H00
Department of General Services

Operating Budget Data

($ in Thousands)

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change	% Change Prior Year
General Fund	$52,010	$53,680	$54,317	$638	1.2%
Adjusted General Fund	**$52,010**	**$53,680**	**$54,317**	**$638**	**1.2%**
Special Fund	4,048	2,721	3,542	821	30.2%
Adjusted Special Fund	**$4,048**	**$2,721**	**$3,542**	**$821**	**30.2%**
Federal Fund	1,080	1,052	1,119	67	6.4%
Adjusted Federal Fund	**$1,080**	**$1,052**	**$1,119**	**$67**	**6.4%**
Reimbursable Fund	27,775	30,644	29,697	-947	-3.1%
Adjusted Reimbursable Fund	**$27,775**	**$30,644**	**$29,697**	**-$947**	**-3.1%**
Adjusted Grand Total	**$84,913**	**$88,096**	**$88,675**	**$579**	**0.7%**

- The fiscal 2013 allowance is less than 1.0% above the working appropriation. Adjusting for funds used by the department for the Department of Natural Resources (DNR) capital grants and loans (transferred and consolidated under DNR by Chapter 410 of 2011) results in a fiscal 2013 allowance that is $1.6 million, or 1.9%, greater than the working appropriation.

- General funds increase by $638,000, or 1.2%. Personnel expenditures increase by $707,000. Nonpersonnel costs decline.

- Special funds increase by $821,000, or 30.2%, due to revenues from the department's enhanced eMaryland Marketplace (eMM) system.

- Reimbursable funds from State agencies served by the Department of General Services (DGS) increase by $947,000, or 3.1%. However, $1,041,741 of reimbursable funds will not actually be used by the department in fiscal 2012 due to the transfer of grant support of DNR capital-related transactions to DNR. Adjusting for this overstatement results in a small underlying growth of $94,000.

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

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Personnel Data

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change
Regular Positions	588.00	574.00	576.00	2.00
Contractual FTEs	24.70	35.53	32.53	-3.00
Total Personnel	**612.70**	**609.53**	**608.53**	**-1.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	33.75	5.90%
Positions and Percentage Vacant as of 12/31/11	47.00	8.19%

- The allowance includes 2 new regular positions to support the enhanced eMM system in the Office of Procurement and Logistics. This enhancement also includes the transfer of 2 PINs from other department functions for a total of 4 new positions supporting eMM.

- The department's fiscal 2013 budgeted turnover rate on existing positions is 5.90% which requires 33.75 positions to remain vacant throughout the year. As of December 31, 2011, 47.0 positions were vacant.

Analysis in Brief

Major Trends

Energy Consumption and Reductions: The Maryland Office of Energy Performance and Conservation within DGS is responsible for implementing part of the EmPower Maryland initiative established by Chapter 131 of 2008, which among other provisions, sets forth a goal to reduce State energy consumption by 15% by fiscal 2015. DGS reports that energy consumption declined in both fiscal 2010 and 2011 with continued declines expected annually through fiscal 2013. **While the reported measures point toward successfully meeting the 15% consumption reduction by fiscal 2015, the Department of Legislative Services (DLS) has concerns about data used to establish the baseline consumption level and current State agency consumption levels which call into question the reliability of the reported Managing for Results statistics.**

New Procurements in DGS-supported Agencies: The percentage of procurements completed on time and under budget decreased to just 51% in fiscal 2011. The figures for fiscal 2011 are particularly troubling because the number of new procurements to process declined relative to fiscal 2009 and 2010; yet, the department still managed to process just 51% within its objective, below both the fiscal 2009 and 2010 levels. Inasmuch as DGS has not met its objective in recent years, the estimates for both fiscal 2012 and 2013, which reflect attainment of the 80% goal, appear dubious. **DGS should comment on what factors other than staffing levels contribute to the declining performance.**

Minority Business Enterprise Participation: Fiscal 2011 marks the third straight year that the department has met the 25% Minority Business Enterprise participation objective without excluding commodity procurements from the calculation.

Issues

Facility Maintenance Funding Not Sufficient to Keep Deferred Maintenance Backlog from Increasing: Funding levels for the DGS facility maintenance program continue to decline, while the backlog of projects continues to grow. The State should consider implementing reforms that will improve the effectiveness of these programs and ensure that State facilities are properly maintained, serve their intended purpose, and stay in service. **DLS recommends that the State consider establishing a dedicated source of funding for facility maintenance.**

Antiquated Information Technology Type: Many DGS divisions lack updated information technology systems. In some instances, the systems in place are no longer supported by the manufacturer and cannot be updated but rather must be completely replaced. The continued use of antiquated systems hinders the department's ability to conduct core mission responsibilities. **DLS recommends that DGS brief the committees on the department's intentions for replacing its antiquated information technology systems and what efforts it has made to coordinate with the Department of Information Technology for inclusion on the Major Information Technology Project list.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Energy Conservation Efforts: EmPower Maryland, which became law as Chapter 131 of 2008, established a State goal of achieving a 15% reduction in per capita electricity consumption and peak demand by the end of 2015. The update will examine the four strategies used by the department in furtherance of this statewide consumption reduction goal.

Operating Budget Analysis

Program Description

The Department of General Services (DGS) serves Maryland and its citizens by supporting other State agencies in achieving their missions. The department performs a variety of functions, including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; and provision of real estate services. DGS uses the following goals to guide its Managing for Results (MFR) reporting:

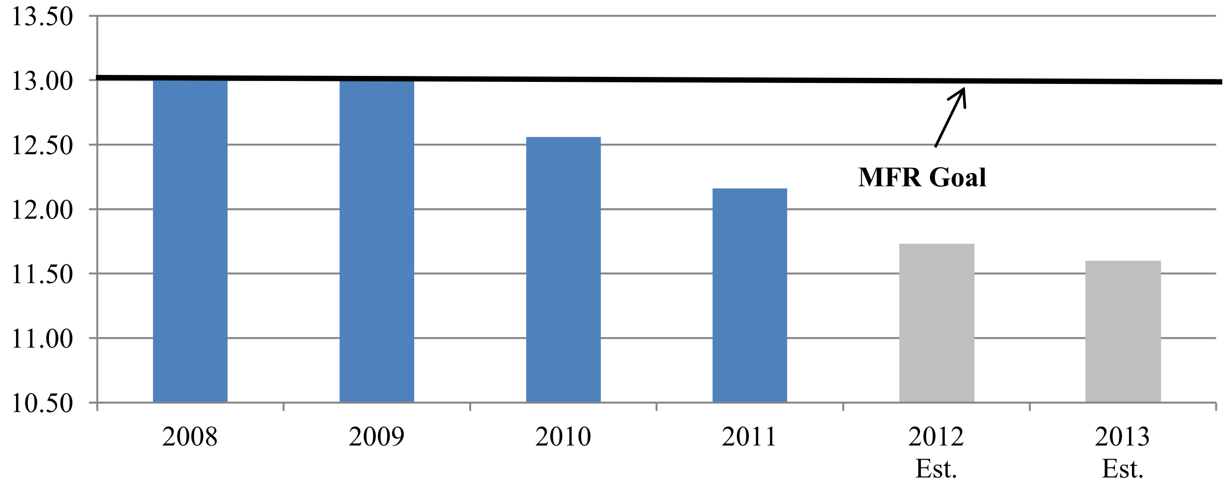
- operate efficiently and effectively;
- manage departmental projects efficiently;
- provide timely and accurate management information;
- achieve responsible asset management;
- provide best value for customer agencies and taxpayers; and
- carry out social, economic, and other responsibilities as a State agency.

