

U10B00
Maryland Environmental Service

Executive Summary

The Maryland Environmental Service (MES) is an instrumentality of the State. MES provides technical services including engineering, design, financing, construction, and operation of water supply and wastewater treatment facilities. MES also provides similar services in the area of hazardous and solid waste facility management, including sanitary landfills, incinerators, and resource recovery facilities. Additional services offered include sludge and dredged materials management, recycling and marketing of end products, regulatory monitoring, and renewable energy needs servicing. MES operates on a fee-for-service basis.

Operating Budget Data

(\$ in Thousands)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>Change FY 2017-2018</u>
Total Assets	\$81,836	\$88,907	\$85,412	-\$3,495
Total Liabilities	58,011	62,671	57,338	-5,333
Total Net Assets	\$23,825	\$26,236	\$28,074	\$1,838
Total Revenue	\$159,505	\$165,784	\$155,299	-\$10,485
Total Expenditures	157,447	163,207	152,868	-10,339
Operating Income	\$2,058	\$2,577	\$2,431	-\$146

- Between fiscal 2017 and 2018, net operating income of MES decreased by \$146,000 for all operations excluding the Midshore Regional Landfill Private Purpose Trust Fund. According to MES's audited financial statements, the principal reason for the decrease in operating income was the termination of the Baltimore County contract for operation of several waste facilities in the solid waste business type activity.

U10B00 – Maryland Environmental Service

- Revenues decreased by \$10.5 million and expenditures decreased by \$10.3 million between fiscal 2017 and 2018. The reductions in operating revenue primarily reflect a decrease of \$6.5 million for environmental dredging due to the completion of the Wet Basin Storm Drain relocation; \$4.6 million for solid waste management as a result of the end of the contract with Baltimore County for operation of several solid waste facilities; and \$1.1 million for recycling. These decreases are offset partially by an increase of \$1.8 million for environmental monitoring of new State Highway Administration projects, including storm water inspections and survey work, and stormwater remediation work.
- In fiscal 2017, MES paid the State \$2,039,861 in unearned revenue from operating reimbursable projects that came in under budget in fiscal 2016 and paid the State \$2,122,707 in fiscal 2018 for fiscal 2017 unearned revenue. In fiscal 2018, MES came in \$13,773 over budget, which will be allocated from the State Reimbursable Project Contingency Fund – one of MES's three project reserve funds.
- MES considers its undesignated unrestricted net assets to be its fund balance. Undesignated unrestricted net assets decreased from \$5.3 million in fiscal 2014 to \$2.7 million in fiscal 2015 and to \$2.1 million in fiscal 2016. MES notes that it entered into a contract for the \$3.2 million purchase of an adjacent property in fiscal 2015 in order to alleviate parking constraints. However, there was an underlying increase of \$0.6 million in undesignated unrestricted net assets in fiscal 2015; thus, there was a net decrease of only \$2.5 million between fiscal 2014 and 2015. MES' unrestricted undesignated net position increased to \$3.4 million in fiscal 2017 and \$4.8 million in fiscal 2018. MES plans to use a portion of the \$4.8 million undesignated unrestricted net assets in fiscal 2019 to pay for the implementation of the Workday human resources software (\$2 million to \$3 million overall cost), building expansion costs on the adjacent property (\$3 million to \$4 million overall cost), and to cover any funding shortages. Therefore, the unrestricted undesignated net assets is expected to be reduced in fiscal 2019.
- An informal goal reflected by MES in the past is to reduce the overhead rate charged to State agencies and other clients as a result of increasing MES's client base, thus spreading overhead over more clients. In fact, overhead rates have trended down as follows: fiscal 2015 – 45.29%, fiscal 2016 – 44.75%, fiscal 2017 – 44.54%, fiscal 2018 – 43.60%, fiscal 2019 – 44.98%, and fiscal 2020 – 43.06%. MES has noted in the past that as its labor index – the amount of work contracted – rises, and costs remain unchanged or decrease, the overhead rate will decrease.

Personnel Data

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>
Regular Positions	806.00	806.00	806.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	806.00	806.00	806.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/18	n/a	n/a

- Regular positions are unchanged in the fiscal 2020 allowance. This reflects no change in anticipated needs.

Key Observations

- ***Used Antifreeze Recycling Increases and Oil Recycling Decreases:*** The amount of antifreeze recycled has not decreased in the same way as the amount of oil recycled because it is likely that owners of personal vehicles, boats, and recreational vehicles are continuing to perform annual maintenance procedures at home in preparation for the summer and winter seasons and, thus, have antifreeze to be recycled.
- ***Worker Safety Goal Met:*** MES met its worker safety goal in fiscal 2013 through 2018 due to accidents not resulting in serious injury, an increasing staff size, and the MES Safety Program.
- ***Client Satisfaction Rate Goal Met:*** MES has met its client satisfaction rate goal in each of the years in which it has administered a client satisfaction survey since fiscal 2011.
- ***State Reimbursable Project Costs Increase:*** State reimbursable project costs increase by \$3.6 million, or 13.9%, between fiscal 2019 and 2020.
- ***Jessup Steam Plant Overbudgeting Could Be Compensated by Project Reserve Fund:*** MES went \$267,012 over budget for the Department of Public Safety and Correctional Services (DPSCS) – Jessup Steam Plant project in fiscal 2018. Instead of using available State Reimbursable Project Contingency Fund funding to cover the shortfall, MES directly billed DPSCS. **The Department of Legislative Services recommends that \$267,012 be credited from the State Reimbursable Project Contingency Fund to the General Fund to reflect the underbudgeting of the DPSCS – Jessup Steam Plant project in fiscal 2018.**

Operating Budget Recommended Actions

1. Adopt narrative on a Maryland Environmental Service funding statement.

U10B00
Maryland Environmental Service

Operating Budget Analysis

Program Description

The Maryland Environmental Service (MES) was created as a unit within the Department of Natural Resources (DNR) in 1970 to provide water supply, wastewater treatment, and waste management services to State agencies, local governments, and private entities. During the 1993 session, the General Assembly adopted legislation that created MES as an instrumentality of the State and a public corporation independent of DNR. MES provides technical services including engineering, design, financing, construction, and operation of water supply and wastewater treatment facilities. MES also provides similar services in the area of hazardous and solid waste facility management, including sanitary landfills, incinerators, and resource recovery facilities. Additional services offered include sludge and dredged materials management, recycling and marketing of end products, regulatory monitoring, and renewable energy needs servicing.

As of January 2019, MES operates and maintains over 1,000 projects. Some of the projects are at State-owned facilities, such as the Poplar Island Environmental Restoration Project, the Hart-Miller Island Dredged Material Containment Facility, Cox Creek Dredged Material Containment Facility, recyclable material processing facilities in Montgomery and Prince George's counties, yard waste composting facilities in Montgomery and Prince George's counties, and the Midshore I and II regional landfills.

