

Maryland Department of the Environment

**Fiscal Year 2017 Capital Budget
Response to the Department of Legislative Services**

This response addresses the Legislative Analyst's recommended actions and the items noted for discussion. The department accepts nine of the recommended actions and is prepared to discuss the items as requested.

Budget Overview

1. Energy-Water Infrastructure Program: DLS recommends that \$100,000 in funding be restricted pending the submission of two reports: on the criteria for allocation of the funding, and the actual allocation of the funding.

Department Response: The department accepts this recommended action.

2. Maryland Water Quality Revolving Loan Fund: DLS recommends that the \$6.8 million GO bond authorization matching the federal funding be deleted. The Governor should provide general funds in a supplemental budget which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.

Department Response: The department respectfully disagrees with this recommended action. These funds are provided as the required 20% state match to federal grant funds.

3. Maryland Drinking Water Revolving Loan Fund: DLS recommends that the \$3.0 million GO bond authorization matching the federal funding be deleted. The Governor should provide general funds in a supplemental budget which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.

Department Response: The department respectfully disagrees with this recommended action. These funds are provided as the required 20% state match to \$34 million in federal grant funds.

4. Bay Restoration Fund – Wastewater Projects: DLS recommends that MDE comment on projected breakdown for each of major-minor WWTPs, sewer infrastructure, septic systems, and stormwater best management practices in fiscal 2018 through 2021.

Department Response: The department will not be able to determine the annual BRF funding allocation between the different categories of eligible projects for fiscal years 2018 through 2021 until the project applications for each of the fiscal years are received, reviewed, and rated based on the federally approved priority ranking process.

The department conducts an annual project solicitation process, where it solicits applications from local governments for infrastructure improvement projects. The BRF is one of several potential funding

sources for these types of projects. The allocation for fiscal years 2018 through 2021 will be based on the applications received from local governments, the project priority rankings, and the availability of funds.

Issues

1. Number of Septic Systems Unclear: DLS recommends that MDE comment on if and when the septic system estimate will be formally updated.

Department Response: MDE will begin to finalize the Phase III Watershed Implementation Plan modeling input information in 2016, which will include new septic system estimates. It is expected that the new estimate will be available in fy 2017. The septic system estimate of 421,766 originated from the Maryland Department of Planning in 2004, which has been accepted as the baseline number for planning purposes, and is consistent with BRF revenue collections.

2. Bay Restoration Fund Stretched Thin: DLS recommends that MDE comment on the proposed fiscal 2017 and future year allocation plan for the BRF and whether it will continue to be an effective source of funding even though spread across so many diverse uses.

Department Response: The BRF has been and will continue to be an effective source of funding for fiscal 2017 and for future fiscal years. The uses of the BRF are clearly defined in statute, and, as required by statute, MDE will continue to select projects based on their priority ranking. The priority ranking process takes into consideration water quality and public health benefits as well as cost efficiency for nutrient reductions.

PAYGO Recommended Actions

1. Recommended Action: Add the following language to the special fund appropriation: , provided that \$100,000 of this appropriation made for the purpose of providing grants to water and wastewater treatment plant owners to develop energy efficient and resilient projects shall be restricted pending the submission of two reports.

Department Response: The department accepts this recommended action.

2. Recommended Action: Concur with Governor's allowance of \$89,248,000 in special funds and \$33,960,000 in federal funds for the Water Quality Revolving Loan Fund.

Department Response: The department accepts this recommended action.

3. Recommended Action: Concur with Governor's allowance of \$200,000 in general funds for the Hazardous Substance Clean-Up Program.

Department Response: The department accepts this recommended action.

4. Recommended Action: Concur with Governor's allowance of \$10,638,000 in special funds and \$10,359,000 in federal funds for the Drinking Water Revolving Loan Fund.

Department Response: The department accepts this recommended action.

5. Recommended Action: Concur with Governor's allowance of \$80,000,000 for the Bay Restoration Fund – Wastewater Projects.

Department Response: The department accepts this recommended action.

6. Recommended Action: Concur with Governor's allowance of \$14,000,000 for the Bay Restoration Fund – Septic Systems.

Department Response: The department accepts this recommended action.

GO Bond Recommended Actions

1. Recommended Action: Approve the Biological Nutrient Removal Program \$25,000,000 general obligation bond authorization to provide funds to the Water Pollution Control Fund for projects to remove nutrients from discharges at publicly owned sewage treatment works.

Department Response: The department accepts this recommended action.

2. Recommended Action: Delete the Drinking Water Revolving Loan Fund Authorization of \$3,003,000.

Department Response: The department respectfully disagrees with this recommended action. The Governor provided GO Bonds in his budget as the required 20% match to federal grant funding. The federal grant was awarded in September 2015, and cannot be drawn down until the proportionate State share becomes available. Failure to provide the required match would result in the loss of \$13.4 million in grants and loans to local governments for drinking water projects. GO bonds have been provided as match for these federal grant funds for many years without comment from DLS.

3. Recommended Action: Delete the Water Quality Revolving Loan Fund Authorization of \$6,792,000,000.

Department Response: The department respectfully disagrees with this recommended action. The Governor has provided GO Bonds in his budget as the required 20% match to \$34 million of federal grant funding. The federal grant was awarded in September 2015, and cannot be drawn down until the proportionate State share becomes available. Failure to provide the required match would result in the loss of \$40.1 million in grants and loans to local governments for water quality projects. GO bonds have been provided as match for these federal grant funds for many years without comment from DLS.

4. Recommended Action: Approve the Mining Program authorization of \$500,000 general obligation bonds to design, construct, and equip active and passive measures to remediate damage to water quality related to abandoned mining operations.

Department Response: The department accepts this recommended action.

5. Recommended Action: Approve the Water Supply Financial Assistance Program authorization of \$2,480,000 general obligation bonds to provide assistance to State and local government entities to acquire, design, construct, rehabilitate, equip, and improve water supply facilities.

Department Response: The department accepts this recommended action.