Performance Analysis: Managing for Results

Energy Consumption and Reduction

The Maryland Office of Energy Performance and Conservation within DGS is responsible for implementing part of the EmPower Maryland initiative. This initiative, established by Chapter 131 of 2008, among other provisions, sets forth a goal to reduce State energy consumption by 15.0% by fiscal 2015. **Exhibits 1** and **2** illustrate the measured performance relative to the overall reduction in consumption and related cumulative percentage reduction against the 2008 consumption baseline figures. The reported MFR measures point toward general success in meeting the energy consumption reduction objectives. DGS reports that energy consumption declined in both fiscal 2010 and 2011 and is expected to continue to decline annually through fiscal 2013. This translates to a cumulative 6.68% reduction from the fiscal 2008 baseline through the fiscal 2011 actual with a projected cumulative percentage reduction of 10.97% by the end of fiscal 2013, or 73.0% of the way toward the overall 15.0% reduction by fiscal 2015.

Exhibit 1
Energy Consumption
Fiscal 2008-2013

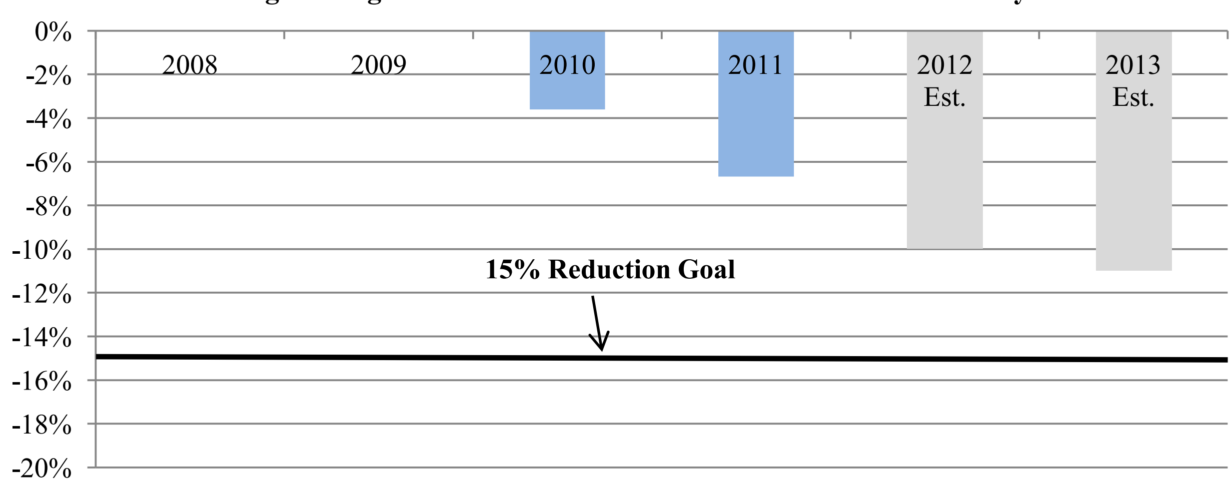


MFR: Managing for Results

Source: Department of General Services

Exhibit 2
Energy Reduction
Fiscal 2008-2013

Percentage Change from 2008 Base Year – Goal Is 15% Reduction by 2015



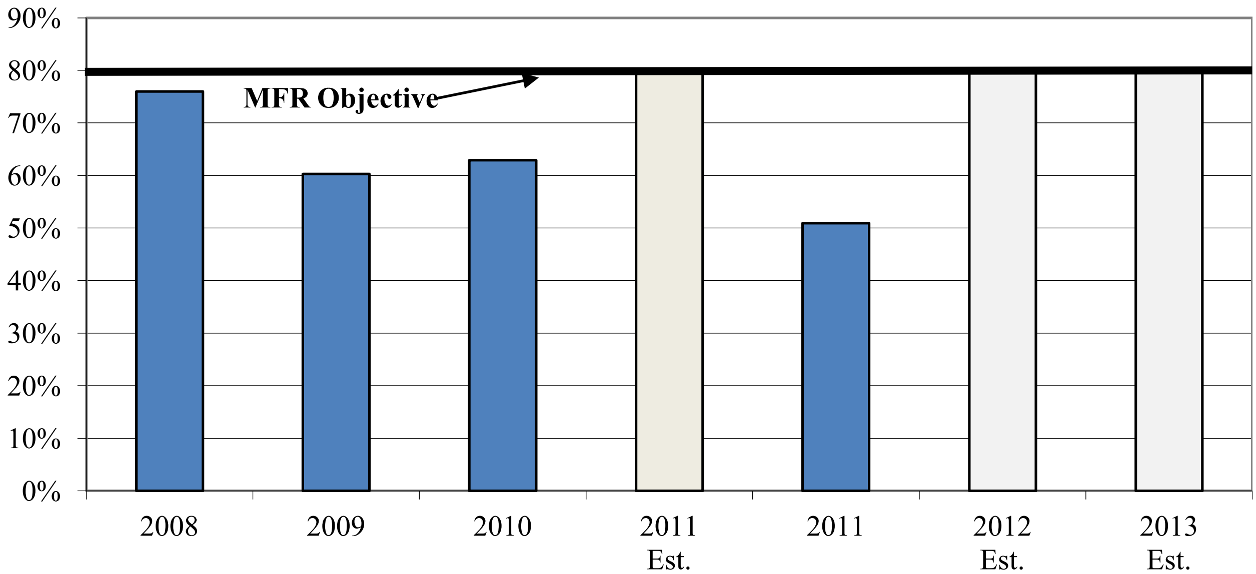
Source: Department of General Services

A necessary precursor to any reliable measurement is the implementation of a statewide utility database designed to track consumption data. Work on this began in January 2008 when DGS contracted with a private vendor under a Comprehensive Utility Bill Management Services contract. DGS recently reported on the data collected and maintained in the new system in its *Annual Report on Energy Conservation Efforts* submitted in compliance with narrative adopted in the 2011 *Joint Chairmen's Report*. Despite delays in the inputting of data from State agency billing records, DGS reports that population of the database is 95% complete. This data will provide two-year baseline consumption data from which energy conservation efforts can be monitored and enhanced. **In reviewing the consumption data, the Department of Legislative Services (DLS) notes that significant differences exist between what is reported in the database and what the Department of Budget and Management (DBM) maintains for the costs of energy and utilities for State agencies. This calls into question both the baseline consumption figure used in the DGS MFR and any subsequent annual measure of consumption from which comparisons to the baseline are used to assess and report changes in consumption.**

