Following the allocations for major (0.5 million gallons or more per day) and minor (less than 0.5 million gallons per day) WWTPs, the prioritization schedule requires a transfer of \$20.0 million to the Clean Water Commerce Account and then includes the following uses, as determined by MDE and based on water quality and public health benefits: funding up to 87.5% of the cost for CSO abatement; rehabilitation of existing sewers; and upgrading conveyance systems, including pumping stations, costs associated with upgrading septic systems and sewage holding tanks; and funding up to 50%

for grants for local government stormwater control measures – including projects relating to water quality, climate resiliency, or flood control per Chapter 44 of 2020 – for jurisdictions that have implemented a specified system of charges under current authority.

- ***BRF – Septic System Projects:*** The BRF includes a separate program to fund the replacement of failing septic systems. This program is funded as part of the BRF legislation by a fee on users of septic systems and sewage holding tanks, of which 60% of the revenue is allocated to MDE for the Septic System Upgrade Program and 40% to MDA for the Cover Crop Program. MDE provides grants to upgrade failing systems and holding tanks with BAT for nitrogen removal. Overall, the program gives priority to projects that involve failing systems in environmentally sensitive areas that are ready to proceed. The program is administered by county governments or other parties; contractors conducting the septic system upgrades are directly reimbursed for their work. Applications are prioritized as follows: (1) failing septic systems or holding tanks in the Critical Areas; (2) failing septic systems or holding tanks outside the Critical Areas; (3) nonconforming septic systems in the Critical Areas; (4) nonconforming septic systems outside of the Critical Areas; (5) other septic systems in the Critical Areas, including new construction; and (6) other septic systems outside the Critical Areas, including new construction. Chapter 379 requires that up to 10% of the funds in the BRF septic account be distributed to a local public entity delegated by MDE – local health departments – to cover reasonable costs associated with implementation of regulations pertaining to septic systems that use BAT for nitrogen removal. Chapter 413 expanded the authorized uses of the BRF to include costs associated with connecting a property using a septic system to an existing municipal wastewater facility that has signed a funding agreement with MDE and is under construction to achieve ENR or biological nutrient removal level treatment. This provision was scheduled to terminate June 30, 2024, but was made permanent by Chapter 545.
- ***Supplemental Assistance Program:*** The Supplemental Assistance Program provides grant assistance to local governments for planning, designing, and constructing WWTP improvements; for connection of older communities with failing septic systems; for correction of CSO and SSO; and for correction of excessive infiltration and inflow throughout the State. Funds are targeted principally to two types of projects: (1) projects where the community needs to construct improvements to its sewer system infrastructure but is unable to afford the local share of the construction cost; and (2) projects where the community needs to construct improvements to its sewer system infrastructure but is unable to completely afford the financing arrangements under the WQLRF. Funds are directed principally to projects where local governments need a subsidy to undertake the needed water quality or public health project. This program is often used in conjunction with other sources of federal and State financial assistance to achieve project affordability. This program funds up to 87.5% of eligible costs for projects in small, lower-income jurisdictions, not to exceed \$1.5 million.
- ***Water Supply Financial Assistance Program:*** The General Assembly created the Water Supply Financial Assistance Program in calendar 1982 to address the deteriorating



condition of the State’s water supply infrastructure and the lack of adequate financing available to local governments to upgrade water supply systems. This program provides grants to assist small communities in the acquisition, construction, equipping, rehabilitation, and improvement of publicly owned water supply facilities. The State may provide up to 87.5% of total eligible project costs (not to exceed \$1.5 million per project), and a minimum 12.5% local match is required. This program is often used in conjunction with other sources of federal and State financial assistance (such as the DWRLF) to achieve project affordability.

- ***Hazardous Substance Clean-Up Program:*** The Hazardous Substance Clean-Up Program provides funds for the State’s required 10% share of assessing and cleaning up contaminated sites listed on the federal Superfund for which EPA is responsible for the other 90% of the costs. This program also funds the assessment and remediation of other sites with the potential to impact human health and the environment due to contamination that meet the following criteria: there is no responsible party within the State and the sites qualify for federal funding through the Superfund program. The State provides up to 100% of the costs of assessment and cleanup for the projects not included on the Superfund. In all cases, the program seeks cost recovery, when possible, from the responsible parties.
- ***Mining Remediation Program:*** Where there is no financially viable responsible party, the program provides funding for remediation of abandoned lands and waters impacted by inadequate coal mining reclamation practices prior to the passage of the federal Surface Mine Control and Reclamation Act of 1977. The program works through the Maryland Abandoned Mine Land Division. Projects include reclamation of surface mine high walls and pits, stabilization of landslides, restoration of stream banks to address flooding, extinguishing underground coal mine and coal refuse fires, stabilization of coal refuse piles, water supply replacement, stabilizing buildings and roads that are impacted by underground mine subsidence, and acid mine drainage treatment projects.
- ***Comprehensive Flood Management Program:*** The program provides grant funding to local governments for projects that reduce the risk of loss of life and property from flooding. Grant funds may be used to acquire flood-prone properties for demolition or relocation; install flood warning systems; and construct flood control projects, including engineering studies required to support the design of these projects. Capital projects that assist with flood management techniques may include but are not limited to flood control dams, levees and dikes, stormwater detention or retention structures, and flood proofing. Chapters 651 and 652 authorized MDE under its existing Comprehensive Flood Management Grant Program to award grants to subdivisions that incurred at least \$1 million in infrastructure damage by a flood event that occurred on or after January 1, 2009. The grants were authorized to be for an amount up to 50% of the combined cost of infrastructure repairs, watershed restoration, and emergency work associated with a flood event that may be equal to a certain amount of the total money appropriated to the grant program in specified fiscal years. Chapters 651 and 652 also required the Governor to appropriate at least \$3 million in the State budget in fiscal 2021

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and 2022 and at least \$2 million in fiscal 2023. Chapters 516 and 517 authorize the Governor, for fiscal 2026 and each fiscal year thereafter, to include in the annual State budget an appropriation for the comprehensive flood management grant program of up to \$20.0 million. The bills also require that, for fiscal 2026 and each fiscal year thereafter, at least 40% of funding provided under the program be used for projects located in or directly benefiting underserved or overburdened communities.