

U00A01.03
Department of the Environment – PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	<i>FY 2004 Approp.</i>	<i>FY 2005 Approp.</i>	<i>FY 2006 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Water Quality Revolving Loan Fund	\$70,000	\$70,000	\$70,000	0%	\$70,000
Drinking Water Revolving Loan Fund	11,000	11,000	11,500	4.5%	11,500
Bay Restoration Fund – Wastewater	0	0	35,000	100%	35,000
Bay Restoration Fund – Septic Systems	0	0	250	100%	250
Total	\$81,000	\$81,000	\$116,750	44.1%	\$116,750
Fund Source					
Special	\$35,212	\$35,527	\$63,883	79.8%	\$63,883
Federal	37,623	37,206	43,254	16.3%	43,254
GO Bonds	8,165	8,267	9,613	16.3%	9,613
Total	\$81,000	\$81,000	\$116,750	44.1%	\$116,750

Summary of Issues

Bay Restoration Fund Implementation Underway: The Bay Restoration Fund (Chapter 428, Acts of 2004) was created during the 2004 session to address the significant decline in Chesapeake Bay water quality due to over enrichment of nutrients such as phosphorus and nitrogen. **The Maryland Department of the Environment (MDE) should be prepared to discuss the enhanced nutrient removal (ENR) priority list, the systems being put in place to collect the septic fee, and the likelihood of sufficient funding being generated to achieve the State’s ENR construction goal.**

Federal Funding Decreases Possible: President George W. Bush’s fiscal 2006 federal budget proposes funding decreases for State wastewater and drinking water programs. **MDE should be prepared to discuss the impact of a potentially reduced amount of federal funding for its capital programs.**

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Septic System Fee Collection Challenges: Effective October 1, 2005, each individual county is responsible for collecting fees from users of on-site sewage disposal systems (OSDS) or septic systems. **MDE should be prepared to discuss how it is addressing Septic System Program implementation challenges associated with local jurisdiction’s lack of start-up funding, limited information technology expertise, and incomplete data.**

Summary of Recommended Actions

1. Concur with Governor’s allowance.

Overview

MDE’s fiscal 2006 PAYGO allowance includes \$107.1 million in special and federal funds, and \$9.6 million in general obligation (GO) bond capital funds. This represents a \$35.8 million, or 44.1% increase over fiscal 2005. This significant increase is due to \$35.3 million in new special fund revenue from the Bay Restoration Fund (BRF). This new fee revenue will support several water quality programs that seek to upgrade wastewater treatment plants, sewer infrastructure, and septic systems. The allowance provides level funding for the two revolving loan funds, with the required State matching funds for both loan programs in the GO bond capital budget.

Exhibit 1 illustrates the administrative expenses associated with the two loan funds and the new BRF supported programs discussed in this analysis. MDE includes salaries and fringe benefits, as well as non-salary expenses, in its direct expenses. Non-salary expenses include contractual services such as a financial advisor, a bond counsel, and accountant/auditor, as well as office supplies and materials, travel, training, and professional memberships. Indirect expenses are charged at approximately 29% of salary and fringe benefits for federal funds and at approximately 14% of all special fund expenses. The department will use GO bond funds to provide a required 20% match on federal funds under both revolving loan funds. No State match is required for direct federal administrative expenses under Drinking Water Revolving Loan Fund.

**Exhibit 1
Consolidated Administrative Expenses**

	FY 2004 Actual	FY 2005 Estimated	FY 2006 Estimated
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Sources:			
Special Funds			
Water Quality Revolving Loan Fund	\$2,039,592	\$2,200,000	\$2,300,000
Drinking Water Revolving Loan Fund	143,604	155,000	160,000
Bay Restoration Fund – Wastewater	0	0	400,000
Bay Restoration Fund – Septic Systems	0	0	200,000
Subtotal – Special Funds	\$2,183,196	\$2,355,000	\$3,060,000
General Funds	47,701	0	0
Federal Funds			
Water Quality Revolving Loan Fund	287,775	300,000	300,000
Drinking Water Revolving Loan Fund	371,784	380,000	400,000
Total Funds	\$2,890,456	\$3,035,000	\$3,760,000

Uses:			
Direct Expenses	\$2,249,664	\$2,584,913	\$3,216,507
Indirect Expenses	420,792	450,087	543,493
Total Direct and Indirect Expenses	\$2,670,456	\$3,035,000	\$3,760,000

Source: Maryland Department of the Environment

Overview Issues

1. Bay Restoration Fund Implementation Underway

Background

The Bay Restoration Fund (BRF) was created during the 2004 session to address the significant decline in Chesapeake Bay water quality due to over enrichment of nutrients such as phosphorus and nitrogen. This dedicated fund, financed primarily by wastewater treatment plant (WWTP) users, will be used to upgrade Maryland's WWTPs with enhanced nutrient removal (ENR) technology so they are capable of achieving wastewater effluent quality of 3 mg/l total nitrogen and 0.3 mg/l total phosphorus. WWTP effluent is one of the top three major contributors of nutrients entering the bay, the other two being urban and agricultural runoff. A similar fee paid by septic system users will be utilized to upgrade septic systems and fund planting of cover crops. **Exhibit 2** provides additional details about the BRF.