New Procurements in DGS-supported Agencies

As shown in **Exhibit 3,** DGS' performance with respect to the processing of new procurements continues to lag far behind the department's stated objective to complete at least 80% of all new procurements on time, under budget, and within specifically identified requirements (*i.e.,* at or below budgeted costs and within 60 days from receipt of a requisition until an award is made). The figures for fiscal 2011 are particularly troubling because the number of new procurements to process declined relative to fiscal 2009 and 2010, yet the department still managed to process just 51% within its objective. Inasmuch as DGS has not met its objective in recent years, the estimates for both fiscal 2012 and 2013, which reflect attainment of the 80% goal, appear dubious. It has been well documented in prior DLS budget analyses that DGS is operating as an agency with staffing levels far below historical highs for the department. While the Office of Procurement and Logistics, for instance, was staffed with 55 positions in fiscal 2010 compared to 63 positions in fiscal 2008, which contributes to the decline in the fiscal 2010 measure compared to fiscal 2008, the office operated with just 1 fewer position in fiscal 2011 (54 positions) as it did in fiscal 2010, yet performed far below the 63% fiscal 2010 performance. It is evident that the reduction in procurement personnel has impacted the department's ability to complete procurements in a timely fashion, and with only 52 positions budgeted in fiscal 2012, the 80% target appears unattainable. However, when you consider the 51% performance measure in fiscal 2011, it suggests that there are other factors that are contributing to the declining procurement processing performance. **DGS should comment on what factors other than staffing levels contribute to the declining performance.**

Exhibit 3
New Procurements
Completed on Time, on Budget, and on Target
Fiscal 2008-2013



	2008	2009	2010	Est. 2011	2011	Est. 2012	Est. 2013
Procurements	420	541	442	550	393	575	600
Procurements Completed on Time	319	326	278	440	200	460	480
Percent on Time, Budget, and Target	76%	60%	63%	80%	51%	80%	80%

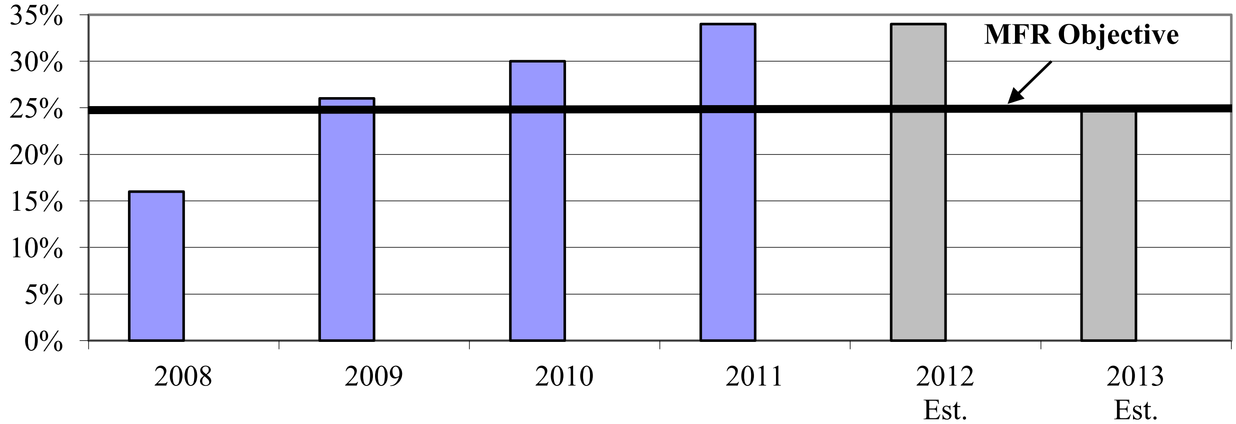
MFR: Managing for Results

Source: Department of General Services

Minority Business Enterprise Participation Goal Is Achieved Again

Exhibit 4 shows the department's MFR performance data regarding its objective to annually meet or exceed a 25% Minority Business Enterprise (MBE) participation for the department's total procurement dollars. For many years, DGS consistently missed its intended target as the department had difficulty obtaining minority business participation with commodity procurements. Fiscal 2011 marks the third straight year that the department has met the 25% MBE participation objective without excluding commodity procurements from the calculation. DGS attributes most of its success in this area to a heightened review of procurements by the Procurement Review Group.

Exhibit 4
MBE Participation in Total Procurement Dollars
Fiscal 2008-2013



MBE: Minority Business Enterprise

Source: Department of General Services

Fiscal 2012 Actions

Section 47 of the fiscal 2012 budget bill required the Governor to abolish 450 positions as of January 1, 2012. This agency's share of the reduction was 6 positions. The annualized salary savings due to the abolition of these positions is expected to be $225,001 in general funds.

Proposed Budget

As shown in **Exhibit 5**, the fiscal 2013 all-funds allowance is $579,189, or 0.7%, more than the fiscal 2012 working appropriation. However, the fiscal 2012 working appropriation still includes $1,041,744 of reimbursable funds in the Office of Real Estate used by the department in its administration and support of Department of Natural Resources (DNR) capital grants and loans despite the transfer and consolidation of this function under DNR as required by Chapter 410 of 2011. The fiscal 2012 working appropriation is therefore overstated, and when funds are adjusted for this anomaly, the underlying budget change reflected in the fiscal 2013 allowance relative to the fiscal 2012 working appropriation is $1.6 million, or 1.9%, higher.

Exhibit 5
Proposed Budget
Department of General Services
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2012 Working Appropriation	$53,680	$2,721	$1,052	$30,644	$88,096
2013 Allowance	54,317	3,542	1,119	29,697	88,675
Amount Change	$638	$821	$67	-$947	$579
Percent Change	1.2%	30.2%	6.4%	-3.1%	0.7%
Contingent Reduction	$0	$0	$0	$0	$0
Adjusted Change	$638	$821	$67	-$947	$579
Adjusted Percent Change	1.2%	30.2%	6.4%	-3.1%	0.7%

Where It Goes:

Personnel Expenses	
One-time $750 employee bonus	-$427
New positions	135
Increments and other compensation	-750
Employee and retiree health insurance	488
Employee retirement	404
Workers' compensation premium assessment	74
Overtime	-76
Turnover adjustments	23
Other fringe benefit adjustments	-95
Other Changes	
Statewide Critical Maintenance Program	-500
Reduced contractual payroll*	-395
Increased electricity	1,372
Cost of chilled water to Saratoga Street Complex	-225
Vehicle gasoline and maintenance	-120
School construction engineer design reviews funded with GO bonds	-200
Digital copier equipment and operations agreement with Xerox Corporation associated with consolidation of printing and reproduction under DGS	243
Legal services	-152
Increased building security contract costs	180
Temporary assistance – temporary positions were converted to contractual FTEs	-152

