

U10B00
Maryland Environmental Service

Operating Budget Data

(\$ in Thousands)

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Change FY 09-10</u>
Total Assets	\$68,399	\$92,362	\$77,472	-\$14,890
Total Liabilities	60,184	80,192	61,541	-\$18,651
Total Net Assets	\$8,215	\$12,170	\$15,931	\$3,761
Total Revenue	\$123,136	\$105,735	\$118,755	\$13,020
Total Expenditures	120,278	102,725	114,333	11,608
Operating Income	\$2,858	\$3,010	\$4,422	\$1,412

- Between fiscal 2009 and 2010, the operating income of the Maryland Environmental Service (MES) increased by \$1,412,000 for all operations excluding the Midshore Regional Landfill Private Purpose Trust Fund.
- Revenues and expenditures decreased between fiscal 2008 and 2009 primarily due to the end of the first phase of dredging at the Masonville Dredged Material Containment Facility. Masonville dike construction cost increases account for the increase in revenues and expenditures between fiscal 2009 and 2010.
- In fiscal 2010, MES paid the State \$500,000 as compensation for not partaking in the furlough but did implement the temporary salary reduction. For fiscal 2011, MES paid the State \$1,075,000 in recompense for not doing either the furlough or the temporary salary reductions.
- MES considers its undesignated unrestricted net assets to be its fund balance. Undesignated unrestricted net assets increased by \$1,856,000 between fiscal 2009 and 2010 to \$2,872,000.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

National Pollutant Discharge Elimination System Violations and Work Accident Trends Continue to Improve: The trend for both National Pollutant Discharge Elimination System violations and work accidents went down for the fiscal 2007 to 2010 time period.

Client Satisfaction Rate Increases: The percentage of clients reporting satisfaction through a survey increased between fiscal 2009 and 2010.

Issues

Legislative Oversight Needed: MES and the Department of Budget and Management have participated in a financial agreement outside the scope of legislative oversight allowing MES to retain excess payment for State reimbursable projects. **The Department of Legislative Services recommends that committee narrative be adopted expressing the budget committees' intent that MES shall budget project reserve fund appropriations separately for each agency reimbursable project in the Governor's Budget Books and revert all unspent agency reimbursable project funds to the fund of origin.**

Recommended Actions

1. Adopt committee narrative on budgeting project reserve fund appropriations and reverting unspent agency reimbursable project funding.

Updates

Midshore II Landfill Opens Fall 2010: The Midshore Regional Landfill is operated by MES and is a partnership of Caroline, Kent, Queen Anne's, and Talbot counties whereby each county hosts a solid waste facility for 20 years. Midshore I, the first 20-year facility, has reached its agreed upon life and closed in December 2010. Midshore I is being replaced by the Midshore II landfill. The Midshore II landfill opened for soft trash the week starting October 11, 2010, and for all types of trash on January 3, 2011.

Potential Anaerobic Digester Project Near Eastern Correctional Institution: MES is looking into the possibility of siting an anaerobic digester power generation system on State property near the Eastern Correctional Institution as a form of renewable energy. The breakdown of biodegradable material in the absence of oxygen generates methane and biogas which can then be used to replace

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fossil fuels. Currently, MES operates the cogeneration woodchip burning power facility at Eastern Correctional Institution.

Baltimore County Resource Recovery Retrofit for Recycling: Since 1990, MES has run the Baltimore County Resource Recovery Facility in Cockeysville. Services provided to Baltimore County residents include solid waste transfer and recovery and the use of the site as a drop-off point for general solid waste and recycled materials. MES has proposed to reconstruct the Baltimore County Resource Recovery Facility to allow for single stream recycling. Currently, unsorted recycling material is trucked to Waste Management, Inc.

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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. The organization's primary goals are to improve the environment, work more safely, and provide excellent customer service and satisfaction. 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 June 30, 2010, MES operated and maintained 663 projects, of which 243 were 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, and a regional yard-debris composting facility.

MES operates on a fee-for-service basis. Operating funds are generated from five sources: State agency contracts, local government contracts, federal government contracts, private contracts, and MES enterprises. 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 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 and waste oil recovery.

Three goals guide MES's activities:

- improve the environment;
- work more safely; and
- provide excellent customer service and satisfaction.

