(Part of the BRF Annual Update Report)
Potential Funding Gap and Recommended Action: *(MDE/WQFA)*

Based on current total estimated ENR capital cost of $1.539 billion and BRF wastewater (WW) fund projected cash flow, the WW fund can provide $880 million in grants and is expected to have a funding deficit of $659 million by 2018. Under the current ENR project schedule and anticipated cash flow needs, the WW fund will be able to provide up to 100% grants for ENR expenditures through FY 2011. This will be accomplished by issuing approximately $530 million in revenue bonds in addition to using the Bay fee cash balances (See Attachment 1 for details). The primary reasons for the anticipated funding gap are the higher ENR project costs and the 15-year term limitation on the bay bonds, as required under the Maryland Constitution for State supported debt. MDE investigated the issuance of 20-year bonds, which would have allowed the State to issue $100 million more in revenue bonds than the 15-year term. However, it was later determined by the State Treasurer that since the BRF fee is assessed practically from all State residents, any bonds leveraged against the fee must have the same terms as the General Obligation debt, which is set by the State Constitution not to exceed 15 years.

The Advisory Committee has evaluated the following options:

a. Increasing the Bay fee, which is currently $2.50 per month per Equivalent Dwelling Unit:

This option requires legislative approval. Extensive debate would be expected due to the increasing cost of ENR upgrades being completed by local governments. MDE may not support this option unless it is needed after the implementation of the cost share program under which the increased cost is shared between the upgraded treatment plant users and the general population of all BRF fee payers.

b. Reducing the ENR grant, which currently is at 100% of eligible costs:

This option will address most or all the deficit and allows MDE and local governments to have more shared interest for cost containment.

c. Reprioritizing the upgrade of the 67 ENR projects while delaying or not undertaking the upgrade of certain WWTPs;

This option may no longer feasible because all the 67 plants will have nutrient loading limits in their discharge permit. Also, the available revenue does not allow for 100% funding even if we only upgrade the largest 3 plants, Patapsco, Blue Plains and Back River. The ENR cost for these 3 plants is currently estimated at $861 million. Adding the $169 million expended or committed to date would yield $1.030 billion, which is more than the available funds of $880 million.

d. Seeking Bay Restoration Fund statutory changes that allow the Bay fees to make debt service payment on bonds issued by local governments (for ENR eligible cost) that have a term of up to 30 years.

This option is easy to implement and is being discussed internally. However, alone it would not offset the shortfall.

In addition to option “d”, would the Committee like discuss option “b”, reducing ENR grant to less than 100%? Currently, available funds can cover 55% of the estimated eligible ENR costs.