Where It Goes:

Cost of online payment system and website support for sale of surplus property	480
Agency allocated cost of statewide personnel system – DoIT and OAH charges	437
Cost of online auction managed by GovDeals	-158
General reduction in supplies and materials – housekeeping and wearing apparel	-181
Building repairs	198
Rent and insurance	193
Steam and natural gas	-215
Other	-2
Total	**$579**

DGS: Department of General Services
DoIT: Department of Information Technology
eMM: eMaryland Marketplace
FTE: full-time equivalent
GO: general obligation
OAH: Office of Administrative Hearings

* This includes an increased contractual vacancy rate from 8.5% in fiscal 2012 to 13.3% for fiscal 2013. Special funded FTE positions increase by 2.0 FTEs in the Office of Procurement, reflecting the full year status of positions partially funded in fiscal 2012, funded with revenues from the new eMM system. This is offset by a 5.0 FTE reduction in reimbursable-funded positions in the Printing and Reproduction Office and Construction Management.

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

The department's fiscal 2013 budget allowance supports the funding of 576 regular positions. The allowance includes 2 new positions to help support the new eMM system. Total funding to support employee salary and fringe benefit costs is $40.46 million in all funds, or 45.6%, of the department's entire budget. Comparisons to the fiscal 2012 working appropriation would suggest that the department's total personnel costs for regular employees decreases by $223,532 despite the addition of 2 new positions and the increased costs for employee and retiree health insurance and employee retirement in the fiscal 2013 budget statewide. This anomaly can be explained by the $1,041,744 of reimbursable funds in the Office of Real Estate that remain in the fiscal 2012 working appropriation despite the transfer of the department's administration and support of DNR capital grants and loans back to DNR by Chapter 410 of 2011. Almost all of these funds were used to support personnel costs, and if backed out of the fiscal 2012 working appropriation to provide a more consistent comparison with the fiscal 2013 allowance, it reveals personnel costs actually increase in the budget by just over $800,000 in all funds, most of which is explained by the aforementioned health and retirement cost increases.

The department's contractual employee workplan for fiscal 2013 includes 32.5 full-time equivalents (FTE), which is 3.0 FTEs below the fiscal 2012 workplan. Overall, the amount budgeted for contractual employee payments declines by $395,267, a part of which is explained by the lower FTE count, as well as an increased turnover rate from 8.5% for fiscal 2012 to 13.3% for fiscal 2013.

Notable nonpersonnel changes in the budget include the following:

- ***Deferred Maintenance Programs:*** The allowance provides $1.0 million in general funds for the department's deferred maintenance program. This represents a $500,000 reduction from the fiscal 2012 working appropriation and $1.9 million below the fiscal 2011 actual expenditure for the program. More on this topic can be found in the Issues section of this analysis.

- ***Electricity:*** The allowance for electricity for the facilities maintained by DGS is $10.7 million, which is $1.4 million more than the $9.3 million budgeted for fiscal 2012. DLS notes that the budget data for fiscal 2011 actual expenditures reflects electricity costs of $11.1 million, which suggests that the amount budgeted for fiscal 2012, may in fact be insufficient, leaving the department underfunded in the current fiscal 2012 budget. **DGS has advised that a fiscal 2012 utilities deficiency request has been drafted and will be sent to DBM to be evaluated based on current weather conditions and overall current year and projected end-of-year usage.**

- ***School Construction Design Reviews:*** The allowance deletes $200,000 in general funds for the department's construction engineering design reviews for the State's School Construction Program administered by the Interagency Committee on School Construction. This function is performed by DGS to reduce the number of costly change orders and ensure compliance with State design and procurement requirements. Prior to fiscal 2011, the funding for this work was budgeted with general funds in DGS. In an effort to reduce general fund expenditures beginning in fiscal 2011, a decision was made to use general obligation (GO) bond funds authorized to the school construction program to fund DGS' reviews. Based on this, it is unclear why the department's fiscal 2012 budget included general funds for this activity since GO bond funds are available to support the work. **DGS should either revert these funds with its fiscal 2012 closeout or alternatively use these funds to assist with any potential deficiency related to the department's electricity funding discussed above.**

- ***eMaryland Marketplace:*** DGS recently deployed a re-hosted eMaryland Marketplace (eMM) online bidding procurement system. The new system enhancements include the development of an electronic catalog purchasing function; new functionality capabilities that allow the eMM to connect to other State information systems such as the State's Financial Management Information System; and additional business reporting capabilities that allow DGS to track and audit statewide contract purchases. To support the new system, the Board of Public Works (BPW), on August 10, 2011, authorized DGS to charge a 1% processing fee on eMM transactions. The fee is assessed to vendors based on the value of the contract awarded with the intent of making the entire system and all related personnel and nonpersonnel costs self-supporting from the fee revenues. The department's fiscal 2012 working appropriation includes special fund revenues of $559,425 brought in by budget amendment reflecting on a partial year of enhanced operation of eMM. For fiscal 2013, the budget includes $1,210,506 in special fund revenues to support the program reflecting the fully annualized revenue and cost allocation.

- ***Energy Conservation Loan Repayments:*** The allowance includes $2,925,834 in all funds for energy conservation loan repayments which represents just an $11,345 reduction from the fiscal 2012 working appropriation. While in total dollars the allowance reflects virtually no change from fiscal 2012, the source of funding is different, including less reliance on general funds. For fiscal 2013, DGS will be utilizing reimbursable funds received as rent from tenant agencies whose offices are located in DGS-maintained facilities where energy performance contract projects have been executed. As a result, while general funds still contribute $1,107,506 to energy performance contract (EPC) repayments, this will be supplemented with reimbursable funds of $995,795 with the difference a mix of special and federal funds.