MES operates on a fee-for-service (FFS) basis. Operating funds are generated from six sources: State agency contracts, local government contracts, federal government contracts, private contracts, MES enterprises, and grants. In addition, MES receives State general obligation bond appropriations for capital improvements at State-owned facilities and may issue revenue bonds to finance local government projects. Revenues from State agency contracts derive from the operation and maintenance of State-owned water and wastewater treatment plants (WWTP) and from specific projects and services such as environmental cleanup or recycling program management. Revenues from local governments, the federal government, and the private sector derive from the operation and maintenance of water and wastewater treatment facilities and solid waste management services. MES enterprise revenues are generated by efforts such as yard waste composting, waste oil recovery, and geographic information system services.

Four goals guide MES's activities:

- improving the environment;
- improving infrastructure to convey and treat water and wastewater in the State;

- working more safely; and
- providing excellent customer service and satisfaction.

MES's mission and vision statements follow.

- ***Mission Statement:*** To provide operational and technical services to protect and enhance the environment for the benefit of the people of Maryland.
- ***Vision Statement:*** An innovative and leading edge solver of environmental problems, a responsible and successful manager of environmental operations, and a great place to work.

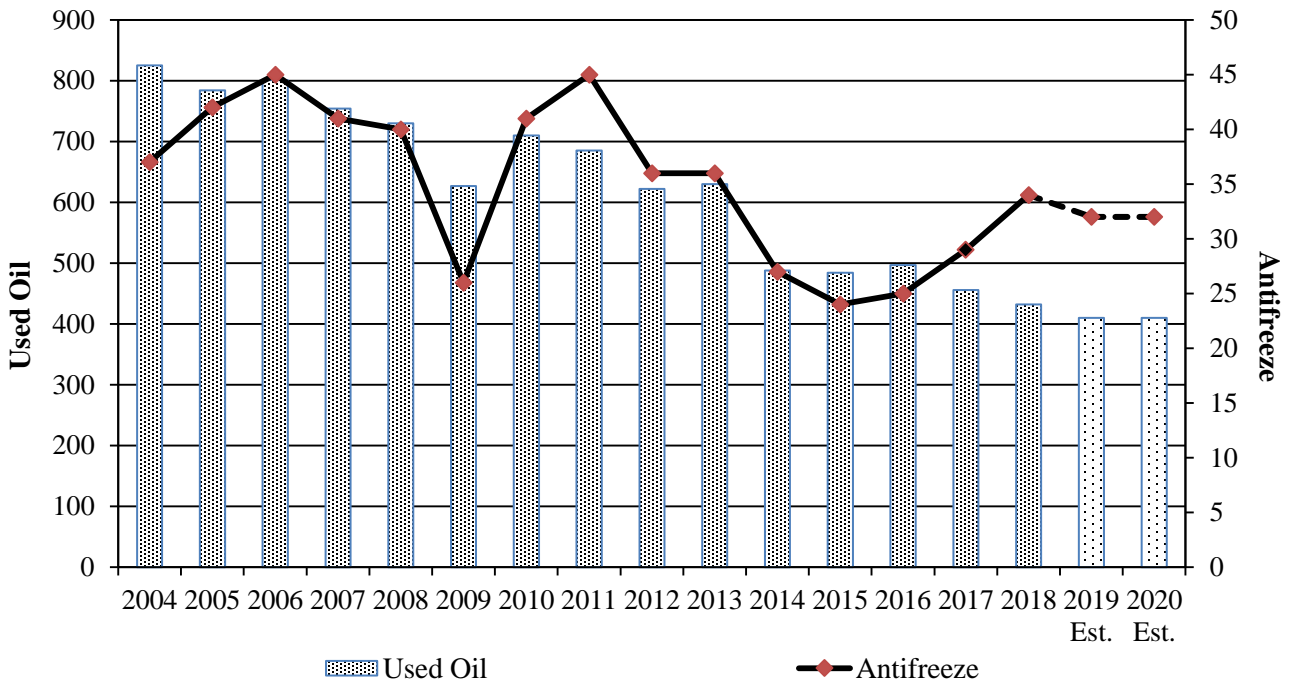
Performance Analysis: Managing for Results

The MES performance measures reflected in this analysis cover three of MES's four goals: to improve the environment through MES's activities, to work more safely, and to provide excellent customer service and satisfaction.

1. Used Antifreeze Recycling Increases and Oil Recycling Decreases

Two of the outputs under MES's goal of improving the environment are gallons of used antifreeze recycled and gallons of used oil recycled as part of the Maryland Used Motor Oil Recycling Program, which MES administers through an intergovernmental agency agreement with the Maryland Department of the Environment. There has been a recent increase in the amount of antifreeze recycled and a longer term decline in the amount of used oil recycled between fiscal 2004 and 2018, as shown in **Exhibit 1**. MES notes that the overall decrease in the amount of used oil collected since the early 2000s is due to the use of longer lasting synthetic oils, commercial establishments offering recycling services, auto service centers specializing in oil changes, and routine vehicle maintenance that is convenient and reasonably priced. The decrease between fiscal 2017 and 2018 is primarily due to Baltimore County leaving the Maryland Used Motor Oil Recycling Program and the lower price for used oil. MES notes that the amount of antifreeze recycled has not decreased in the same way as the amount of oil recycled because it is likely that owners of personal vehicles, boats, and recreational vehicles are continuing to perform annual maintenance at home in preparation for the summer and winter seasons and, thus, have antifreeze to be recycled.

Exhibit 1
Gallons of Used Oil and Antifreeze Recycled
Fiscal 2004-2020 Est.
(Thousands of Gallons)