Exhibit 2 Bay Restoration Fund Components

	<u>Wastewater Treatment Plants</u>	<u>Septic Systems</u>
Fees	A \$2.50 monthly fee collected from each home served by a WWTP. Commercial and industrial users will be charged at the rate of \$2.50/month per Equivalent Dwelling Unit.	A \$30 annual fee collected from each home served by an on-site septic system.
	Takes effect January 1, 2005.	Takes effect October 1, 2005.*
Annual Revenue (Estimated)	\$65 million	\$12.6 million
Priority	66 major WWTPs discharging into the Chesapeake Bay.	60% for septic system upgrades in Critical Areas and 40% for cover crops.

*Except for those with on-site sewage systems and public or private water systems.

Source: Maryland Department of the Environment

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MDE estimates that the programs funded by the BRF will further reduce nitrogen and phosphorus loading in the Bay by over 7.5 million pounds of nitrogen annually and over 260,000 pounds of phosphorus annually, which represents over one-third of Maryland's commitment under the Chesapeake Bay 2000 Agreement.

To date, more than half of the 66 major WWTPs have agreed to work with MDE to complete the ENR upgrade. At least one facility may be able to achieve the ENR goals with no or with minimal additional capital expenditure (Princess Anne, Somerset County), two facilities are under construction with both BNR and ENR upgrades (Celanese, Allegany County, and Easton, Talbot County), seven facilities are under design, and 27 facilities have initiated planning.

Implementation Issues

Implementation of the BRF has been a complex and challenging process. An advisory committee convened three times during the fall of 2004 to evaluate the cost, funding, and effectiveness of the WWTP upgrades; consult and advise the counties and MDE regarding the septic system upgrade program; and consider future changes to the BRF fees. Some key implementation issues that may merit attention are described below.

- ***Priority List and Rating and Ranking Criteria*** – MDE has developed a priority list and project ranking criteria for funding ENR upgrades to the 66 largest WWTPs in the State (see **Appendix 2**). MDE has ranked projects according to five criteria: readiness to proceed, the nutrient load reduction that would be achieved, the ratio of pollution reduction per associated construction dollar, the status of the Total Maximum Daily Load pollution capacity study for the nearest water body, and the status of an associated consent order. While two (Patapsco and Back River) of the three largest WWTPs are within the top ten priorities for ENR construction, Blue Plains WWTP is in the middle of the list, in spite of its significant contribution to Chesapeake Bay pollution.
- ***Collecting Fees from Septic System Users*** – The State lacks a consolidated, complete, and current list of septic system and holding tanks users, making it difficult to determine the best method for collecting these fees. In January 2005, the advisory committee made recommendations to each county on the best methods for collecting fees from septic system users. However, it may take some time to establish the fee collection systems in each jurisdiction. This program will demand continued resources and attention at both the State and local level to ensure smooth implementation.
- ***State Revenue Bonds*** – To expedite the implementation of the program, MDE intends to issue bonds backed in full or in part by revenue generated under this program. The timing and amount of bonds issued will depend on the actual fee revenue attained, annual funding needs, and the bond maturities and interest rates. Preliminarily, special fund revenues to the BRF from bond proceeds will total an estimated \$502.35 million over four years (fiscal 2008 - 2011). The Capital Debt Affordability Committee concluded that these bonds are State tax-supported and, thus, are included when determining the State's debt ceiling. Since MDE found out that the maximum allowable maturity of the bonds is 15 years instead of 20 years, it is not clear whether sufficient

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revenue will be generated to fund upgrades at all 66 major WWTPs by 2011. Furthermore, it is possible that some entities that were anticipated to pay fees may not, such as the federal government and private educational institutions.

- ***Readiness to Proceed*** – Since local sewer users are paying BRF fees, MDE advises that most local jurisdictions are anxious to receive grants to initiate construction work.

MDE should be prepared to discuss the criteria used to develop the ENR upgrade priority list, the systems being put in place to collect the septic fee, and whether the latest projected BRF revenues are sufficient to achieve the State’s ambitious ENR construction goal.

2. Federal Funding Decreases Possible

President George W. Bush’s fiscal 2006 federal budget proposes funding decreases for several natural resources and environmental programs. Preliminary information indicates that the U.S. Environmental Protection Agency’s proposed budget reflects a \$361 million reduction for the Clean Water State Revolving Loan Fund, which provides capitalization grants for MDE’s WQRLF. This potential loss of federal funds for WWTP construction and water quality management activities could have a significant impact MDE’s programs.

MDE should be prepared to discuss the impact of a potentially reduced amount of federal funding for its capital programs.

Water Quality Revolving Loan Fund (Statewide)

PAYGO SF	\$25,814,000	Recommendation:	Approve
PAYGO FF	\$36,568,000		
GO Bonds	\$7,618,000		

Program Description: The Water Quality Revolving Loan Fund (WQRLF) was created to provide low-interest loans to counties and municipalities to finance water quality improvement projects. The fund was established by the federal government in the Clean Water Act of 1987 and by the State of Maryland in §9-204 and §9-1604 Environment Article to replace the federal construction grants program that was phased out. Projects eligible for funding include wastewater treatment plants, failing septic systems, and non-point source projects such as urban stormwater control projects. The federal act requires a 20% state match. As of June 30, 2004, WQRLF had executed approximately \$835 million in low interest loans.