Issues

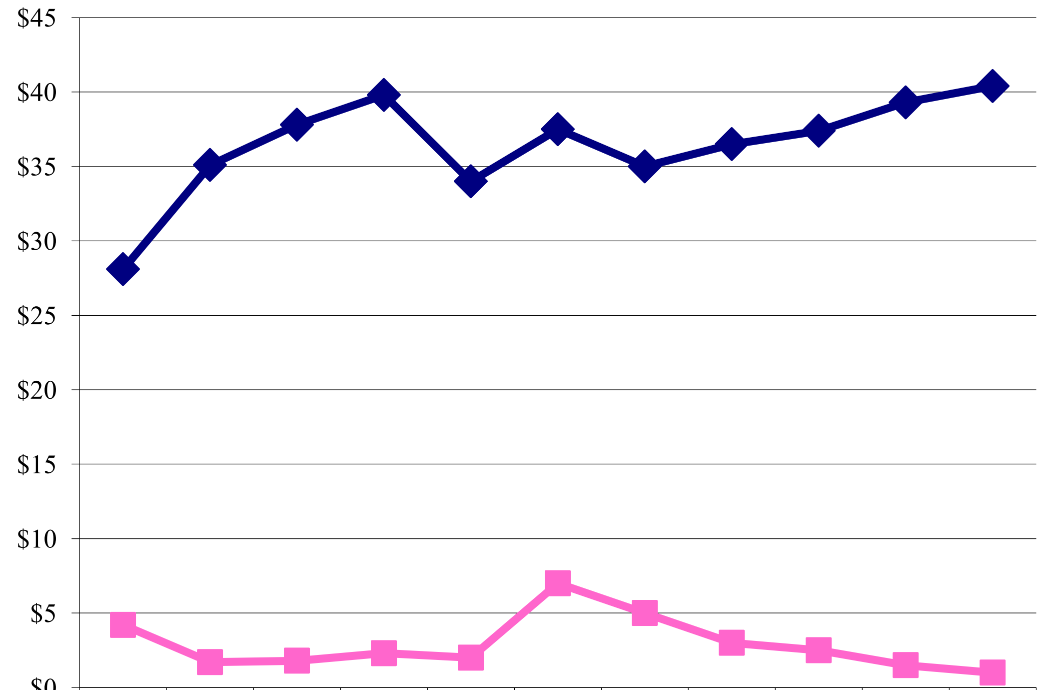
1. Facility Maintenance Funding Not Sufficient to Keep Deferred Maintenance Backlog from Increasing

Pursuant to Sections 4-407 and 4-408 of the State Finance and Procurement Article, the department is required to establish and supervise a comprehensive and continuing program of maintenance and repair of all public improvements. DGS' maintenance of State facilities efforts include both critical maintenance, funded through the operating budget, and facilities renewal, funded through the capital budget. In recent years, budget shortfalls have caused the State to scale back on facilities maintenance and renewal funding. The lack of adequate funding has been a concern of the budget committees for many years as deferring critical maintenance eventually leads to increasing project costs and further deterioration of the State's assets.

Facility Maintenance Funding

As shown in **Exhibit 6**, DGS reports a growing critical maintenance backlog that is expected to exceed $40.4 million by the conclusion of fiscal 2012. It should also be noted that the critical maintenance backlog has been exacerbated by cost containment reductions in recent years. The fiscal 2012 budget reduced critical maintenance funding by $1.0 million to $1.5 million relative to fiscal 2011, and the fiscal 2013 allowance reduces the funding level further to just 1.0 million. It should be noted that the Spending Affordability Committee has annually provided an exemption from the spending affordability calculation on any funding provided above $2.0 million, but for the second straight year, despite an ever increasing backlog, this exemption has not resulted in increased funding in the Governor's budget. **Appendix 4** provides detail on the amount of deferred maintenance attributable to each State agency. **Appendix 5** shows the deferred project list by major category.

Exhibit 6
Critical Maintenance Funding and Backlog
Fiscal 2002-2012
($ in Millions)

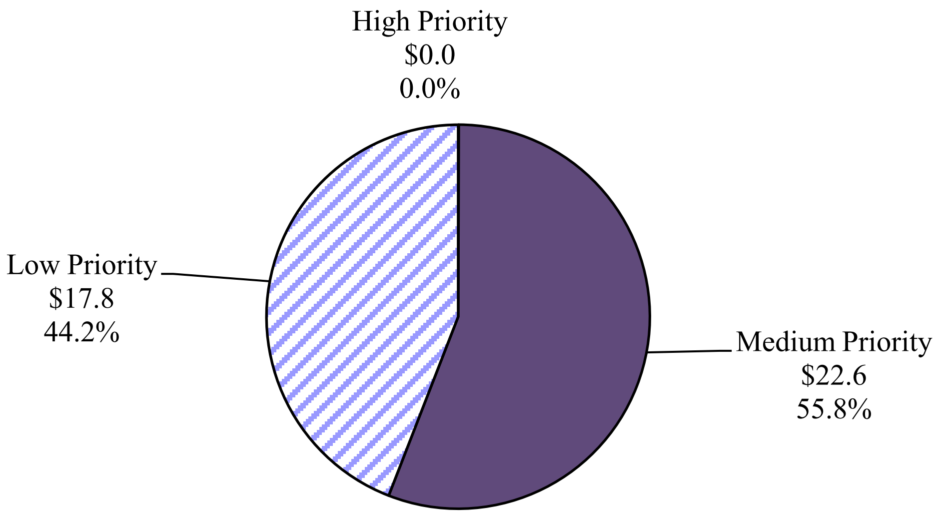


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (Est.)
Backlog	$28.1	$35.1	$37.8	$39.8	$34.0	$37.5	$35.0	$36.5	$37.4	$39.3	$40.4
Appropriation	$4.2	$1.7	$1.8	$2.3	$2.0	$7.0	$5.0	$3.0	$2.5	$1.5	$1.0

Source: Department of General Services

Exhibit 7 provides further detail regarding the critical maintenance backlog for each classification of the department's priority levels. As shown, approximately 55.8% of the critical maintenance backlog is classified as a medium level priority. Although these projects are considered to have a short-term impact on agencies' mission capabilities, they are considered to have a high level of economic risk.

Exhibit 7
Critical Maintenance Priority Classification
($ in Millions)



	High		Medium			Low		Total
Priority Level	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Total**
Estimate	$0.0	$0.1	$2.0	$20.5	$13.0	$1.7	$3.1	$40.4
Percent of Total Projects	0.0%	0.2%	5.0%	50.7%	32.1%	4.3%	7.7%	100.0%
Number of Projects	0	0	45	527	311	46	82	1,011

Source: Department of General Services

To the extent that funding for critical maintenance is crucial to keeping State facilities in operational and functional working condition, it is questionable why funding for this program has not been enhanced in recent years as opposed to being reduced. The Spending Affordability Committee recognizes the importance of maintaining an adequate and consistent level by annually recommending a spending affordability calculation exemption for any funding above $2.0 million. Despite this incentive, the funding level proposed is woefully short of even the average estimated cost of new project requests added to the list. In several reports provided to the budget committees, DGS has reported that new requests average approximately $3.5 million annually and further suggested that an annual funding level of $5.0 million is needed to both address new projects and projects already on the deferred maintenance list.

In recent years, this issue has been exhaustingly studied to evaluate among other issues ideas that would result in an adequate and steady source of funding. Under any option, one fact remains – if the State is serious about addressing the growing facility maintenance needs and maintaining State buildings in a manner that will avoid potentially more costly repairs down the road, additional funding resources will be required.