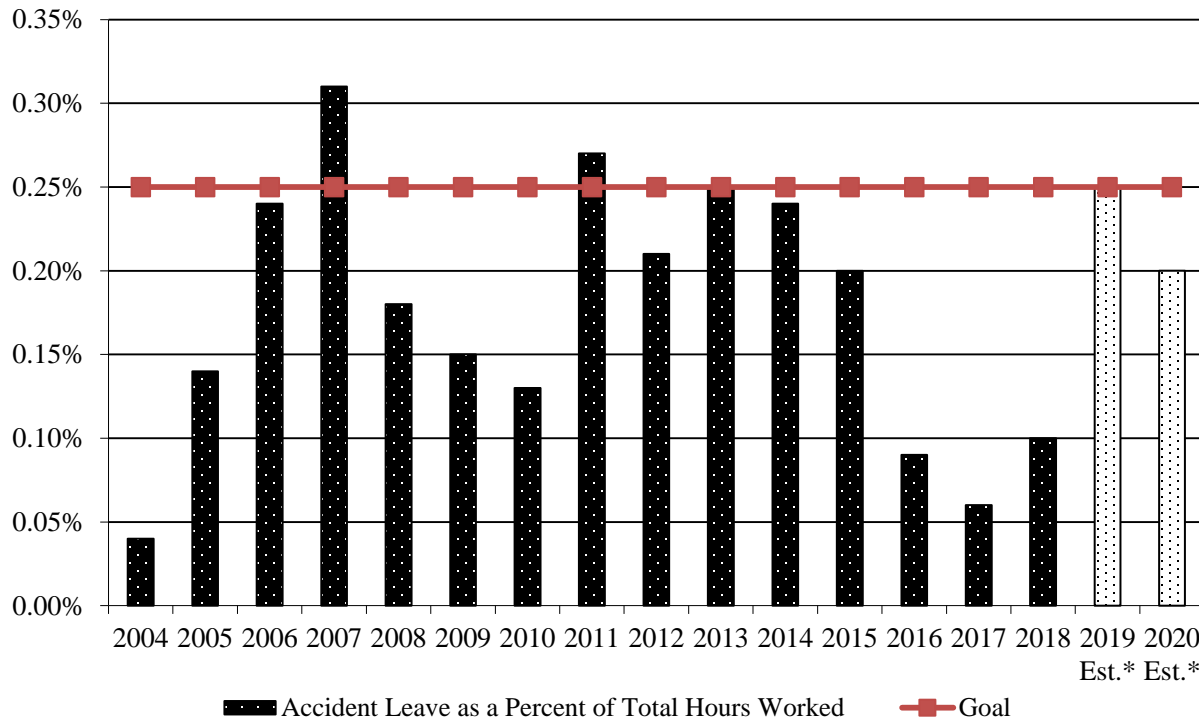


Source: Governor's Fiscal 2007-2016 and 2020 Budget Books, Department of Budget and Management

2. Worker Safety Goal Met

Another MES goal is to work more safely. One outcome related to this goal relates to accident leave as a percent of total hours worked, which is derived by dividing the total number of accident leave hours by the total billable hours for MES. MES's goal for this measure is to have accident leave be less than 0.25% of total hours worked, or less than one accident for every 400 hours worked. By this standard, MES met its goal in fiscal 2013 through 2018, as shown in **Exhibit 2**. In fact, MES was well under the 0.25% of total hours worked goal in fiscal 2018. MES has noted in the past that this is because of the following: (1) accidents that have occurred have not resulted in serious injury, so employees that did have accidents were able to return to work on modified duty, resulting in decreased accident leave usage; (2) MES continues to grow in staff numbers, which increases the total hours worked and decreases the percent of accident leave as a percent of total hours worked; and (3) the MES Safety Program continues to train staff in best practices, which helps prevent accidents.

Exhibit 2
Accident Leave as a Percent of Total Hours Worked
Fiscal 2004-2020 Est.



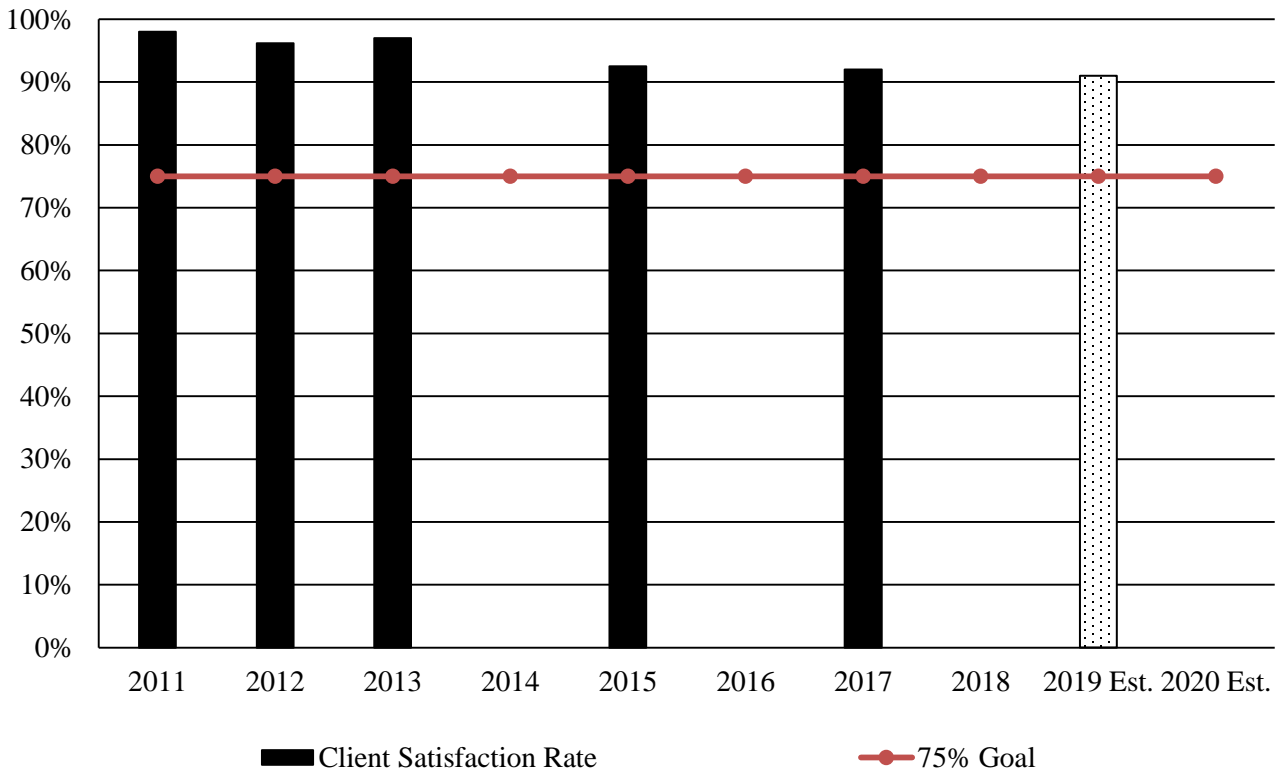
*Fiscal 2019 and 2020 estimates for accident leave as a percent of hours worked are for less than or equal to 0.25%.