Performance Analysis: Managing for Results

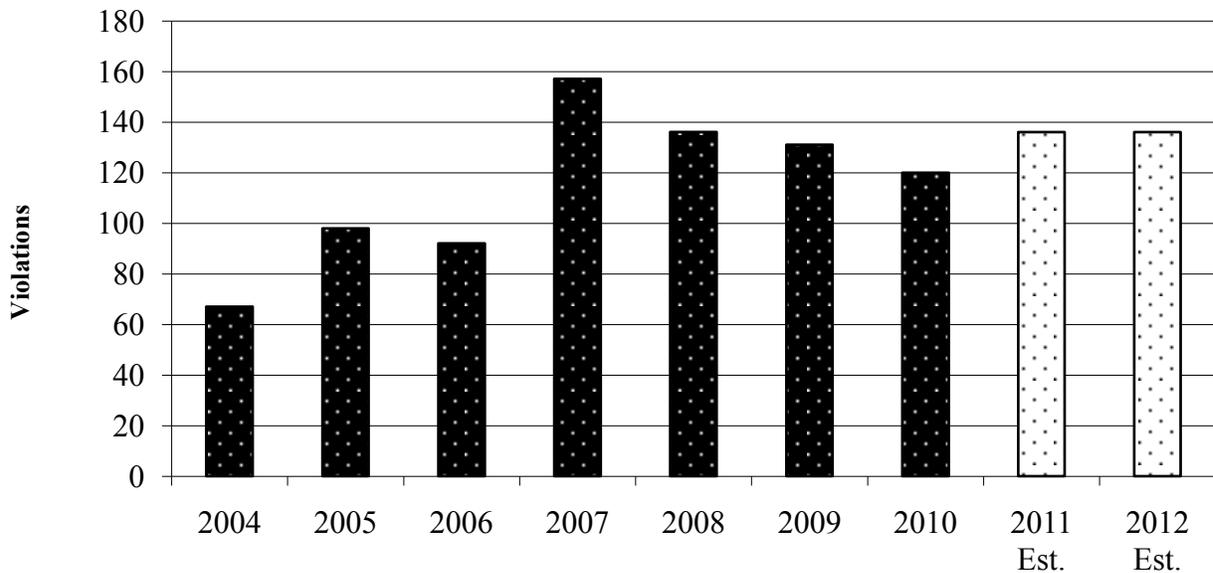
MES’s mission and vision statements are shown below.

Mission Statement: To provide operational and technical services to protect and enhance the environment for 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.

MES’s performance measures relate to three goals. The first goal is to improve the environment through MES’s activities. One output for this goal is the number of corporate and State National Pollutant Discharge Elimination System (NPDES) violations. **Exhibit 1** shows that the number of NPDES violations has decreased from 157 in fiscal 2007 to 120 in fiscal 2010. Future year estimates project a higher level of violations. MES has noted that the number of NPDES violations is due to both increasing stringency in water quality standards and the fact that MES is operating more plants; therefore, the potential exists for more NPDES violations.

Exhibit 1
Corporate and State NPDES Violations
Fiscal 2004-2012

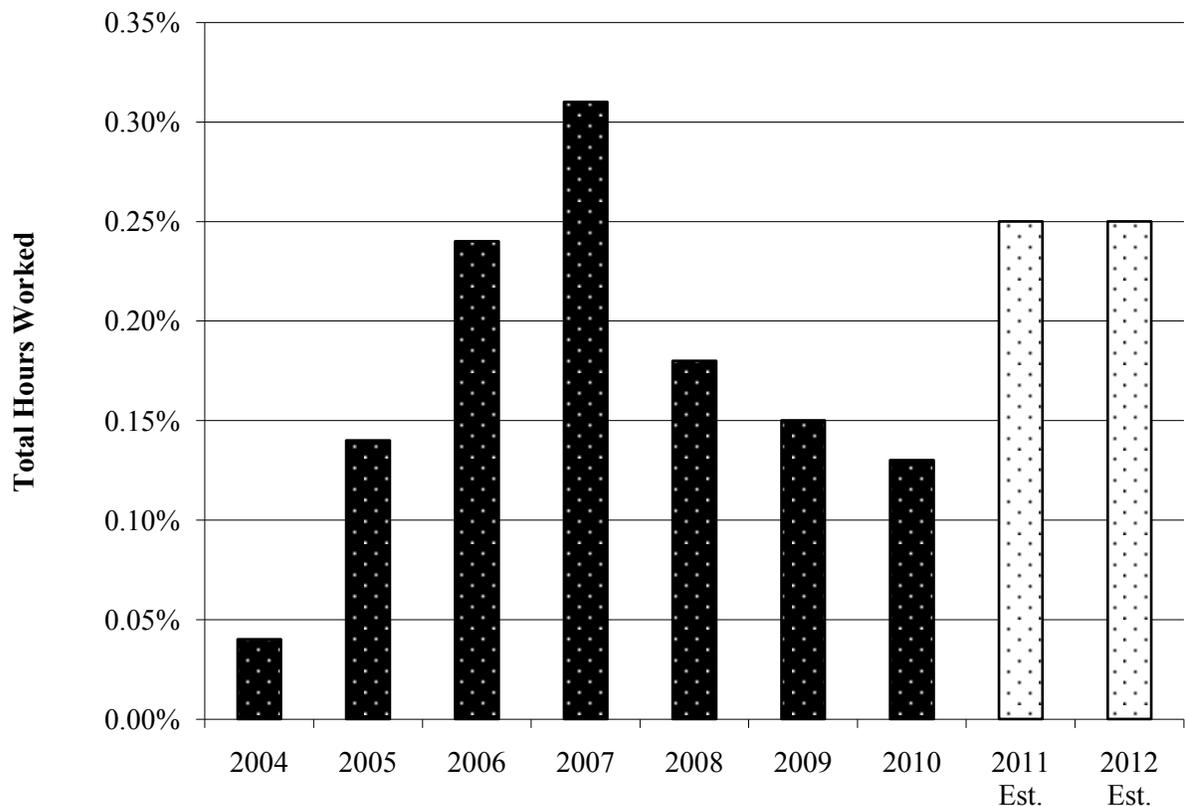


NPDES: National Pollutant Discharge Elimination System

Source: Governor’s Budget Books, Fiscal 2007-2012

Another MES goal is to work more safely. One outcome related to this goal is accident leave as a percent of total hours worked. Similar to the NPDES violations measure, MES has made substantial progress since 2007, as shown in **Exhibit 2**. MES’s previously stated goal for this measure was 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 has met its goal since fiscal 2008.