Options

In the absence of consistent annual funding levels in amounts sufficient to begin to reduce the critical maintenance and, for that matter, the facility renewal backlogs (DLS will prepare and present a separate analysis of the DGS Facility Renewal Program during hearings on the capital budget), the State may wish to consider the following:

- ***Charge Occupant Rental Fee:*** Charge agencies housed in State-owned facilities a use fee to fund ongoing maintenance. This entails adding a square foot assessment charge into the annual square foot rent calculation for each facility. In the case of State-owned facilities, for which DGS does not collect rent, this same square foot assessment charge could be applied apart from the annual rent calculation so as not to exclude these facilities for which maintenance and facility renewal are still required. This calculation could be calibrated to take into account the age and condition of a facility. These fees could be deposited into a special fund from which building maintenance and repair could be funded. Another advantage of this funding strategy is it would leverage non-general funds. According to a DGS report dated June 2010, a one-time assessment of approximately $22.3 million, or roughly $0.85 per square foot, would (1) restore the DGS assessment program, which according to DGS would require 8 new maintenance engineer positions responsible for inspecting DGS-managed State-owned facilities; (2) procure and maintain a new computerized maintenance system; and (3) generate at least $10.0 million annually for ongoing critical maintenance and backlog needs. Following the procurement of the new system in year one, a $0.45 per square foot charge would generate approximately $11.8 million to provide annual funding for the facility maintenance and renewal programs and supplement other sources of available funding, such as GO bonds which are typically authorized for the facility renewal program, as the projects in this program are considered capital improvements.

- ***Establish a State Facilities Maintenance Reserve Fund:*** The State could consider establishing a facilities maintenance reserve fund that would annually receive a specified percentage of the State's net general fund revenues. DLS recognizes that this would essentially establish a funding mandate at a time when many such mandates have been eliminated. However, such a fund could help address what is clearly a statewide problem that cuts across each and every State agency. Moreover, the establishment of a dedicated source of funds from which to fund facility maintenance and renewal would ensure that facilities are properly maintained which often obviates the need for more costly capital facility renewal type projects.

- ***Establish a Special Nonlapsing Fund:*** Establish a special nonlapsing fund administered by DGS that could be used to fund facility maintenance and renewal. This fund could be established to receive unspent bond proceeds from terminated State GO debt authorizations. Section 8-129 of the State Finance and Procurement Article governs the dispositions of these proceeds. Presently, the statute allows these unspent bond proceeds to be used as follows: (1) cancelled to reduce the State's outstanding debt authorizations; (2) allocated to the State's

Construction Contingency Fund, or; (3) credited to the Annuity Bond Fund to pay debt service on the State's outstanding GO bonds. Section 8-129 would need to be amended – the capital budget or budget reconciliation and financing legislation could be used as a vehicle to make such a statutory change – to establish the special funds and provide for the option to dispose of unspent bond proceeds as outlined above.

- ***Outsource:*** Yet another option would be to outsource the State's facility maintenance and renewal needs through a competitive contract process to private companies that specialize in the delivery of facility maintenance. Many private companies specialize in providing comprehensive facility maintenance services. The State could conceivably consolidate all of its facility needs under one or several competitively bid contracts. As it stands now, DGS in many instances contracts out the facility maintenance projects. Outsourcing would serve to contract out the entire process – from project identification and management to procurement.

- ***Use GO Bonds:*** The DGS facility maintenance program is annually funded with general funds as the projects are deemed to be not eligible for capital funding using GO bond funds. State policy is to limit the use of GO bond funds to projects costing in excess of $100,000 and having a useful life at least as long as the maturities on the bonds used to fund capital projects, or 15 years since the State issues 15-year maturity GO bonds. An examination of the facility maintenance backlog project lists includes a number of projects that would appear to meet the 15-year requirement, such as roof repairs; heating, ventilation, and air conditioning replacement; and fire alarm system installation. These projects, however, do not exceed $100,000 in cost, which according to State policy may preclude the use of GO bond funds as a source of funding. While the individual projects may be under the dollar threshold, the State does provide capital funding for other programs that provide capital GO bond funding for projects costing less than $100,000. The Department of Disabilities Accessibility Modification program is one example of a program that provides GO bond funding for a multitude of projects costing less than $100,000 individually.

- ***Require De-authorized GO Bond Funds Be Used for Facility Renewal:*** Amend the capital budget bill to require de-authorizations included in the bill be deposited into a facility maintenance special fund. Uncodified back-of-bill language could stipulate this requirement. Exemptions to this requirement could still be obtained in the case of very large de-authorizations by including language that would exempt the de-authorization from this provision. Currently, such de-authorizations are reprogrammed as new authorizations in the bill.

DGS should be prepared to brief the committees on the impediments it faces to effectively manage and carry out a viable facility maintenance and renewal program. DGS should also discuss the condition of State facilities and options for improving facility assessments.

2. Antiquated Information Technology Type

In September 2011, DGS issued its *Fiscal 2013 Information Technology Master Plan*. Not surprisingly, the underlying assessment is that the department struggles with aging infrastructure that is inflexible in supporting new applications or providing timely upgrades to enhance productivity. This situation has plagued the department for years and has been outlined in DGS Transition Reports and reports submitted to the budget committees. Although identified, these deficiencies remain largely unaddressed and impact the department's ability to effectively carry out core responsibilities.

Examples of these deficiencies include database systems that use custom applications written in the mid to late 1980s. These include personnel data downloading and conversion; lease management system; plans and specs system; capital projects accounting system; capital projects tracking system; facilities deficiency system; capital grants and loans database; construction database; and an Architectural and Engineering (A/E) evaluation. The department's MFR annually contains an objective to fund the replacement of antiquated systems, but each year outdated systems remain in place due to the lack of funding needed to migrate to updated systems.

Other core department business function systems identified as needing replacement in the near term due to age and/or lack of manufacturer support include the Capital Grants and Loan Management System, Facilities Deficiency System, Project Cost Center Program, A/E and Contractor Evaluation System, Construction Procurement and Contracting System, Capital Projects Accounting System, Lease Management and Procurement System, BPW Administration System, Personnel Records Management System, and Statewide Asset Management System. Overall, virtually every major system presently used by the department is in need of replacement.

If funding for the replacement of DGS's major information technology systems is not going to be provided in the department's annual budget appropriation or through the major technology projects administered by the Department of Information Technology (DoIT), then other options should be considered. One such option could be to add an administrative overhead charge in the rent calculation used to charge State agencies for DGS' lease management responsibilities. The State could also consider charging other State agencies for the variety of procurement, capital project management, land valuation and disposition, and lease management services that DGS performs for other State agencies. The fee established for the new eMM system, while charged to private companies using the system rather than State agencies, is an example of how DGS can fund information technology upgrades through a user fee structure.