Source: Governor's Fiscal 2007-2016 and 2020 Budget Books, Department of Budget and Management

3. Client Satisfaction Rate Goal Met

Under MES's fourth goal – provide excellent customer service and satisfaction – MES has the objective to achieve a client satisfaction result of 75% or more. As shown in **Exhibit 3**, MES has met this goal in each of the years in which it has administered a client satisfaction survey since fiscal 2011. MES has noted in the past that it uses feedback from customer service reports to direct operating groups to respond to concerns noted within 48 hours. In addition, MES senior staff, such as the executive director and/or the division chief, visit all field offices at least once per year in order to interact and improve communication with field staff. MES also conducts at least one education outreach program annually. During the last quarter of every other fiscal year, it distributes a client satisfaction survey for each client to complete; responses are averaged to calculate an overall client satisfaction rate.

Exhibit 3
Client Satisfaction Rate
Fiscal 2011-2020 Est.



Note: The Maryland Environmental Service conducts a client satisfaction survey every other year.

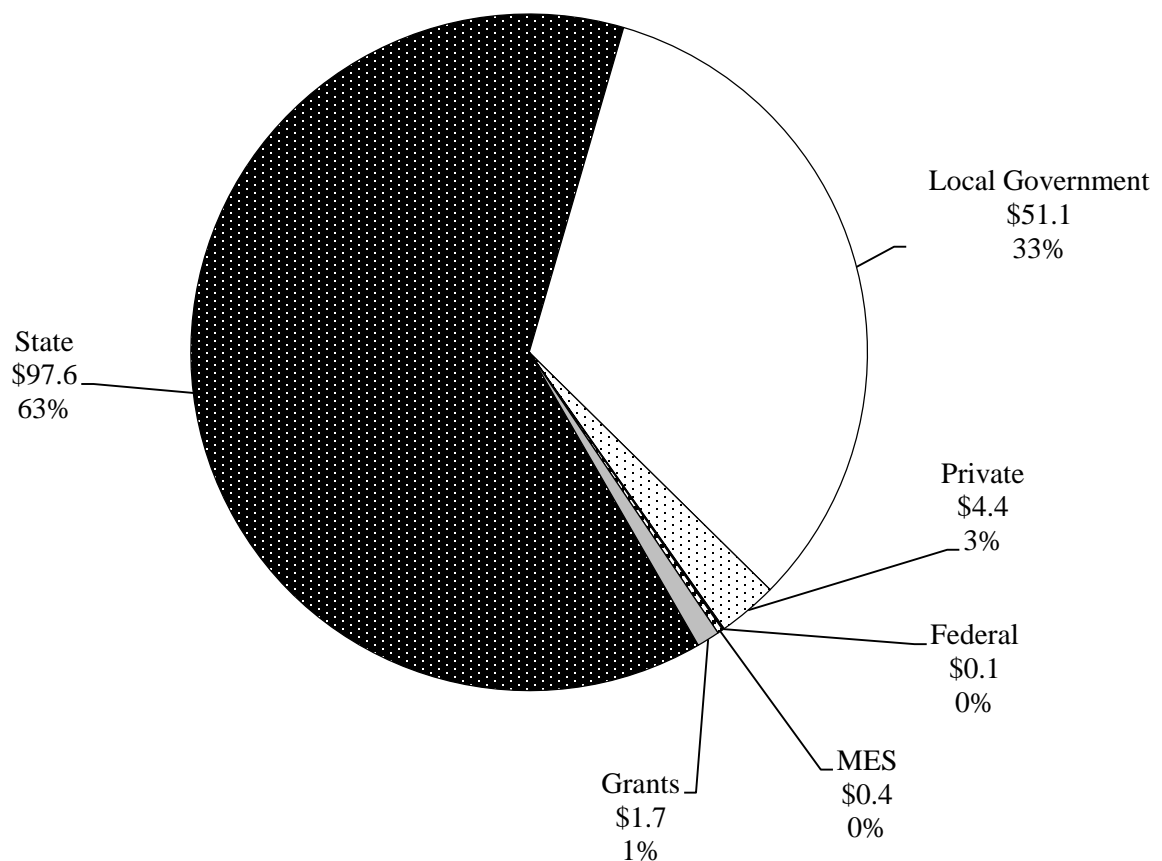
Source: Governor’s Fiscal 2013-2020 Budget Books

MES’s Fiscal 2018 Financial Position

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 4** provides an overview of fiscal 2018 revenue by fund source and shows that approximately 96% of MES’s revenue comes from State and local government. In terms of its relationship with the State, MES has two arrangements: (1) reimbursable projects are related to Executive Order 01.01.1971.11 and the Board of Public Works directive that MES operate wastewater and drinking water plants for State agencies; and (2) contractual projects for which MES has a contract with a State agency to do the work. Between fiscal 2017 and 2018, MES’s State government revenues decreased by \$7.9 million, and local government revenues decreased by \$2.4 million. The State revenues decreased due to the completion

of the Seagirt Dundalk Access project, which was offset partially by an increase in Masonville Dredging and Construction projects such as the construction of a trash interceptor. Local government revenues decreased due to termination of the Baltimore County contract for operations of several waste facilities, which was partially offset by a new capital project to expand food waste processing capacity in Prince George's County.

Exhibit 4
MES Revenue by Fund Source
Fiscal 2018
(\$ in Millions)



MES: Maryland Environmental Service

Source: Maryland Environmental Service

MES reimbursable project spending may be viewed as (1) engineering and maintenance spending and (2) operations and maintenance spending. As shown in **Exhibit 5**, MES was under budget by \$2,422,707 for fiscal 2017 reimbursable projects, of which \$300,000 was allocated to the Eastern

Correctional Institution (ECI) Steam Turbine Contingency Fund leaving \$2,122,707 in general fund unearned revenue that was returned to the State. For fiscal 2018, MES was over budget by \$13,773 for reimbursable projects. As result, as shown in **Exhibit 6**, an equivalent amount of funding needs to be allocated to MES from one of MES's three project reserve funds – the State Reimbursable Project Contingency Fund – which are discussed as an issue in this analysis. The \$13,773 over budget for fiscal 2018 was primarily due to operations and maintenance costs at Rocky Gap WWTP coming in higher than anticipated.