WQRLF projects are prioritized based on an U.S. Environmental Protection Agency-approved Integrated Project Priority System. In accordance with this system, projects meeting the minimum requirements are rated and ranked based on criteria including proposed project benefits and water quality improvement. The second priority-ranking phase uses the requirements in Environment Article 9-345 and 9-348 and COMAR 26.03.08 that outline specific criteria for considering among other things the severity of water quality problems, readiness to proceed, cost effectiveness of nitrogen reduction, and expenditure rates. The resulting scores are used to prioritize projects.

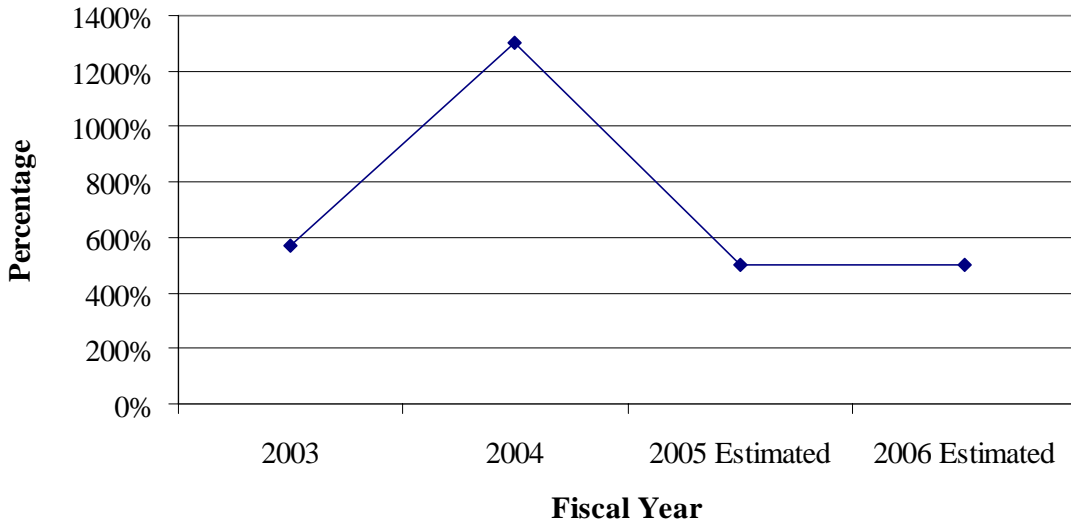
Year Program Began: 1989

Comments: WQRLF’s fiscal 2006 allowance totals \$70.0 million and is comprised of \$25.8 million in PAYGO special funds, \$36.6 million in PAYGO federal funds, and \$7.6 million in GO bond funding. A total of 12 projects would be funded during fiscal 2006 in the following jurisdictions: Allegany (1), Baltimore City (3), Calvert (3), Caroline (1), Howard (1), Talbot (1), and Washington (2). These projects would involve upgrading WWTPs and implementing sewer system improvements.

MDE anticipates a significant increase in fiscal 2005 loans, drawing down the program’s fund balance to under \$1.0 million. This is due to a higher demand for loan funds for Baltimore City to upgrade Sanitary Sewer Overflow projects and for significant upgrades at the Kent Narrows and Easton WWTPs.

Program Performance Analysis: As illustrated in Exhibit 3, there have been significant increases in sewage overflows in recent years. MDE should be prepared to discuss the projected impact the WQRLF will have on this performance measurement over the next five years.

**Exhibit 3
Percent Change in Gallons of Sewage Overflow Since 2001**



Source: Fiscal 2006 Budget Books

Water Quality Revolving Loan (Statewide) Fund Data

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$109,297,851	\$81,679,780	\$320,705
Revenue			
General Funds*	215,000	0	0
Federal Funds	32,243,409	32,033,925	**38,090,942
GO Bonds	6,234,000	6,407,000	***7,618,000
Investment and Other Income	8,663,942	8,700,000	8,800,000
Loan Repayments and Interest	40,211,548	42,000,000	44,000,000
Total Revenue	87,567,899	89,140,925	98,508,942
Total Available	196,865,750	170,820,706	98,829,647
Encumbrances			
Loans	97,413,291	****153,000,000	70,000,000
Debt Service	15,397,610	15,000,000	15,000,000
Operating Expenses	2,375,069	2,500,000	2,600,000
Total Encumbrances	115,185,970	170,500,000	87,600,000
Ending Balance	\$81,679,780	\$320,706	\$11,229,647

* In fiscal 2005 and 2006, State matching funds are applied to project loans and the 4% in operating costs is paid for with federal funds.

** Total fiscal 2006 federal funds include up to \$1,522,942 for operating expenses and approximately \$36,568,000 for loans.