DGS should be prepared to brief the committees concerning the impact that the continued use of an outdated information technology system is having on the department's ability to carry out core mission responsibilities. DGS should discuss what efforts it has undertaken with DBM and DoIT to acquire funding through the Major Information Technology Development Projects process.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Energy Conservation Efforts

The Maryland Office of Energy Performance and Conservation is responsible for implementing part of the EmPower Maryland Initiative which among other objectives calls on the State to reduce its energy consumption by 15% by 2015. This initiative became law as Chapter 131 of 2008. DGS is pursuing four specific strategies to reduce energy consumption to achieve the EmPower objectives: (1) facility upgrades; (2) a comprehensive electricity purchasing strategy; (3) renewable energy; and (4) the implementation of a new statewide utility database. These strategies are outlined below.

Utility Database

A key component of an effective energy consumption policy is the collection and analysis of energy usage data. DGS' efforts on this are discussed in the MFR section of this analysis.

Facility Upgrades through Energy Performance Contracts

Most of the State's energy-related facility upgrades are performed via an EPC. An EPC is an agreement between the State and an energy service company (ESCO) to make energy-efficient capital improvements. The type of energy saving upgrades typically made via an EPC include replacing or retrofitting boilers, furnaces, air conditioning units, windows, and lighting fixtures. EPCs, which are coordinated by DGS and financed through the State Treasurer's Office, typically consist of the following components: (1) ESCO selection; (2) energy audit; (3) project financing; (4) design and construction; (5) maintenance; and (6) savings monitoring and verification.

Components one and two of an EPC include the selection of an ESCO by DGS from a list of pre-qualified ESCOs to perform an energy audit, technical study, and preliminary design to determine if retrofitting new capital equipment can provide energy savings. If a cost savings is projected, the project may be presented to BPW for approval. If approved, the project will proceed to the construction phase where the ESCO selected will be required to implement the project and guarantee the level of energy cost avoidance savings to be achieved through the financing period by the energy improvements. If the savings do not materialize, ESCOs are required to reimburse the State for any saving not achieved. According to DGS, there are currently 26 EPC projects in different stages of development; 12 projects are under construction, 6 projects have final proposals submitted and under review, and 8 projects are completed. DGS advises that the estimated value of projects that have been approved and underway is $201 million, with an estimated annual energy savings (cost avoidance) of approximately $21 million.

Electricity Purchasing Strategy

DGS has developed a statewide electricity purchasing strategy that encompasses all of State government, including the University System of Maryland. According to the department, approximately 70% of the State's electricity load is purchased through a hedging strategy and managed via a portfolio manager. The manager is responsible for purchasing blocks of electricity throughout the year to supply the State with nearly one billion kilowatt hours of electricity annually through the end of fiscal 2013. The remaining 30% of the State's electricity load is purchased via an online reverse energy auction. In a reverse auction, electricity suppliers place bids to satisfy the State's energy needs. The aforementioned electricity purchasing strategy enables DGS to take advantage of combined purchasing power, resulting in considerable cost savings to the State.

Renewable Energy

One of the office's newest initiatives pertains to renewable energy. In September 2008, BPW approved an indefinite quantity contract to develop and implement renewable energy project service, including solar, wind, and biomass. In March 2010, BPW approved a long-term power purchasing agreement for renewable energy sources that would assist the State in reducing its consumption of fossil fuel energy. To date, four solar projects have been completed at DGS-managed facilities. In addition, power purchase agreements are also in place for the Generating Clean Horizons project which will provide an estimated 16.5% of the department's annual electricity from renewable sources.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of General Services
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2011					
Legislative Appropriation	$52,253	$3,722	$1,033	$30,286	$87,294
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	377	63	184	624
Reversions and Cancellations	-242	-52	-15	-2,695	-3,005
Actual Expenditures	**$52,010**	**$4,048**	**$1,080**	**$27,775**	**$84,913**
Fiscal 2012					
Legislative Appropriation	$53,254	$1,706	$1,052	$30,644	$86,656
Budget Amendments	426	1,014	0	0	1,440
Working Appropriation	**$53,680**	**$2,721**	**$1,052**	**$30,644**	**$88,096**

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

Fiscal 2011

In fiscal 2011, the department spent $84.9 million, which was $2.4 million less than the legislative appropriation. This was the result of $3.0 million in reversions and cancellations that was offset by a $0.6 million increase for budget amendments.

The only change to general fund spending was a reversion of $242,286.

Special funds increased by a total of $325,536. Special funds increased $377,425 for improvements to the department's web-based lease management system, several contractual positions, and vehicle replacements. This money is available due to additional revenue generated from the State's real estate service agreement with CB Richard Ellis. This increase is offset by a cancellation of $51,889.

Federal funds increased by a total of $47,500. This includes an increase of $62,500 for a federal grant received from the United States Department of Agriculture to perform technical appraisals of real property for the Maryland Agricultural Land Preservation Program and a cancellation of $15,000.

Reimbursable funds decreased by $2.5 million. This includes an increase of $184,305 for a grant from the Governor's Office on Crime Control and Prevention for the purchase of new equipment, including handheld radios, and new technology, including license plate recognition, electronic citations, and collection of video evidence, which is offset by a cancellation of $2.7 million.

Fiscal 2012

The fiscal 2012 budget for the department increased by $426,510 to provide funds for a one-time employee bonus of $750 to all State employees; $425,703 of this amount is in general funds with the remaining amount comprised of special funds.

The department's fiscal 2012 special fund appropriation was increased by $1,013,376 by budget amendments. First, Budget Amendment 031-12 appropriated an additional $453,951 to reflect special fund revenue available from the State's real estate service agreement contract with CB Richard Ellis. In calendar 2009, the State entered into a real estate service agreement to privatize lease management across the State. Under the plan, CB Richard Ellis is responsible for obtaining rental and occupancy costs savings for leases managed by the State. In addition to these savings, the State also receives a rebate of the commissions earned by the broker for each lease transaction.

Budget Amendment 032-12 increased the fiscal 2012 special fund appropriation by $559,425 to reflect special funds available from a 1% processing fee on eMM transactions. This fee was approved by BPW in August of 2011 and is being used by DGS to support the newly redesigned system.