Exhibit 5
General Fund Unearned Revenue Amount
Fiscal 2017

	<u>Legislative</u> <u>Approp.</u>	<u>Actual</u>	<u>Difference</u>
Spending			
Engineering and Maintenance	\$2,489,008	\$2,561,893	-\$72,885
Operations and Maintenance	23,468,710	20,608,792	2,859,918
Total	\$25,957,718	\$23,170,685	\$2,787,033
Adjustments			-\$179,402
Unearned Revenue			\$2,607,631
DNR Special Funds Returned			-\$184,924
General Fund Unearned Amount			\$2,422,707
State Reimbursable Project Contingency Fund Allocation			\$0
ECI Steam Turbine Contingency Fund Allocation			-300,000
Miscellaneous Adjustment			0
General Fund Amount Returned to the State			\$2,122,707

DNR: Department of Natural Resources

ECI: Eastern Correctional Institution

Source: Maryland Environmental Service; Department of Legislative Services

Exhibit 6
General Fund Unearned Revenue Amount
Fiscal 2018

	<u>Legislative</u> <u>Approp.</u>	<u>Actual</u>	<u>Difference</u>
Spending			
Engineering and Maintenance	\$2,711,909	\$2,543,748	\$168,161
Operations and Maintenance	22,648,804	23,088,852	-440,048
Total	\$25,360,713	\$25,632,600	-\$271,887
Adjustments			\$258,114
Unearned Revenue			-\$13,773
DNR Special Funds Returned			\$0
General Fund Unearned Amount			-\$13,773
State Reimbursable Project Contingency Fund Allocation			\$0
ECI Steam Turbine Contingency Fund Allocation			0
Miscellaneous Adjustment			0
General Fund Amount Returned to the State			-\$13,773

DNR: Department of Natural Resources

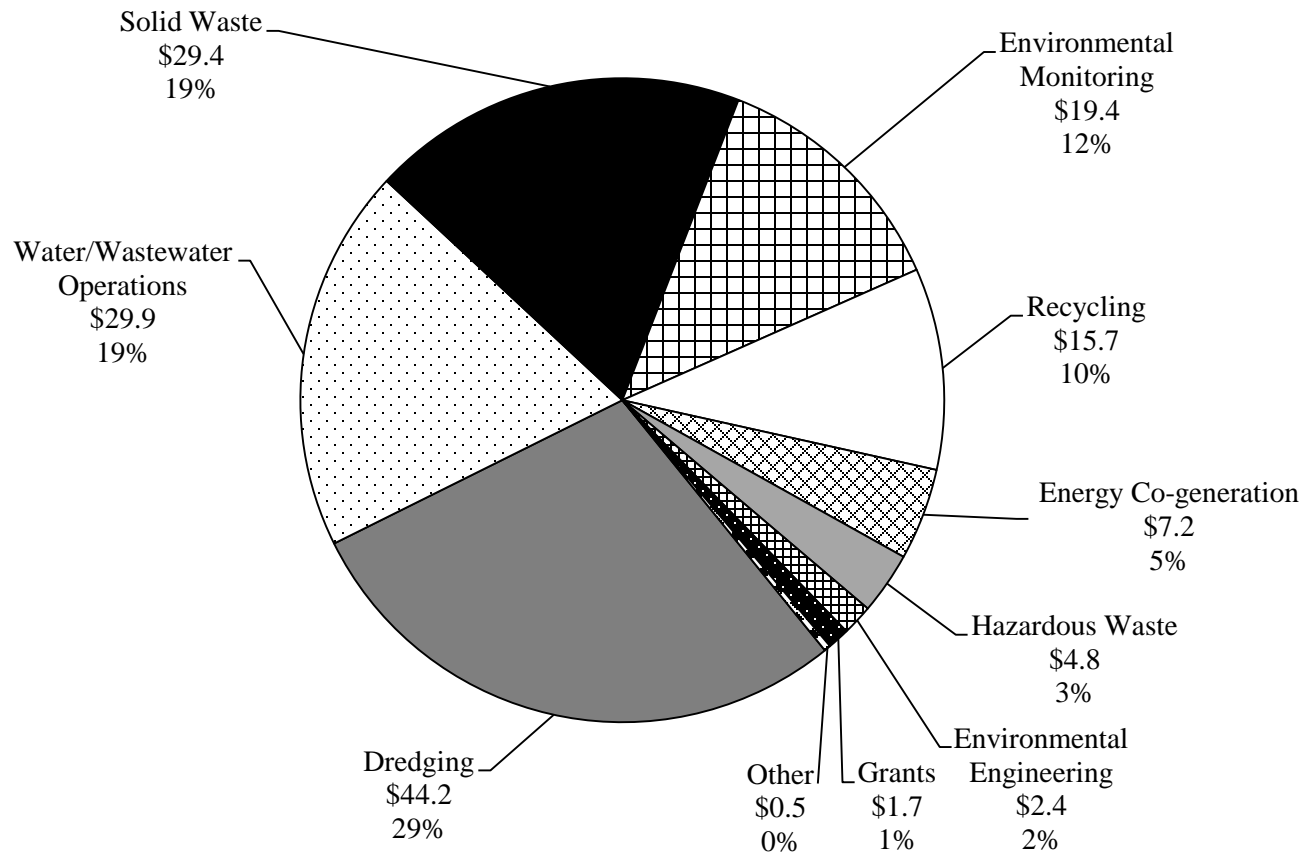
ECI: Eastern Correctional Institution

Note: The legislative appropriation reflects funding through the fiscal 2018 working appropriation, which includes an additional \$550,000 for the Department of Public Safety and Correctional Services – Jessup Steam Plant.

Source: Maryland Environmental Service; Department of Legislative Services

Exhibit 7 provides an overview of fiscal 2018 revenue by business activity type and shows that the largest three categories are dredging, water/wastewater operations, and solid waste. These three business activity types account for 67% of MES's revenue. In recent years, MES has entered the market for energy efficiency and renewable energy.

Exhibit 7
MES Revenue by Business Activity Type
Fiscal 2018
(\$ in Millions)



MES: Maryland Environmental Service

Source: Maryland Environmental Service

Financial Changes

MES's operating income decreased by \$146,000 between fiscal 2017 and 2018. MES's revenues decreased by \$10.5 million between fiscal 2017 and 2018 as shown by the revenue by business type activity in **Exhibit 8**. This reflects the following:

U10B00 – Maryland Environmental Service

- ***Environmental Dredging and Restoration:*** A decrease of \$6.5 million due to the completion of the Wet Basin Storm Drain relocation, which is offset partially by several one-time large construction projects.
- ***Solid Waste Management:*** A decrease of \$4.6 million as a result of the end of the contract with Baltimore County for operation of several solid waste facilities.
- ***Recycling:*** A decrease of \$1.1 million.
- ***Environmental Monitoring:*** An increase of \$1.8 million for environmental monitoring of new State Highway Administration projects, including stormwater inspections and survey work, and stormwater remediation work.