*** State match to federal funds for loans.

**** Includes \$28 million in special funds that will be sought via budget amendment.

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(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	\$32.596	\$32.840	\$25.814	\$31.000	\$31.000	\$31.000	\$31.000
PAYGO FF	31.170	30.753	36.568	32.500	32.500	32.500	32.500
GO Bonds	6.234	6.407	7.618	6.500	6.500	6.500	6.500
Total	\$70.000	\$70.000	\$70.000	\$70.000	\$70.000	\$70.000	\$70.000

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2006 Proposed Projects

<u>County</u>	<u>Project</u>	<u>Amount</u>	<u>Status</u>
Allegany	Frostburg CSO Construction	\$1,000,000	Design
Baltimore City	Baltimore City SSO	29,782,200	Design
Baltimore City	Gwynns Run Interceptor Construction	16,500,000	Design
Baltimore City	Lower Jones Falls Interceptor	10,692,000	Design
Calvert	Chesapeake Beach WWTP Rehabilitation	686,000	Design
Calvert	Town of North Beach Share Chesapeake Beach	361,162	Design
Calvert	Calvert County Share of Chesapeake Beach	435,000	Design
Caroline	Town of Preston WWTP Upgrade	378,500	Design
Howard	Farewell Road Stream Restoration	130,000	Design
Talbot	St. Michael's Inflow/Infiltration	4,079,388	Design
Washington	Funkstown New SBR Treatment Plant	1,875,750	Design
Washington	R.C. Wilson Sludge Dewatering Facility	4,080,000	Design
	Total	\$70,000,000	

Note: The project list is subject to change.

Fiscal 2005 Project Status

<u>County</u>	<u>Project</u>	<u>Total Cost</u>	<u>Fiscal 2005 Amount</u>		<u>State</u>
Cecil	Elkton WWTP BNR Upgrade	\$10,000,000	\$4,647,000	C	46%
Charles	Swan Point WWTP Upgrade and Expansion	8,080,000	8,080,000	C	100%
Dorchester	Cambridge CSO Phase II – VI	7,114,700	4,925,000	C	69%
Frederick	Cell 3 Lining and Rubble Landfill Capping	9,345,000	8,945,000	C	96%
Somerset	Westover Sewer Extension	3,449,125	3,449,125	C	100%
Talbot	Easton WWTP BNR Upgrade and Expansion	28,443,204	20,000,000	C	70%
Washington	Resh Road Landfill Capping	10,232,000	9,053,875	C	88%
Worcester	Pokomoke and Snow Hill Landfill Capping and Closure	5,400,000	5,400,000	C	100%
Worcester	Ocean Pines WWTP Upgrade	5,500,000	5,500,000	C	100%
Subtotal		\$87,564,029	\$70,000,000		
Additional Projects Using Prior Appropriations:					
Baltimore	Patapsco WWTP Fine Screens (low level)	8,697,895	8,697,895	C	100%
Baltimore City	Baltimore City Sanitary Sewer Overflow Improvements	16,638,681	16,638,681	C	100%
Cecil	Meadowview WWTP Upgrade	7,915,000	7,915,000	C	100%
Frederick	Lake Linganore Stormwater Project	4,545,630	4,545,630	C	100%
Howard	Papapsco WWTP – Cost Share Projects	7,139,981	7,139,981	C	100%
Washington	New Cell Leachate – 43 West Landfill	4,421,000	3,262,813	C	74%
Washington	Hagerstown WWTP Enhancements Phase II	6,800,000	6,800,000	C	100%
Subtotal		\$56,158,187	\$55,000,000		
Total			\$125,000,000		

C=Construction

Note: The project list is subject to change. An additional \$28 million in special funds will be sought via budget amendment in fiscal 2005.

Drinking Water Revolving Loan Fund (Statewide)

PAYGO SF	\$2,819,000	Recommendation:	Approve
PAYGO FF	\$6,686,000		
GO Bonds	\$1,995,000		

Program Description: The Maryland Drinking Water State Revolving Loan Fund (DWRLF) was established in accordance with a federal capitalization grant approved by Congress in 1996 in anticipation of future federal capitalization grants. This program was authorized by the General Assembly in 1993 to provide loans to counties and municipalities to finance water supply improvements and upgrades. In accordance with the federal legislation, 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. As of June 30, 2004, this program had executed approximately \$66 million in low interest loans.

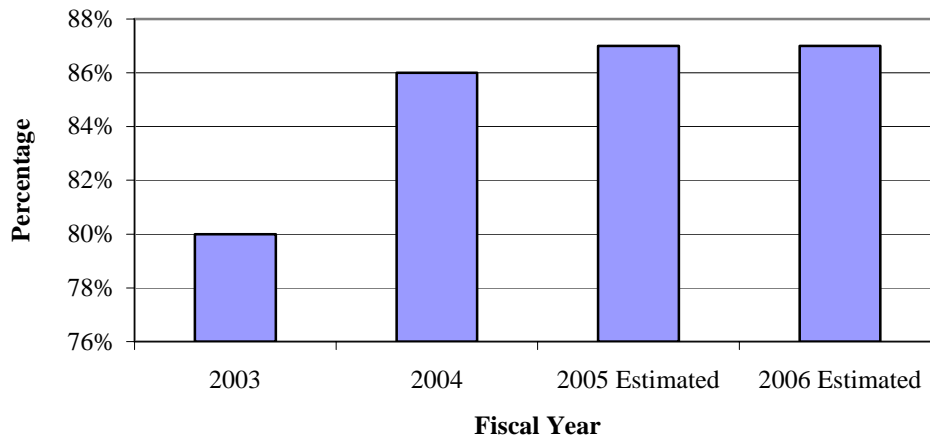
Similar to WQRLF, DWRLF projects are prioritized based on an U.S. Environmental Protection Agency-approved priority ranking system that focuses on many criteria, the most important being public health benefit.