Exhibit 2
Accident Leave as a Percent of Total Hours Worked
Fiscal 2004-2012

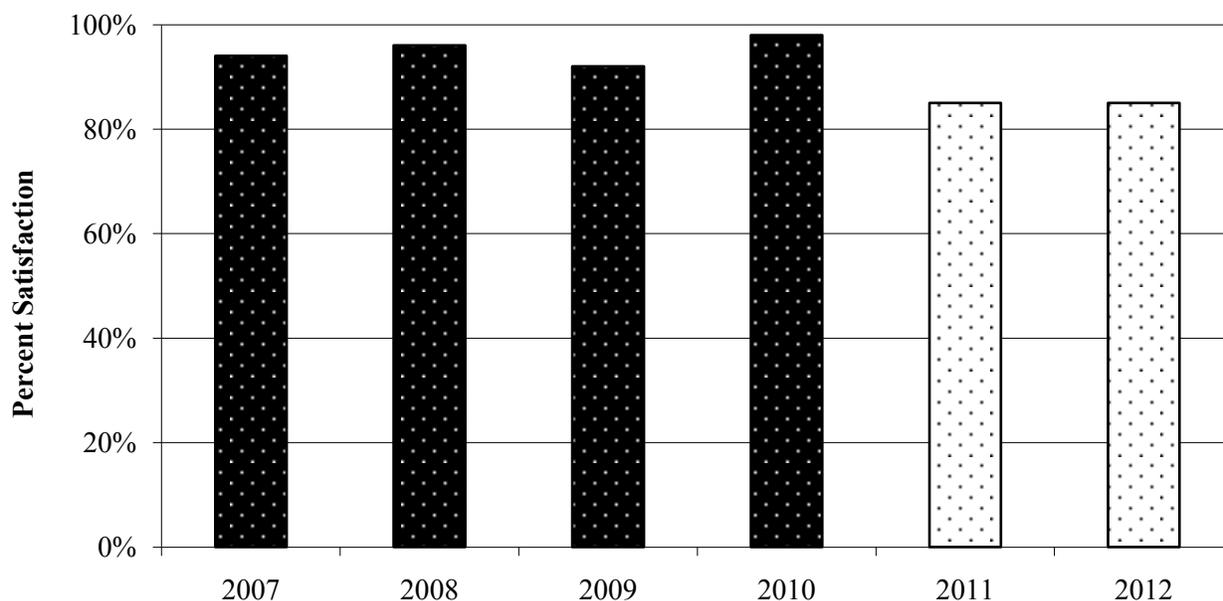


Note: Fiscal 2011 and 2012 estimates are for less than 0.25%.

Source: Governor’s Budget Books, Fiscal 2007-2012

Providing excellent customer service and satisfaction is MES’s third goal. It is measured by a client satisfaction rate determined by a phone survey, as shown in **Exhibit 3**. In general, performance for this measure has increased between fiscal 2007 (94%) and 2010 (98%).

Exhibit 3
Client Satisfaction Rate
Fiscal 2007-2012



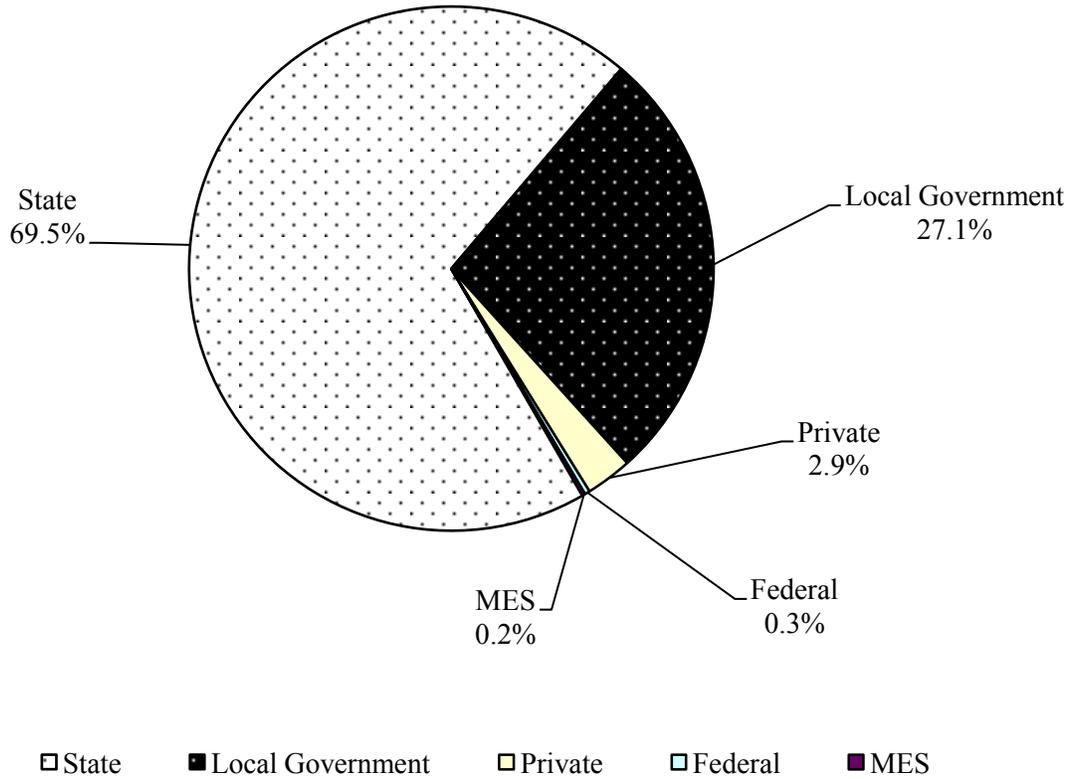
Note: Fiscal 2011 and 2012 estimates are for greater than 85%.