Appendix 2

Object/Fund Difference Report
Department of General Services

Object/Fund	FY 11 Actual	FY 12 Working Appropriation	FY 13 Allowance	FY 12 - FY 13 Amount Change	Percent Change
Positions					
01 Regular	588.00	574.00	576.00	2.00	0.3%
02 Contractual	24.70	35.53	32.53	-3.00	-8.4%
Total Positions	**612.70**	**609.53**	**608.53**	**-1.00**	**-0.2%**
Objects					
01 Salaries and Wages	$ 37,668,491	$ 40,683,603	$ 40,460,071	-$ 223,532	-0.5%
02 Technical and Spec. Fees	1,107,439	1,465,350	1,070,083	-395,267	-27.0%
03 Communication	983,388	1,128,948	1,088,770	-40,178	-3.6%
04 Travel	41,216	14,871	6,537	-8,334	-56.0%
06 Fuel and Utilities	16,801,803	15,883,177	16,934,728	1,051,551	6.6%
07 Motor Vehicles	766,857	1,074,488	968,910	-105,578	-9.8%
08 Contractual Services	16,146,390	18,176,562	19,046,659	870,097	4.8%
09 Supplies and Materials	1,425,701	1,123,149	942,115	-181,034	-16.1%
10 Equipment – Replacement	422,311	0	12,430	12,430	N/A
11 Equipment – Additional	222,947	27,152	0	-27,152	-100.0%
12 Grants, Subsidies, and Contributions	367,000	300,000	300,000	0	0%
13 Fixed Charges	3,755,240	3,980,982	4,154,007	173,025	4.3%
14 Land and Structures	5,204,716	4,237,935	3,691,096	-546,839	-12.9%
Total Objects	**$ 84,913,499**	**$ 88,096,217**	**$ 88,675,406**	**$ 579,189**	**0.7%**
Funds					
01 General Fund	$ 52,010,491	$ 53,679,726	$ 54,317,425	$ 637,699	1.2%
03 Special Fund	4,047,894	2,720,564	3,541,643	821,079	30.2%
05 Federal Fund	1,080,296	1,051,745	1,119,062	67,317	6.4%
09 Reimbursable Fund	27,774,818	30,644,182	29,697,276	-946,906	-3.1%
Total Funds	**$ 84,913,499**	**$ 88,096,217**	**$ 88,675,406**	**$ 579,189**	**0.7%**

Note: The fiscal 2012 appropriation does not include deficiencies.

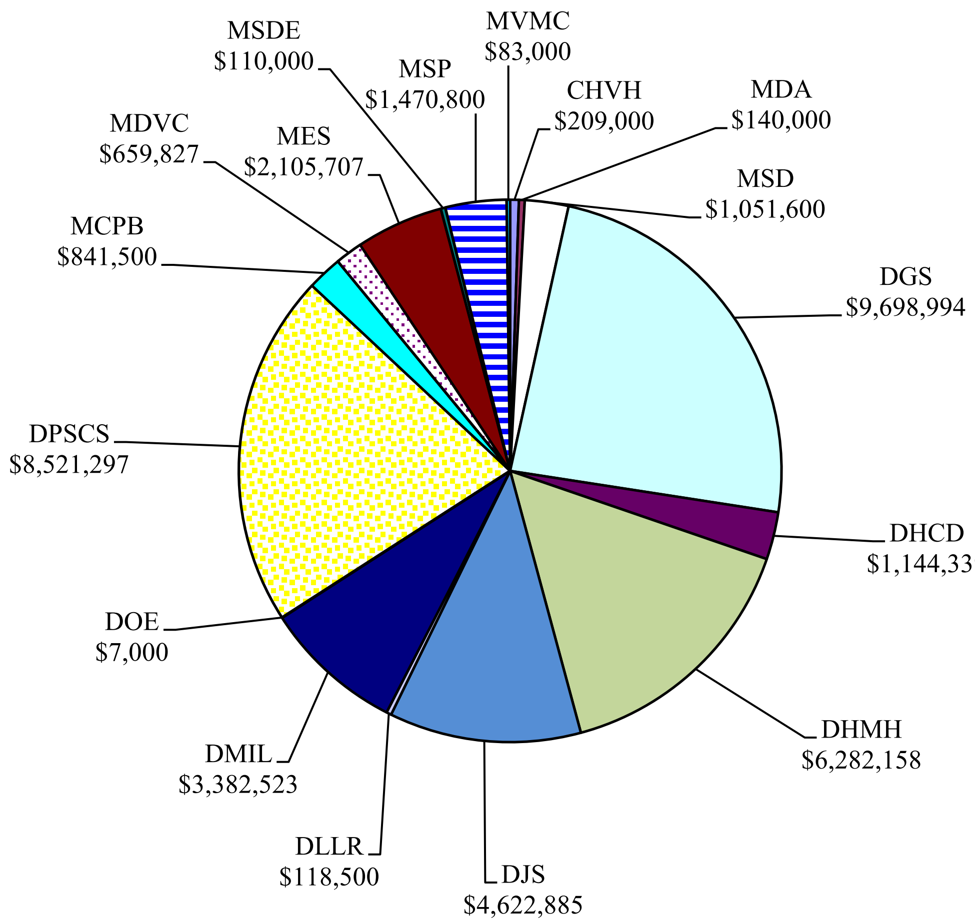
Fiscal Summary
Department of General Services

Program/Unit	FY 11 Actual	FY 12 Wrk Approp	FY 13 Allowance	Change	FY 12 - FY 13 % Change
0A Department of General Services	$ 4,710,143	$ 4,431,419	$ 4,513,610	$ 82,191	1.9%
0B Office of Facilities Security	11,681,825	11,588,459	11,488,871	-99,588	-0.9%
0C Office of Facilities Operation and Management	48,342,553	50,588,225	52,356,248	1,768,023	3.5%
0D Office of Services and Logistics	7,051,506	8,535,672	8,836,421	300,749	3.5%
0E Office of Real Estate	2,835,208	3,216,599	2,554,300	-662,299	-20.6%
0G Office of Facilities Planning, Design, and Construction	10,292,264	9,735,843	8,925,956	-809,887	-8.3%
Total Expenditures	**$ 84,913,499**	**$ 88,096,217**	**$ 88,675,406**	**$ 579,189**	**0.7%**
General Fund	$ 52,010,491	$ 53,679,726	$ 54,317,425	$ 637,699	1.2%
Special Fund	4,047,894	2,720,564	3,541,643	821,079	30.2%
Federal Fund	1,080,296	1,051,745	1,119,062	67,317	6.4%
Total Appropriations	**$ 57,138,681**	**$ 57,452,035**	**$ 58,978,130**	**$ 1,526,095**	**2.7%**
Reimbursable Fund	$ 27,774,818	$ 30,644,182	$ 29,697,276	-$ 946,906	-3.1%
Total Funds	**$ 84,913,499**	**$ 88,096,217**	**$ 88,675,406**	**$ 579,189**	**0.7%**

Note: The fiscal 2012 appropriation does not include deficiencies.

Appendix 4

Operating Maintenance by Agency – $40,449,130



CHVH: Charlotte Hall Veterans Home
DGS: Department of General Services
DHCD: Department of Housing and Community Development
DHMH: Department of Health and Mental Hygiene
DJS: Department of Juvenile Services
DLLR: Department of Labor, Licensing, and Regulation
DMIL: Military Department
DOE: Department of Energy
DPSCS: Department of Public Safety and Correctional Services
MCPB: Maryland Center of Public Broadcasting
MDA: Maryland Department of Agriculture
MDVC: Maryland Department Veterans Commission
MES: Maryland Environmental Service
MSD: Maryland School for the Deaf
MSDE: Maryland State Department of Education
MSP: Maryland State Police
MVMC: Maryland Veterans Memorial Commission

Appendix 5

Operating Backlog by Type of Work