Year Program Began: 1996

Comments: The fiscal 2006 DWRLF allowance totals \$11.5 million and is comprised of \$2.8 million in PAYGO special funds, \$6.7 million in PAYGO federal funds, and \$2.0 million in GO bond funding. A total of eight projects will be funded during fiscal 2006, which will improve water services for approximately 61,771 households in four different jurisdictions (Calvert, Cecil, Garrett, and Washington counties). The allowance is based on \$850 million in anticipated federal funds to capitalize water supply revolving loan funds throughout the United States. Maryland's share of this national amount is estimated at \$9.7 million, requiring a \$1.9 million State match.

Program Performance Analysis: As illustrated in **Exhibit 4**, limited progress has been made toward ensuring that public water systems are safe and adequate. **MDE should be prepared to discuss the reasons why this program does not appear to be making a significant impact, and whether the State should be investing more in this program.**

Exhibit 4
Percent of Public Water Systems in Significant Compliance
With State and Federal Regulations



Source: Fiscal 2006 Budget Books

Drinking Water Revolving Loan Fund Data (Statewide)

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$17,420,638	\$17,229,609	\$11,007,520
Revenue			
GO Bonds	1,931,000	1,860,000	1,995,000
Federal Funds	6,413,343	6,652,911	6,685,341
Investments and Other Income	737,099	750,000	770,000
Loan Repayments and Interest	2,395,422	2,600,000	2,800,000
Total Revenue	11,476,864	11,862,911	12,250,341
Total Available	28,897,502	29,092,520	23,257,861
Encumbrances			
Loans	11,152,505	17,550,000	11,500,000
Operating Expenses	515,388	535,000	560,000
Total Encumbrances	11,667,893	18,085,000	12,060,000
Ending Balance	\$17,229,609	\$11,007,520	\$11,197,861

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	\$2.616	\$2.687	\$2.819	\$2.675	\$2.675	\$2.675	\$2.675
PAYGO FF	6.453	6.453	6.686	6.450	6.450	6.450	6.450
GO Bonds	1.931	1.860	1.995	1.875	1.875	1.875	1.875
Total	\$11.000	\$11.000	\$11.500	\$11.000	\$11.000	\$11.000	\$11.000

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2006 Proposed Projects

<u>County</u>	<u>Project</u>	<u>Amount</u>	<u>Status</u>
Calvert	Chesapeake Water Association Well Pump	\$450,000	Design
Cecil	North East Water System Improvements	1,000,000	Design
Cecil	Perryville Water Filtration Plant Upgrade	4,049,650	Design
Garrett	Bloomington Water Plant Upgrade	705,000	Design
Garrett	Crellin Water Main Installation	400,000	Design
Garrett	Oakland Memorial Drive Water Extension	320,350	Design
Garrett	Mountain Lake Park Water Treatment	1,575,000	Design
Washington	Hagerstown West End Water Storage Tank	3,000,000	Design
Total		\$11,500,000	

Note: The project list is subject to change.

Fiscal 2005 Project Status

<u>County</u>	<u>Project</u>	<u>Total Cost</u>	<u>Fiscal 2005 Amount</u>	<u>State</u>
Carroll	New Windsor Water Storage Tank	\$984,577	\$984,577	C 100%
Carroll	Cranberry WTP Upgrade	4,500,000	4,155,000	C 92%
Carroll	New Windsor WTP Chlorine Tank and	291,000	291,000	C 100%
Cecil	North East Water System Improvements	2,555,000	2,555,000	C 100%
Kent	Rock Hall Water System Upgrade	1,265,755	1,020,183	C 81%
Somerset	Westover Water Main Extension	1,994,240	1,994,240	C 100%
Subtotal		\$11,590,572	\$11,000,000	
Additional Projects Using Prior Year Appropriation:				
Baltimore	Ashburton Filtration Plant Disinfection Upgrade	1,180,000	1,180,000	C 100%
Kent	Chestertown Water Plant Upgrade	1,750,000	1,750,000	C 100%
Montgomery	Rockville WTP Improvements	1,500,000	1,500,000	C 100%
Somerset	Johnson Creek Water Line # 2	480,000	480,000	C 100%
Washington	Clear Spring Water Storage Tank	580,000	580,000	C 100%
Washington	Clear Spring Water Treatment	1,060,000	1,060,000	C 100%
Subtotal		\$6,550,000	\$6,550,000	
Total			\$17,550,000	

Note: The project list is subject to change.

Bay Restoration Fund – Wastewater Projects (Statewide)

PAYGO SF **\$35,000,000** **Recommendation: Approve**

Program Description: The Bay Restoration Fund (Chapter 428, Acts of 2004) was created to address the significant decline in Chesapeake Bay water quality due to over enrichment of nutrients such as phosphorus and nitrogen. This dedicated fund, financed in large part by wastewater treatment plant (WWTP) users, will be used to upgrade Maryland’s WWTPs with enhanced nutrient removal (ENR) technology so they are capable of achieving wastewater effluent quality of 3 mg/l total nitrogen and 0.3 mg/l total phosphorus. Revenue from this fund will also support upgrades to sewer infrastructure and septic systems.

This new program incorporates the two BRF supported programs described below.