Source: Governor’s Budget Books, Fiscal 2007-2012

MES’s Fiscal 2010 Financial Position

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 4** provides an overview of fiscal 2010 revenue by fund source and shows that approximately 97% of MES’s revenue comes from State and local government. In terms of its relationship with the State, MES has two arrangements: 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 contractual projects which are projects for which MES has a contract with a State agency to do the work. In fiscal 2010, approximately \$20.7 million was budgeted for reimbursable State projects and \$62.3 million for contractual State projects. However, MES only spent \$19.7 million of reimbursable revenue and will request that it retain \$0.6 million of the difference for overhauling turbine generators at the Eastern Correctional Institution (ECI) and will remit the remainder to the State. The contractual State projects included work for the State Highway Administration, Maryland Energy Administration, DNR, and Maryland Port Administration. For instance, MES’s 2010 annual report notes that it has signed a \$4.3 million memorandum of understanding with DNR’s Fisheries Service for fisheries management plan implementation.

Exhibit 4
MES Revenue by Fund Source
Fiscal 2010

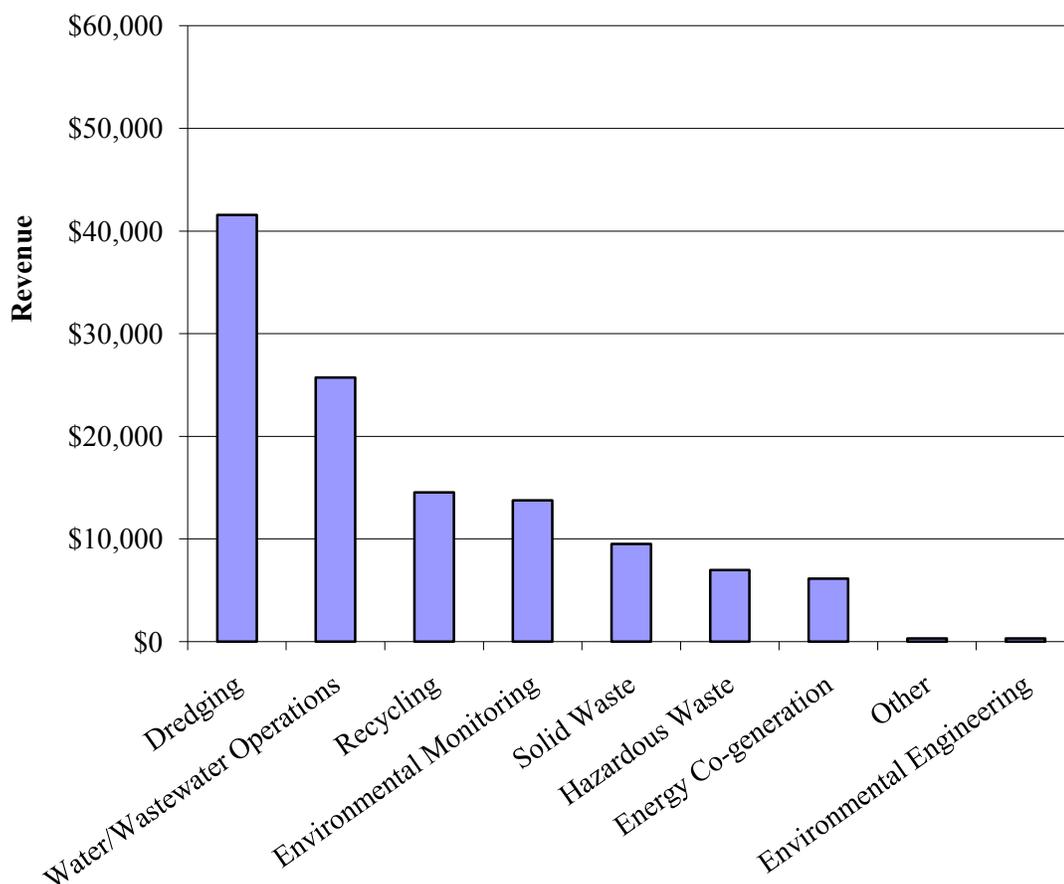


MES: Maryland Environmental Service

Source: Maryland Environmental Service

Exhibit 5 provides an overview of fiscal 2010 revenue by business activity type and shows that the largest two categories are dredging and water/wastewater operations. These two business activity types account for more than 50% of MES’s revenue.