Exhibit 8
Revenues by Business Type Activity
Fiscal 2014-2018
(\$ in Thousands)

<u>Business Type Activity</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Change 2016-2017</u>	<u>Change 2017-2018</u>
Environmental Dredging and Restoration	\$31,222	\$53,325	\$41,666	\$50,742	\$44,243	\$9,076	-\$6,499
Solid Waste Management	15,831	16,289	34,738	34,009	29,430	-729	-4,579
Water/Wastewater Operations	22,753	24,196	33,809	30,216	29,926	-3,593	-290
Environmental Monitoring	12,879	14,596	16,499	17,580	19,384	1,081	1,804
Recycling	12,599	14,295	16,001	16,834	15,714	833	-1,120
Energy Co-generation	6,264	7,891	6,769	6,887	7,162	118	275
Hazardous Waste Treatment	5,175	5,500	4,819	4,766	4,837	-53	71
Environmental Engineering	2,048	1,908	2,735	2,263	2,398	-472	135
Grants	1,050	2,663	2,061	2,092	1,699	31	-393
Other	496	510	408	395	506	-13	111
Total Revenue	\$110,317	\$141,173	\$159,505	\$165,784	\$155,299	\$6,279	-\$10,485

Source: Maryland Environmental Service

As shown in **Exhibit 9** – expenses by object – MES’s overall operating expenses increase by \$12,181,000 between fiscal 2018 and 2019 but are anticipated to increase by only \$4,840,000 between fiscal 2019 and 2020. The major changes between fiscal 2018 and 2019 are an increase of \$6,183,000 for contractual services, \$2,032,000 for supplies and materials, \$2,014,000 for land and structures, and \$2,008,000 for technical and special fees, which are offset partially by a decrease of \$3,170,000 for

replacement equipment. The major changes between fiscal 2019 and 2020 are an increase of \$1,591,000 for salaries, wages, and fringe benefits, and an increase of \$1,050,000 for land and structures.

Exhibit 9
Operating Expenses
Fiscal 2018-2020

<u>Operating Expense</u>	<u>Expenditures</u> <u>2018</u>	<u>Legislative</u> <u>Appropriation</u> <u>2019</u>	<u>Allowance</u> <u>2020</u>	<u>Change</u> <u>2018-2019</u>	<u>Change</u> <u>2019-2020</u>
Salaries, Wages, and Fringe Benefits	\$51,699,000	\$53,040,000	\$54,631,000	\$1,341,000	\$1,591,000
Technical and Special Fees	10,492,000	12,500,000	12,875,000	2,008,000	375,000
Communication	591,000	500,000	515,000	-91,000	15,000
Travel	307,000	300,000	309,000	-7,000	9,000
Fuel and Utilities	7,314,000	8,000,000	8,240,000	686,000	240,000
Motor Vehicle Operation and Maintenance	4,426,000	5,000,000	5,150,000	574,000	150,000
Contractual Services	23,817,000	30,000,000	30,900,000	6,183,000	900,000
Supplies and Materials	7,968,000	10,000,000	10,300,000	2,032,000	300,000
Equipment – Replacement	8,170,000	5,000,000	5,150,000	-3,170,000	150,000
Fixed Charges	1,389,000	2,000,000	2,060,000	611,000	60,000
Land and Structures	32,986,000	35,000,000	36,050,000	2,014,000	1,050,000
Total Operating Expenses	\$149,159,000	\$161,340,000	\$166,180,000	\$12,181,000	\$4,840,000

Source: Department of Budget and Management

Types of MES Operations

MES's business type activities can generally be viewed as FFS and revenue-generating activities. Revenue-generating activities can be further divided into products and services. Before the sale of the scrap tire recycling facility in January 2008, MES sold recycled crumb rubber products. Currently, on behalf of its clients, MES produces two products – Leafgro and Leafgro Gold. Leafgro – composted yard waste such as grass clippings and leaves – and Leafgro Gold – composted food residual and yard waste – are produced under the contract that MES has to operate composting facilities for Montgomery and Prince George's counties; thus, the two counties receive the revenues from sales. However, MES continues to perform three revenue generating services: yard waste grinding, waste oil collection, and geospatial and engineering services.

Exhibit 10 reflects MES's revenue generating services. As can be seen, expenses exceeded revenues for only used oil collection in fiscal 2018, which has not necessarily been the case in recent years. For instance, expenses exceeded revenues for two of MES's three revenue generating activities

U10B00 – Maryland Environmental Service

in fiscal 2016 – used oil collection and geospatial and engineering services – and had done so for two of the three years between fiscal 2013 and 2015. MES notes that the operating loss for used oil collection in fiscal 2018 primarily reflects Baltimore County leaving the Maryland Used Motor Oil Recycling Program and the lower price for used oil. The operating gain for geospatial and engineering services – provided for various environmental planning and monitoring activities – reflects clients signing lump-sum task orders and an increase in the amount of onsite technical staff provided to other agencies. The increase in revenue for yard waste grinding, in fiscal 2018, reflects MES’s involvement in clean-up activities after a tornado in Queen Anne’s County.

Exhibit 10
Revenue Generating Services
Fiscal 2013-2018
(\$ in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Difference</u> <u>2017-2018</u>
Used Oil Collection							
Revenue	\$721	\$753	\$585	\$218	\$147	\$120	-\$27
Expense	-368	-338	-301	-242	-80	-126	-46
Total	\$353	\$415	\$284	-\$24	\$67	-\$6	-\$73
Geospatial and Engineering Services							
Revenue	\$2,878	\$3,447	\$4,549	\$4,546	\$4,611	\$5,291	\$680
Expense	-3,137	-3,404	-4,600	-4,753	-4,460	-5,024	-564
Total	-\$259	\$43	-\$51	-\$207	\$151	\$267	\$116
Yard Waste Grinding (Tub Grinding)							
Revenue	\$510	\$347	\$516	\$570	\$612	\$751	\$139
Expense	-378	-282	-345	-498	-570	-672	-102
Total	\$132	\$65	\$171	\$72	\$42	\$79	\$37

Source: Maryland Environmental Service

Proposed Budget

The proposed budget discussion focuses on the State reimbursable projects portion of MES’s budget. As shown in **Exhibit 11**, MES’s reimbursable project charges to State agencies increase from \$25,787,542 in fiscal 2019 to \$29,360,922 in fiscal 2020, an increase of \$3,573,380, or 13.9%. The major changes between fiscal 2019 and 2020 are as follows.

- **Salaries, Wages, and Fringe Benefits:** An increase of \$1,711,710 is for salaries, wages, and fringe benefits. The increase is due to the additional responsibility of managing the Department

U10B00 – Maryland Environmental Service

of Public Safety and Correctional Services (DPSCS) – Jessup Steam Plant; increased maintenance and repair of the additional substations at DPSCS – ECI Co-Generation Facility; reflection of a 3% performance-based salary increase contingent on the overall financial health of the State and other MES clients; and a growing need for management of stormwater management implementation, compliance efforts, and preventive maintenance of State-owned and operated facilities.