- ***Enhanced Nutrient Removal (\$30,000,000)*** – This program will provide grants to local governments to institute ENR technology at the 66 largest WWTPs in Maryland. Upgrading these WWTPs will reduce nitrogen loading to the Chesapeake Bay and its tributaries by an additional 7.5 million pounds per year, representing approximately one-third of the additional reduction needed for Maryland to reach its commitment under the 2000 Chesapeake Bay Agreement.
- ***Sewer Rehabilitation (\$5,000,000)*** – The goal of this program is to ensure a safe and adequate sewer infrastructure, as required by the Clean Water Act. The program will provide 100% grants to local governments to correct combined sewer overflow (CSO) problems, rehabilitate existing sewers, correct excessive inflow/infiltration problems, and upgrade pumping stations. This program will help WWTPs operate more efficiently by regulating the flow of water sent to these plants during periods of rain and effectively prevent overflows of untreated sewage.

Year Program Began: 2004

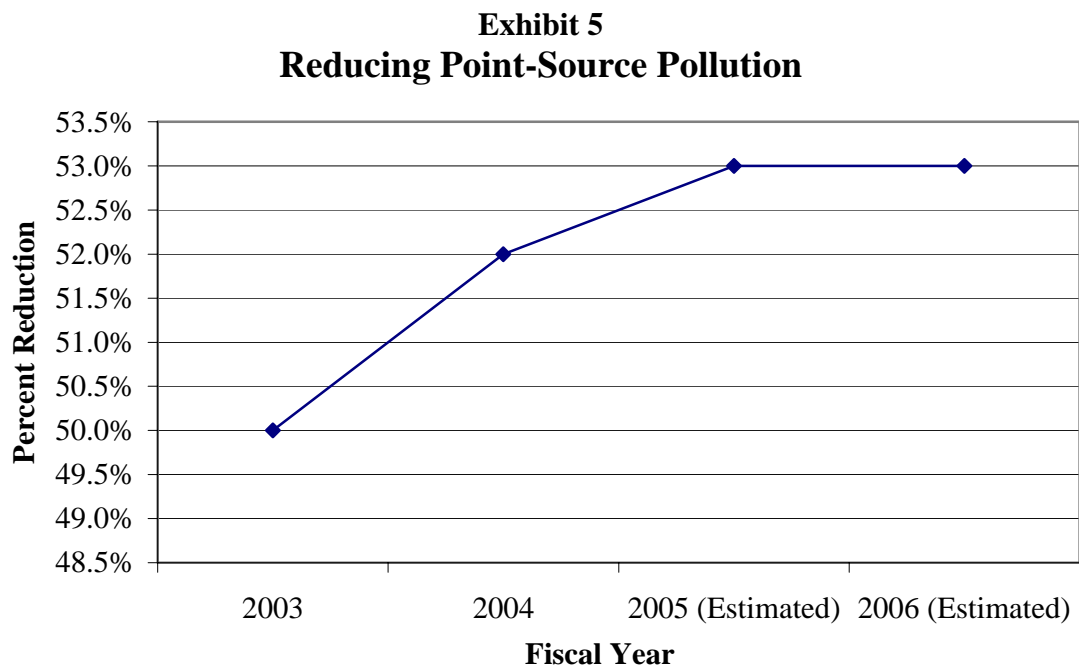
Comments: The fiscal 2006 allowance of \$35.0 million in special funds would be used for the following purposes:

- \$30.0 million to construct ENR upgrades at 19 major WWTPs in 12 jurisdictions (Allegany, Cecil, Charles, Frederick, Howard, Kent, Montgomery, Queen Anne’s, Talbot, Wicomico, Worcester, and Baltimore City/County);
- \$2.4 million to abate three CSOs in Allegany County;

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- \$1.0 million to correct inflow-infiltration in three jurisdictions (St. Mary’s, Talbot, and Washington counties); and
- \$1.6 million to complete a sanitary sewer overflow rehabilitation project in Baltimore City.

Program Performance Analysis: MDE has several performance measures that track the impact of its efforts to reduce the point-source nutrient-related problems in the Chesapeake Bay and its tidal tributaries. As shown in **Exhibit 5**, while MDE has made limited progress in reducing point-source nitrogen loading, it is not estimating any progress in fiscal 2006. **MDE should be prepared to comment on how wastewater projects will impact this performance measure over the next five years and why additional progress is not anticipated in fiscal 2006.**



Source: Fiscal 2006 Budget Books

Bay Restoration Fund – Wastewater Projects Fund Data

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	\$0.000	\$0.000	\$35.000	\$75.000	\$30.000	\$94.000	\$15.000
Revenue Bonds	0.000	0.000	0.000	0.000	50.000	130.000	170.000
Total	\$0.000	\$0.000	\$35.000	\$75.000	\$80.000	\$224.000	\$185.000