Exhibit 5
MES Revenue by Business Activity Type
Fiscal 2010
(\$ in Thousands)



Source: Maryland Environmental Service

Financial Changes

MES’s operating income increased by \$1.4 million between fiscal 2009 and 2010. MES’s revenues increased by \$13.0 million between fiscal 2009 and 2010, primarily due to \$14.1 million in environmental dredging and restoration projects revenue. The largest expense increase was land, structures, and equipment for \$12.5 million, which reflects contractual services costs for the dredging of Masonville. Revenue by business type activity is shown in **Exhibit 6**, and expenses by object are shown in **Exhibit 7**.

**Exhibit 6
Revenues by Business Type Activity
Fiscal 2006-2010
(\$ in Thousands)**

<u>Business Type Activity</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Change 2008-2009</u>	<u>Change 2009-2010</u>
Environmental Dredging and Restoration	\$21,202	\$29,792	\$47,601	\$27,440	\$41,573	-\$20,161	\$14,133
Hazardous Waste Treatment	3,833	4,809	9,547	5,580	6,978	-3,967	1,398
Recycling	13,794	13,268	17,071	16,622	14,533	-449	-2,089
Water/Wastewater Operations	19,692	22,106	24,330	25,420	25,727	1,090	307
Environmental Monitoring	5,957	6,371	7,960	13,906	13,757	5,946	-149
Energy Co-generation	4,431	4,747	6,083	6,536	6,117	453	-419
Environmental Engineering	245	846	959	162	287	-797	125
Solid Waste Management	7,447	9,353	9,265	9,748	9,495	483	-253
Other	185	651	320	321	288	1	-33
Total Revenues by Business Type Activity	\$76,786	\$91,943	\$123,136	\$105,735	\$118,755	-\$17,401	\$13,020

Note: Numbers reflect restatements to account for the sale of the scrap tire recycling facility.

Source: Maryland Environmental Service

**Exhibit 7
Operating Expenses
Fiscal 2006-2010
(\$ in Thousands)**

<u>Operating Expense</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Change 2008-2009</u>	<u>Change 2009-2010</u>
Land, structures, and equipment	\$8,408	\$14,750	\$34,942	\$10,359	\$22,855	-\$24,583	\$12,496
Contractual services	11,647	14,026	18,285	18,636	17,775	351	-861
Salaries and benefits	28,502	30,736	34,818	37,185	38,671	2,367	1,486
Technical fees	3,991	5,255	6,523	8,824	9,372	2,301	548
Other	129	216	918	594	1,041	-324	447
General and administrative	7,493	9,086	9,598	10,998	9,152	1,400	-1,846
Utilities	2,233	2,097	2,453	5,175	5,096	2,722	-79
Depreciation	875	1,084	1,145	1,161	1,193	16	32
Materials and supplies	10,536	7,976	8,025	6,197	5,633	-1,828	-564
Repairs and maintenance	3,729	3,648	3,571	3,596	3,545	25	-51
Total Operating Expenses	\$77,543	\$88,874	\$120,278	\$102,725	\$114,333	-\$17,553	\$11,608

Note: Numbers reflect restatements to account for the sale of the scrap tire recycling facility.

Source: Maryland Environmental Service

Types of MES Operations

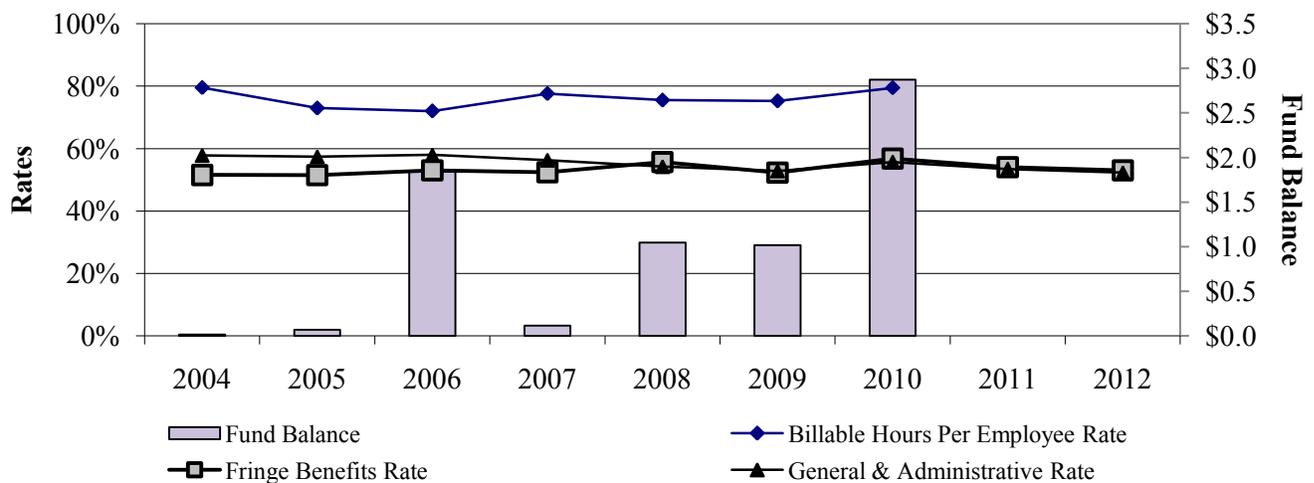
MES's business type activities can be viewed generally as fee-for-service, but more specifically as net revenue generating activities and cost recovery activities. Revenue generating activities can be further divided into products and services. Before the sale of the scrap tire recycling facility in January 2008, MES sold recycled crumb rubber products. Now, MES only produces a product called Leafgro. Leafgro is compost made from grass clippings and leaves that is produced for Montgomery and Prince George's counties which receive the revenues from sales. However, MES continues to perform at least two revenue generating services: yard waste grinding and waste oil collection. Therefore, the number of MES's revenue generating activities is fewer than in previous years, which means that ideally revenues for the cost recovery projects equal expenses.