- ***Fuel and Utilities:*** An increase of \$1,348,570 is for fuel and utilities as a result of increased costs for wood chips and fuel oil to power MES's various power plant projects.
- ***Contractual Services:*** An increase of \$401,223 is for contractual services to replace aging equipment, maintain current equipment as it ages, and costs of contracted labor related to DPSCS – Jessup Steam Plant and DPSCS – Maryland Correctional Institution (MCI) – Hagerstown: Power Generation.

Exhibit 12 shows specific project changes between fiscal 2019 and 2020. Selected changes are as follows.

- ***DPSCS – ECI Co-Generation Facility:*** An increase of \$1,192,920 is due to the transfer of responsibility for maintenance and repair of nine substations from DPSCS to MES. MES's fiscal 2020 budget includes funding for two electricians to provide night/weekend facility coverage for these substations. MES notes that it is investigating the possibility of powering the ECI Co-Generation Facility with natural gas, instead of wood chips – the current practice – or number two fuel oil, which presumably might reduce costs in the long run. The Request for Proposals for natural gas extension to ECI generated one response, which is being evaluated.
- ***DPSCS – MCI – Hagerstown: Power Generation:*** An increase of \$881,049 primarily reflects fuel oil costs.
- ***DPSCS – ECI:*** An increase of \$500,860 is due to the WWTP upgrade to enhanced nutrient removal in fiscal 2020. This will require more contracted services; MES labor for project oversight, testing, and contract management; full-time site inspection personnel and engineering services; and funding for chemical usage increases.
- ***DPSCS – Jessup Steam Plant:*** An increase of \$358,801 is due to the full transition of DPSCS salaries and benefits for full-time staff to MES for the operation of the steam plant.
- ***DNR – Maryland Park Service:*** An increase of \$353,393 is due to MES taking on the water and wastewater operations at Harriet Tubman Underground Railroad State Park and expanded work at the Shad Landing area of Pocomoke River State Park. In addition, MES is accounting for budgeting deficiencies at Rocky Gap State Park for operation of both the drinking water and wastewater facilities – there was a shortfall of \$224,843 in fiscal 2018 that has been corrected in the fiscal 2020 allowance – which include the need to address utility and chemical cost increases associated with the membrane treatment technology used by both facilities.

Exhibit 11
Reimbursable Projects Funding Schedule
Fiscal 2018-2020

<u>Operating Expense</u>	<u>Expenditures</u> <u>2018</u>	<u>Appropriation</u> <u>2019</u>	<u>Allowance</u> <u>2020</u>	<u>Change</u> <u>2018-2019</u>	<u>Change</u> <u>2019-2020</u>
Salaries, Wages, and Fringe Benefits	\$14,499,718	\$15,413,762	\$17,125,472	\$914,044	\$1,711,710
Technical and Special Fees	628,512	490,694	511,023	-137,818	20,329
Communication	107,372	113,362	117,557	5,990	4,195
Travel	7,292	12,553	19,296	5,261	6,743
Fuel and Utilities	6,164,025	5,658,000	7,006,570	-506,025	1,348,570
Equipment Operations and Maintenance	536,098	498,750	557,986	-37,348	59,236
Contractual Services	1,641,973	1,454,728	1,855,951	-187,245	401,223
Materials and Supplies	2,107,471	2,145,693	2,167,067	38,222	21,374
Fixed Charges	1,065	0	0	-1,065	0
Miscellaneous Expenses	-60,926	0	0	60,926	0
Total Operating Expenses	\$25,632,600	\$25,787,542	\$29,360,922	\$154,942	\$3,573,380

Source: Maryland Environmental Service

Exhibit 12
Reimbursable Projects
Fiscal 2020 Allowance Data

<u>Facilities</u>	<u>Expenditures</u> <u>2018</u>	<u>Allocation</u> <u>2019</u>	<u>Allowance</u> <u>2020</u>	<u>Change</u> <u>2018-2019</u>	<u>Change</u> <u>2019-2020</u>	<u>% Change</u> <u>2018-2019</u>	<u>% Change</u> <u>2019-2020</u>
DPSCS – ECI Co-Generation Facility	\$7,188,777	\$6,979,149	\$8,172,069	-\$209,628	\$1,192,920	-2.9%	17.1%
DPSCS – MCI – Hagerstown: Power Generation	4,134,849	3,865,107	4,746,156	-269,742	881,049	-6.5%	22.8%
DPSCS – ECI	2,010,998	2,104,624	2,605,484	93,626	500,860	4.7%	23.8%
DPSCS – Jessup Steam Plant	821,040	872,844	1,231,645	51,804	358,801	6.3%	41.1%
DNR – Maryland Park Service	3,031,031	3,221,633	3,575,026	190,602	353,393	6.3%	11.0%
DPSCS – Dorsey Run Correctional Facility	1,782,640	1,743,507	1,908,326	-39,133	164,819	-2.2%	9.5%
MDH – Crownsville Hospital Center	484,357	560,359	631,646	76,002	71,287	15.7%	12.7%
Maryland Department of Veterans Affairs	578,625	513,383	579,301	-65,242	65,918	-11.3%	12.8%
DPSCS – MCI – Hagerstown	1,560,923	1,774,972	1,809,669	214,049	34,697	13.7%	2.0%
DJS – Victor Cullen Center	302,398	322,622	345,406	20,224	22,784	6.7%	7.1%
DJS – Cheltenham Youth Detention Center	520,318	519,761	539,256	-557	19,495	-0.1%	3.8%
MDH – Springfield Hospital Center	490,595	476,033	488,652	-14,562	12,619	-3.0%	2.7%
DPSCS – Western Correctional Institution	155,331	167,910	177,273	12,579	9,363	8.1%	5.6%
UMCES – Horn Point	74,959	74,540	83,667	-419	9,127	-0.6%	12.2%
St. Mary’s College of Maryland	166,934	76,160	79,193	-90,774	3,033	-54.4%	4.0%
DJS – Statewide Youth Centers	383,718	449,844	452,306	66,126	2,462	17.2%	0.5%
MDH – Rosewood Hospital	278	0	0	-278	0	-100.0%	0.0%

U10B00 – Maryland Environmental Service

<u>Facilities</u>	<u>Expenditures 2018</u>	<u>Allocation 2019</u>	<u>Allowance 2020</u>	<u>Change 2018-2019</u>	<u>Change 2019-2020</u>	<u>% Change 2018-2019</u>	<u>% Change 2019-2020</u>
Maryland Aviation Administration	29,304	26,275	24,642	-3,029	-1,633	-10.3%	-6.2%
DNR – Fishing and Boating Services	60,598	72,577	69,473	11,979	-3,104	19.8%	-4.3%
MDH – Clifton T. Perkins Hospital Center	208,813	217,327	204,368	8,514	-12,959	4.1%	-6.0%
DPSCS – MCI of Women – Jessup	255,217	265,622	249,783	10,405	-15,839	4.1%	-6.0%
Military Department	230,817	275,923	252,205	45,106	-23,718	19.5%	-8.6%
DPSCS – Patuxent Institution	533,637	555,390	522,273	21,753	-33,117	4.1%	-6.0%
DPSCS – MCI – Jessup	626,443	651,980	613,103	25,537	-38,877	4.1%	-6.0%
Total	\$25,632,600	\$25,787,542	\$29,360,922	\$154,942	\$3,573,380	0.6%	13.9%