Recommended Actions

1. Concur with Governor’s allowance.

Fiscal 2006 Proposed Enhanced Nutrient Removal Projects

<u>County</u>	<u>Project</u>	<u>Est. Cost</u>	<u>Prior Author</u>	<u>State Funds FY 2006 Amount</u>	<u>Future Request</u>	<u>(%) State</u>
Allegany	Celanese ENR	\$3,057,645	0	\$2,057,645	\$1,000,000	100%
Baltimore City	Patapsco ENR	50,000,000	0	4,000,000	46,000,000	100%
Cecil	Perryville ENR	2,000,000	0	1,500,000	500,000	100%
Cecil	Elkton ENR	4,000,000	0	600,000	3,400,000	100%
Charles	Indian Head ENR	2,000,000	0	1,600,000	400,000	100%
Charles	Mattawoman	1,000,000	0	800,000	200,000	100%
Charles	LaPlata ENR	1,000,000	0	250,000	750,000	100%
Frederick	Brunswick ENR	2,000,000	0	1,600,000	400,000	100%
Frederick	Thurmont ENR	1,000,000	0	150,000	850,000	100%
Frederick	Emmitsburg ENR	7,000,000	0	300,000	6,700,000	100%
Howard	Little Patuxent ENR	10,000,000	0	3,000,000	7,000,000	100%
Kent	Chestertown ENR	2,000,000	0	1,500,000	500,000	100%
Montgomery	Seneca ENR	2,000,000	0	1,500,000	500,000	100%
Queen Anne’s	Kent Island ENR	3,000,000	0	2,400,000	600,000	100%
Talbot	Easton ENR	10,000,000	0	6,000,000	4,000,000	100%
Talbot	St. Michael’s ENR	1,000,000	0	800,000	200,000	100%
Wicomico	Salisbury ENR	5,000,000	0	1,542,355	3,457,645	100%
Wicomico	Delmar ENR	1,000,000	0	200,000	800,000	100%
Worcester	Snow Hill ENR	1,000,000	0	200,000	800,000	100%
	Total	\$108,057,645	0	\$30,000,000	\$78,057,645	

Note: Project list subject to change.

Fiscal 2006 Proposed Sewer Rehabilitation Projects

<u>County</u>	<u>Project</u>	<u>Estimated Cost</u>	<u>Fiscal 2006 Amount</u>	<u>Future Request</u>	<u>State Share</u>
Allegany	Cumberland CSO	\$29,840,000	\$800,000	\$3,200,000	13%
Allegany	Frostburg CSO Phase III	20,000,000	800,000	2,200,000	15%
Allegany	Westernport Combined Sewer Overflow	19,000,000	800,000	2,200,000	16%
Baltimore City	Baltimore City SSO	35,257,200	1,575,000	3,900,000	16%
Talbot	St. Michaels Region II Sewer Collection System Improvements	6,878,750	500,000	1,600,000	31%
St. Mary's	Piney Point/Evergreen Park Infiltration & Inflow	966,000	325,000	0	34%
Washington	Halfway I/I Rehabilitation	1,651,600	200,000	0	12%
	Total	\$113,593,550	\$5,000,000	\$13,100,000	

Issues

1. Septic System Fee Collection Challenges

Effective October 1, 2005, all counties are responsible for collecting fees from users of septic systems and on-site sewage disposal systems. The funds generated will be used to upgrade systems to the best available technology nitrogen removal, with priority being given to failing systems in the critical areas. The State and most local jurisdictions lack a complete and current list of septic system and holding tanks users that do not receive a water or sewer bill. Therefore, the best method for collecting these fees has been debated at length. In January 2005, the BRF advisory committee developed several models and subsequently made recommendations to each county on the best methods for collecting the fee from septic system users.

Some of the programmatic implementation issues that may merit attention are summarized below.

- ***Lack of Start-Up Funding*** – While counties may use up to 5% of the BRF collected for reasonable administrative costs, fees cannot be collected until October leaving counties without program startup funding.
- ***Limited Information Technology (IT) Expertise*** – While multiple databases are available to help counties identify and bill septic system users, manipulating these databases to develop a means for billing may be a formidable task for some local jurisdictions. Some counties lack the IT expertise necessary to implement the data conversation and manipulation necessary, and enhancing this capacity can be an expensive undertaking.
- ***Limited Accuracy*** – Due to the limited availability of complete and up-to-date information, some billing databases may only be 80 – 90% accurate and will require significant updating and enhancement in the future.

MDE should be prepared to discuss how it is addressing Septic System Program implementation challenges associated with local jurisdiction’s lack of start-up funding, limited IT expertise, and incomplete data.

Recommended Actions

1. Concur with Governor’s allowance.

Fiscal 2006 Proposed Projects

Various projects to be determined.

**Fiscal Summary
Department of the Environment – PAYGO**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
03 Capital Appropriation - Water Quality	\$ 70,167,299	\$ 70,000,000	\$ 70,000,000	\$ 0	0%
05 Capital Appropriation - Drinking Water	11,000,000	11,000,000	11,500,000	500,000	4.5%
11 Bay Restoration Fund - Wastewater Projects	0	0	35,000,000	35,000,000	
12 Bay Restoration Fund - Septic System Projects	0	0	250,000	250,000	
Total Expenditures	\$ 81,167,299	\$ 81,000,000	\$ 116,750,000	\$ 35,750,000	44.1%
General Fund	\$ 167,299	\$ 0	\$ 0	\$ 0	0.0%
Special Fund	35,212,000	35,527,000	63,883,000	28,356,000	79.8%
Federal Fund	37,623,000	37,206,000	43,254,000	6,048,000	16.3%
Total Appropriations	\$ 73,002,299	\$ 72,733,000	\$ 107,137,000	\$ 34,404,000	47.3%
Reimbursable Fund	\$ 8,165,000	\$ 8,267,000	\$ 9,613,000	\$ 1,346,000	16.3%
Total Funds	\$ 81,167,299	\$ 81,000,000	\$ 116,750,000	\$ 35,750,000	44.1%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