Three Rates That Indirectly Measure Financial Performance

MES has chosen labor sales as the focus of its business plan, and in order for it to cover all of the administrative and nonbillable personnel costs, it must charge customers two rates: one for employee fringe benefits and the other for general and administrative purposes (overhead). It is MES’s intent to expand business and increase internal efficiency such that the overhead rate is spread out over a larger customer base and expenses are reduced. As a result, MES will be able to reward customers for return service by reducing the overhead rate. MES’s revenue generating activities were intended to provide a little cushion for the rest of the budget and allow for the reduction in the overhead rate, the potential for which is now reduced with the sale of the crumb rubber tire recycling facility.

Exhibit 8 shows the fund balance, fringe benefits, general and administrative, and billable hours per employee rates (where billable hours per employee is defined as the total number of billable hours in a year divided by the total number of employees and then divided by 2,080 work hours per year to get a percentage). The fund balance is defined as the undesignated unrestricted net assets. The fund balance is an indicator of financial health and may also be seen as an indicator of when general and administrative rates may be reduced allowing clients to achieve greater savings.

Exhibit 8
Maryland Environmental Service Financial Indicator Rates and Fund Balance
Fiscal 2004-2012
(\$ in Millions)



Note: The fund balance is defined as the undesignated unrestricted net assets. The general and administrative rate reflects a blended rate, which includes group overhead rates for certain services provided by the Maryland Environmental Service.

Source: Maryland Environmental Service

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Exhibit 8 reflects a trend related to the fund balance and general and administrative rate. Between fiscal 2005 and 2006, the fund balance increased by \$1.8 million. Two years later, MES lowered its general and administrative rate from 58.0 to 54.2%. Between fiscal 2009 and 2010, a similar increase in fund balance occurred, this time an increase of \$1.9 million, which was matched by a decrease in the general and administrative rate from 55.7% in fiscal 2010 to 52.3% in fiscal 2012.

Both the fringe benefits and billable hours per employee rates have been fairly stable over fiscal 2004 to 2010. MES attributes the decrease in the fringe benefits rate between fiscal 2011 and 2012 to the decision to reduce employer contributions to the 401(k) plan and lower workers' compensation claims. The general and administrative rate decreases due to lower spending on a slightly higher level of billable labor.

In order to be successful, MES needs to find a balance between the number of projects it takes on, the general and administrative rate, and the incremental cost of adding administrative and nonbillable positions. In addition, MES needs to be cognizant of its customers' desire for lower general and administrative rates. **The Department of Legislative Services (DLS) recommends that MES comment on the connection between its general and administrative rate and its fund balance (undesignated unrestricted net assets).**

Fiscal 2010 and Fiscal 2011 Actions

Impact of Cost Containment

In fiscal 2010, MES paid the State \$500,000 as compensation for not partaking in the furlough but did implement the temporary salary reduction. For fiscal 2011, MES paid the State \$1,075,000 in recompense for not doing either the furlough or the temporary salary reductions. Since MES works on a billable hour basis, like a law firm, it needs to keep people working so that it can cover all of its overhead expenses, such as accounting, human resources, and fringe benefits. MES estimated that it might have cost on the order of \$2.1 million if it had implemented the furlough and temporary salary reduction in fiscal 2011.

Proposed Budget

The proposed budget discussion focuses on the State reimbursable projects portion of MES's budget. As shown in **Exhibit 9**, MES's reimbursable project charges to State agencies increased by 3.2% between fiscal 2010 and 2011 but then decrease by 0.5% between fiscal 2011 and the fiscal 2012 allowance. The majority of the decrease between fiscal 2011 and 2012 is for the Department of Public Safety and Correctional Services – ECI. In general, MES attributes the reduction in State reimbursable project costs to a decrease in debt service payments and maintenance funding.