DJS: Department of Juvenile Services
DNR: Department of Natural Resources
DPSCS: Department of Public Safety and Correctional Services
ECI: Eastern Correctional Institution
MCI: Maryland Correctional Institution
MDH: Maryland Department of Health
UMCES: University of Maryland Center for Environmental Science

Source: Governor’s Fiscal 2020 Budget Books

Issues

1. Jessup Steam Plant Overbudgeting Could Be Compensated by Project Reserve Fund

MES has the authority to create project reserve funds under § 3-103(h) of the Natural Resources Article. The General Assembly created specific project reserve funds with caps under Chapter 397 of 2011, the Budget Reconciliation and Financing Act. **Exhibit 13** reflects the recent project reserve fund history.

Exhibit 13 Project Reserve Fund Status November 2018

<u>Project Reserve Fund Activity</u>	<u>Amount</u>	<u>Cap</u>	<u>Difference</u>
State Reimbursable Project Contingency Fund			
Beginning Balance (June 30, 2018)	\$756,780		
Approved Retainage	-13,773		
Interest Earned	4,037		
Current Balance	\$747,044	\$1,000,000	-\$252,956
ECI Steam Turbine Contingency Fund			
Beginning Balance (June 30, 2018)	\$1,202,666		
Approved Retainage	0		
Interest Earned	6,430		
Current Balance	\$1,209,096	\$1,500,000	-\$290,904
DNR Project Contingency Fund			
Beginning Balance (June 30, 2018)	\$3,409		
Approved Additions	0		
Funds Used	0		
Interest Earned	18		
Current Balance	\$3,427	\$500,000	-\$496,573

DNR: Department of Natural Resources

ECI: Eastern Correctional Institution

Note: Maryland Environmental Service is working with the Department of Budget and Management on retaining \$13,773 to cover a fiscal 2018 shortfall due to operations and maintenance costs exceeding the budgeted appropriation. This allocation has not been formally approved but is reflected here as part of the State Reimbursable Project Contingency Fund balance because it is likely to receive approval.

Source: Maryland Environmental Service; Department of Legislative Services

U10B00 – Maryland Environmental Service

In January 2017, MES began to take over responsibility for the DPSCS – Jessup Steam Plant project by transitioning employees from DPSCS to MES and hiring additional employees. As a result, the Department of Budget and Management added to MES’s reimbursable project appropriation \$57,184 in fiscal 2017 and \$550,000 in the fiscal 2018 working appropriation. Subsequently, MES actually spent \$817,012 on the project in fiscal 2018, which it billed directly to DPSCS since it did not have an appropriation for this full amount, particularly the \$267,012 that was over budget. DPSCS was able to provide MES the funding within its fiscal 2018 appropriation. However, the project reserve funds were set up for this exact situation – an overbudgeted project. If \$267,012 was credited from the State Reimbursable Project Contingency Fund to the General Fund, then the State Reimbursable Project Contingency Fund would have a balance of \$480,032. **The Department of Legislative Services recommends that \$267,012 be credited from the State Reimbursable Project Contingency Fund to the General Fund to reflect the underbudgeting of the DPSCS – Jessup Steam Plant project in fiscal 2018.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

Maryland Environmental Service Funding Statement: The budget committees are concerned that the Maryland Environmental Service (MES) budgeted for a \$3.6 million, or 13.9%, increase in funding between fiscal 2019 and 2020 for State reimbursable projects. In addition, the committees are unclear about the relationship between MES's reimbursable project appropriation and its undesignated unrestricted net assets, overhead rate, and project reserve funds. Therefore, the committees request that MES provide a report on the following:

- undesignated unrestricted net assets for fiscal 2019, 2020, and 2021 estimated and an explanation for any changes between each of these years, including revenues credited to and expenditures debited from the net assets;
- overhead rate for fiscal 2019, 2020, and 2021 estimated;
- project reserve fund status by beginning balance, approved retainage, funds used, and interest earned for fiscal 2019 and 2020 for the State Reimbursable Project Contingency Fund, the Eastern Correctional Institution Steam Turbine Contingency Fund, and the Department of Natural Resources Project Contingency Fund; and
- justification for the changes in reimbursable project funding for fiscal 2019, 2020, and 2021 estimated based on a discussion about how MES's undesignated unrestricted net assets allow for reducing MES's overhead rate for State reimbursable projects and how project reserve funds are available for any under budgeting.

The report should be submitted in coordination with the Department of Budget and Management (DBM) with the fiscal 2021 budget submission.

Information Request	Authors	Due Date
MES funding statement	MES DBM	Fiscal 2021 budget submission

Appendix 1
Object/Fund Difference Report
Maryland Environmental Service

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	806.00	806.00	806.00	0.00	0%
Total Positions	806.00	806.00	806.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 51,699,000	\$ 53,040,000	\$ 54,631,000	\$ 1,591,000	3.0%
02 Technical and Special Fees	10,492,000	12,500,000	12,875,000	375,000	3.0%
03 Communication	591,000	500,000	515,000	15,000	3.0%
04 Travel	307,000	300,000	309,000	9,000	3.0%
06 Fuel and Utilities	7,314,000	8,000,000	8,240,000	240,000	3.0%
07 Motor Vehicles	4,426,000	5,000,000	5,150,000	150,000	3.0%
08 Contractual Services	23,817,000	30,000,000	30,900,000	900,000	3.0%
09 Supplies and Materials	7,968,000	10,000,000	10,300,000	300,000	3.0%
10 Equipment – Replacement	8,170,000	5,000,000	5,150,000	150,000	3.0%
13 Fixed Charges	1,389,000	2,000,000	2,060,000	60,000	3.0%
14 Land and Structures	32,986,000	35,000,000	36,050,000	1,050,000	3.0%
Total Objects	\$ 149,159,000	\$ 161,340,000	\$ 166,180,000	\$ 4,840,000	3.0%
Funds					
07 Nonbudgeted Fund	\$ 149,159,000	\$ 161,340,000	\$ 166,180,000	\$ 4,840,000	3.0%
Total Funds	\$ 149,159,000	\$ 161,340,000	\$ 166,180,000	\$ 4,840,000	3.0%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.