Bay Restoration Fund Project Priority List

(November 10, 2004)

<u>Rank</u>	<u>Major WWTP</u>	<u>County</u>	<u>Readiness to Proceed</u>	<u>Load Reduction</u>	<u>303(d)/T MDL</u>	<u>Cost/Lb</u>	<u>Compliance</u>	<u>Total</u>
1	Patapsco	Baltimore City	30	15	5	10	0	60
2	Celanese	Allegany	30	3	5	3	10	51
3	Easton	Talbot	30	3	5	3	5	46
4	Salisbury	Wicomico	20	5	10	10	0	45
5	Havre De Grace	Harford	20	3	5	5	10	43
5	Kent Island	Queen Anne's	30	3	5	5	0	43
6	Chestertown	Kent	20	3	5	3	10	41
7	Cumberland	Allegany	10	5	5	10	10	40
7	Cox Creek	Anne Arundel	10	5	5	10	10	40
7	Back River	Baltimore City	10	15	5	10	0	40
8	Elkton	Cecil	20	3	5	5	5	38
8	Conococheague	Washington	10	3	5	10	10	38
9	Centreville	Queen Anne's	10	3	10	3	10	36
9	Talbot County Region II	Talbot	20	3	5	3	5	36
10	Annapolis	Anne Arundel	10	5	10	10	0	35
10	Patuxent	Anne Arundel	10	5	10	10	0	35
10	Western Branch	Prince George's	5	5	5	10	10	35
10	Hagerstown	Washington	10	5	5	10	5	35
11	Denton	Caroline	20	3	5	5	0	33
11	Hurlock	Dorchester	5	3	10	5	10	33
11	Aberdeen	Harford	5	3	10	10	5	33
11	Poolesville	Montgomery	5	3	10	5	10	33
12	Crisfield	Somerset	20	3	5	3	0	31
13	Cambridge	Dorchester	5	5	10	10	0	30
13	Frederick	Frederick	5	5	10	10	0	30
13	Sod Run	Harford	10	5	5	10	0	30
13	Little Patuxent	Howard	5	5	10	10	0	30
13	Parkway	Prince George's	10	5	5	10	0	30
13	Piscataway	Prince George's	10	5	5	10	0	30
14	Broadneck	Anne Arundel	10	3	5	10	0	28
14	Chesapeake Beach	Calvert	10	3	5	10	0	28
14	Ballenger Creek	Frederick	5	3	10	10	0	28

<u>Rank</u>	<u>Major WWTP</u>	<u>County</u>	<u>Readiness to Proceed</u>	<u>Load Reduction</u>	<u>303(d)/T MDL</u>	<u>Cost/Lb</u>	<u>Compliance</u>	<u>Total</u>
14	Seneca Creek	Montgomery	10	3	5	10	0	28
14	Delmar	Wicomico	10	3	10	5	0	28
14	Blue Plains (MD Portion)	District of Columbia	5	15	5	3	0	28
15	Georges Creek	Allegany	10	3	5	3	5	26
15	Federalsburg	Caroline	10	3	10	3	0	26
15	Aberdeen Proving Grounds-Aberdeen	Harford	5	3	5	3	10	26
15	Pocomoke City	Worcester	5	3	5	3	10	26
16	Mattawoman	Charles	5	5	5	10	0	25
17	Broadwater	Anne Arundel	10	3	5	5	0	23
17	Maryland City	Anne Arundel	10	3	5	5	0	23
17	Freedom District	Carroll	5	3	5	10	0	23
17	Mount Airy	Carroll	5	3	5	10	0	23
17	Westminster	Carroll	5	3	5	10	0	23
17	Perryville	Cecil	10	3	5	5	0	23
17	La Plata	Charles	5	3	10	5	0	23
17	Thurmont	Frederick	5	3	5	5	5	23
17	Joppatowne	Harford	10	3	5	5	0	23
17	Damascus	Montgomery	10	3	5	5	0	23
17	Princess Anne	Somerset	5	3	5	10	0	23
17	Maryland Correctional Institute (State)	Washington	5	3	5	10	0	23
18	Dorsey Run (State)	Anne Arundel	5	3	10	3	0	21
18	Mayo Large Communal	Anne Arundel	10	3	5	3	0	21
18	Indian Head	Charles	10	3	5	3	0	21
18	Brunswick	Frederick	10	3	5	3	0	21
18	Emmitsburg	Frederick	5	3	5	3	5	21
18	Fruitland	Wicomico	5	3	10	3	0	21
18	Snow Hill	Worcester	10	3	5	3	0	21
19	Taneytown	Carroll	5	3	5	5	0	18
19	Northeast River	Cecil	5	3	5	5	0	18
19	Bowie	Prince George's	5	3	5	5	0	18
19	Marlay Taylor (Pine Hill Run)	Saint Marys	5	3	5	5	0	18
20	Swan Point	Charles	5	3	5	3	0	16
20	Leonardtwn	Saint Mary's	5	3	5	3	0	16
20	Winebrenner WWTP	Washington	5	3	5	3	0	16