Exhibit 9
Reimbursable Projects
Fiscal 2012 Allowance Data

Facilities	Expenditures <u>2010</u>	Allocation <u>2011</u>	Allowance <u>2012</u>	Change <u>2010-2011</u>	Change <u>2011-2012</u>	Percent Change <u>2010-2011</u>	Percent Change <u>2011-2012</u>
Department of Public Safety and Correctional Services (DPSCS) – Eastern Correctional Institution	\$2,681,420	\$2,163,621	\$1,798,589	-\$517,799	-\$365,032	-19.3%	-16.9%
Department of Health and Mental Hygiene (DHMH) – Rosewood Center	10,608	29,864	27,054	19,256	-2,810	181.5%	-9.4%
Maryland Veterans Home Commission	315,752	371,420	358,179	55,668	-13,241	17.6%	-3.6%
St. Mary’s College of Maryland	71,462	76,715	74,869	5,253	-1,846	7.4%	-2.4%
University of Maryland Center for Environmental Science – Horn Point	40,544	57,881	56,661	17,337	-1,220	42.8%	-2.1%
Department of Juvenile Services (DJS) – Victor Cullen Center	297,760	281,472	280,116	-16,288	-1,356	-5.5%	-0.5%
DPSCS – Maryland Correctional Pre-Release System	1,670,376	1,907,590	1,901,459	237,214	-6,131	14.2%	-0.3%
DPSCS – Maryland Correctional Institution Reverse Osmosis Pilot Study	31,493	0	0	-31,493	0	-100.0%	0.0%
DPSCS – Maryland Correctional Institution – Hagerstown	1,640,215	1,645,744	1,646,236	5,529	492	0.3%	0.0%
DHMH – Crownsville Hospital Center	384,827	588,933	592,257	204,106	3,324	53.0%	0.6%
DPSCS – Eastern Correctional Institution Co-generation Facility	6,054,840	6,367,220	6,420,527	312,380	53,307	5.2%	0.8%
Military Department	120,562	141,697	143,802	21,135	2,105	17.5%	1.5%
DHMH – Springfield Hospital Center	738,519	816,160	829,818	77,641	13,658	10.5%	1.7%

<u>Facilities</u>	<u>Expenditures 2010</u>	<u>Allocation 2011</u>	<u>Allowance 2012</u>	<u>Change 2010-2011</u>	<u>Change 2011-2012</u>	<u>Percent Change 2010-2011</u>	<u>Percent Change 2011-2012</u>
Department of Natural Resources (DNR) – Forest Service	3,024,865	3,089,399	3,146,963	64,534	57,564	2.1%	1.9%
DPSCS – Western Correctional Institution	125,852	126,280	128,842	428	2,562	0.3%	2.0%
DPSCS – Patuxent Institution	538,774	628,806	642,356	90,032	13,550	16.7%	2.2%
DPSCS – Maryland Correctional Institution – Jessup	632,474	738,163	754,070	105,689	15,907	16.7%	2.2%
DPSCS – Maryland Correctional Institute for Women – Jessup	257,675	300,733	307,214	43,058	6,481	16.7%	2.2%
DHMH – Clifton T. Perkins Hospital Center	210,825	246,054	251,357	35,229	5,303	16.7%	2.2%
Maryland Aviation Administration	17,535	21,094	21,587	3,559	493	20.3%	2.3%
DJS – Department Support	409,524	356,342	366,900	-53,182	10,558	-13.0%	3.0%
DJS – O’Farrell Center	33,293	49,955	51,673	16,662	1,718	50.0%	3.4%
DNR – Fisheries Service	47,446	44,638	49,785	-2,808	5,147	-5.9%	11.5%
DHS – Boys’ Village of Maryland and RICA Cheltenham	373,986	318,665	420,916	-55,321	102,251	-14.8%	32.1%
Total	\$19,730,627	\$20,368,446	\$20,271,230	\$637,819	-\$97,216	3.2%	-0.5%

RICA: Regional Institutes for Children and Adolescents

Note: The Maryland Environmental Service indicates that the fiscal 2010 appropriation was \$20.7 million; therefore, MES is asking to retain \$0.6 million for projects and will remit the rest to the State.

Source: Governor’s Budget Books, Fiscal 2012

Issues

1. Legislative Oversight Needed

MES and the Department of Budget and Management (DBM) have participated in a financial agreement outside the scope of legislative oversight allowing MES to retain excess payment for State reimbursable projects. While MES has the authority to create project reserve funds by Natural Resources Article § 3-103(h), funding allocated to these funds from excess payment for State agency reimbursable projects should be reflected in the Governor's Budget Books. For instance, in fiscal 2005, MES created a project reserve fund for the periodic overhaul of steam turbines used to generate electricity at the Eastern Correctional Institution. This fund currently has a \$1.5 million balance, which MES has accumulated with DBM's approval, without revenues ever having been appropriated to the fund in the State budget. This practice is ongoing. In fiscal 2010, MES charged agencies \$20.7 million, but only spent \$19.7 million, a difference of \$1.0 million. Of this \$1.0 million, MES proposes to retain \$0.6 million for a pilot test of water treatment at Eastern Correctional Institution (\$0.4 million) and the turbine contingency fund (\$0.2 million) and remit the remaining \$0.4 million to the State.

DLS recommends that committee narrative be adopted expressing the budget committees' intent that MES shall budget project reserve fund appropriations separately for each agency reimbursable project in the Governor's Budget Books and revert all unspent agency reimbursable project funds to the fund of origin.

Recommended Actions

1. Adopt the following narrative:

Overpayment Retained Addressed: The committees are concerned that the Maryland Environmental Service (MES) has retained excess agency reimbursable project payments and placed these payments into at least one project reserve fund outside of the State budgeting process but with the concurrence of the Department of Budget and Management. Therefore, it is the committees' intent that MES shall budget project reserve fund appropriations separately for each agency reimbursable project in the Governor's Budget Books and revert all unspent agency reimbursable project funds to the fund of origin.

Updates

1. Midshore II Landfill Opens Fall 2010

The Midshore Regional Landfill is operated by MES and is a partnership of Caroline, Kent, Queen Anne's, and Talbot counties whereby each county hosts a solid waste facility for 20 years. Midshore I, the first 20-year facility, has reached its agreed upon life and closed in December 2010. Midshore I is being replaced by the Midshore II landfill, which opened for soft trash the week starting October 11, 2010, and for all types of trash on January 3, 2011.

Midshore II is estimated to cost \$22.0 million. Of this amount, \$3.4 million is from Water Quality Revolving Loan Fund funding, and \$18.3 million is from revenue bonds that were issued in February 2011 and have been rated AA by Standard & Poor's. The revenue bonds, in turn, were used to pay back the \$12.0 million bond anticipation note on February 16, 2011, and to pay MES for \$5.0 million of its own funding used for the project. MES will recover the debt service costs and general Midshore II operation costs by collecting a tipping fee for each ton of acceptable waste delivered. Midshore II's finances are handled as a separate part of MES's budget, the Midshore Regional Landfill Private Purpose Trust Fund.

2. Potential Anaerobic Digester Project Near Eastern Correctional Institution

MES is looking into the possibility of siting an anaerobic digester power generation system on State property near ECI as a form of renewable energy. The breakdown of biodegradable material in the absence of oxygen generates methane and biogas which can then be used to replace fossil fuels. Currently, MES operates the cogeneration woodchip burning power facility at ECI.

MES has received a \$250,000 grant from the Maryland Energy Administration in pass-through federal funding. While no firm plans have been made, MES intends to keep a risk-free approach whereby a third party finances the capital needs for the facility and operates it. This posture is informed at least partially by MES's difficulties with a failed scrap tire recycling facility. Most recently, MES issued a power purchase agreement with the company EcoCorps, which will conduct financing, procurement, and construction activities for the anaerobic digester project.

3. Baltimore County Resource Recovery Retrofit for Recycling

Since 1990, MES has run the Baltimore County Resource Recovery Facility in Cockeysville. Services provided to Baltimore County residents include solid waste transfer and recovery and as a drop-off site for general solid waste and recycled materials.

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MES has proposed to reconstruct the Baltimore County Resource Recovery Facility to allow for single stream recycling. Currently, unsorted recycling material is trucked to Waste Management, Inc. MES reports that the feasibility study is complete and that construction is anticipated to commence in fall 2011 with a bond issuance in spring 2011.

Audit Findings

Audit Period for Last Audit:	February 1, 2006 – May 5, 2009
Issue Date:	October 2009
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	%0
Rating: (if applicable)	

Finding 1: Failed to fully document the basis for a \$1.85 million contract settlement with a vendor.

Finding 2: Failed to provide internal control over noncash credits by allowing employees to access the automated accounting system.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Maryland Environmental Service**

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	721.00	765.40	771.10	5.70	0.7%
Total Positions	721.00	765.40	771.10	5.70	0.7%
Objects					
01 Salaries and Wages	\$ 45,928,806	\$ 46,888,809	\$ 47,840,390	\$ 951,581	2.0%
02 Technical and Spec. Fees	12,301,641	10,102,866	12,160,388	2,057,522	20.4%
03 Communication	470,444	782,283	423,281	-359,002	-45.9%
04 Travel	256,769	384,207	204,013	-180,194	-46.9%
06 Fuel and Utilities	5,441,952	5,498,250	5,789,332	291,082	5.3%
07 Motor Vehicles	3,737,836	4,960,943	4,610,763	-350,180	-7.1%
08 Contractual Services	18,430,882	21,131,067	17,269,056	-3,862,011	-18.3%
09 Supplies and Materials	5,874,016	6,850,999	6,822,671	-28,328	-0.4%
10 Equipment – Replacement	499,737	1,626,499	3,187,836	1,561,337	96.0%
11 Equipment – Additional	897,544	2,367,129	873,176	-1,493,953	-63.1%
13 Fixed Charges	4,466,858	5,626,580	5,943,086	316,506	5.6%
14 Land and Structures	29,538,592	7,637,230	24,640,875	17,003,645	222.6%
Total Objects	\$ 127,845,077	\$ 113,856,862	\$ 129,764,867	\$ 15,908,005	14.0%
Funds					
07 Nonbudgeted Fund	\$ 127,845,077	\$ 113,856,862	\$ 129,764,867	\$ 15,908,005	14.0%
Total Funds	\$ 127,845,077	\$ 113,856,862	\$ 129,764,867	\$ 15,908,005	14.0%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.