

**U10B00**  
**Maryland Environmental Service**

***Operating Budget Data***

---

(\$ in Thousands)

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Change FY 13-14</u>
Total Assets	\$80,210	\$89,144	\$90,459	\$1,315
Total Liabilities	61,481	69,544	69,892	348
<b>Total Net Assets</b>	<b>\$18,729</b>	<b>\$19,600</b>	<b>\$20,567</b>	<b>\$967</b>
Total Revenue	\$105,904	\$93,923	\$110,317	\$16,394
Total Expenditures	103,193	92,716	108,956	16,240
<b>Operating Income</b>	<b>\$2,711</b>	<b>\$1,207</b>	<b>\$1,361</b>	<b>\$154</b>

- Between fiscal 2013 and 2014, the operating income of the Maryland Environmental Service (MES) increased by \$154,000 for all operations excluding the Midshore Regional Landfill Private Purpose Trust Fund. According to MES's audited financial statements, the principal reason for the increase in operating income was an increase in geographic information system services, which operated at a loss in fiscal 2013, and the Used Oil Recovery program, which realized higher value from a reduced oil recovery base and was also able to reduce expenses.
- Revenues and expenditures increased between fiscal 2013 and 2014, primarily due to an environmental dredging and restoration project funded by the Maryland Port Administration – the Masonville Dredged Material Containment Facility construction project.
- In fiscal 2015, MES has paid the State \$642,304 in unearned revenue from operating reimbursable projects that came in under budget.
- MES considers its undesignated unrestricted net assets to be its fund balance. Undesignated unrestricted net assets increased by \$1.0 million between fiscal 2013 and 2014 to \$5.1 million. However, MES notes that it has entered into a contract for the \$3.6 million purchase of an adjacent property in order to alleviate parking constraints, which will reduce its undesignated unrestricted net assets.

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

For further information contact: Andrew D. Gray

Phone: (410) 946-5530

## ***Personnel Data***

	<b><u>FY 14 Actual</u></b>	<b><u>FY 15 Working</u></b>	<b><u>FY 16 Allowance</u></b>	<b><u>FY 15-16 Change</u></b>
Regular Positions	700.40	709.40	715.40	6.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>700.40</b>	<b>709.40</b>	<b>715.40</b>	<b>6.00</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New  
Positions

0.00 0.00%

Positions and Percentage Vacant as of 12/31/14

n/a n/a

- Regular positions increase by 6.0 in the fiscal 2016 allowance. This reflects new positions needed for the boiler operations at the Maryland Correctional Institution – Hagerstown.

## ***Analysis in Brief***

---

### **Major Trends**

***Corporate and State National Pollutant Discharge Elimination System Violations Increase Substantially:*** The number of National Pollutant Discharge Elimination System violations decreased steadily from 157 in fiscal 2007 to 63 in fiscal 2012 but then increased substantially to 177 in fiscal 2013 and 180 in fiscal 2014. Violations appear to be the result of troublesome facilities with plant design problems.

***Used Oil Recycling Continues to Decline:*** There has been a steady decline in the amount of used oil recycled between fiscal 2004 and 2014 due to an increase in the resale value of used oil in recent years. MES notes that the more recent decrease in the amount of used oil recycled may be due to the increase in use of longer lasting synthetic oils, commercial establishments offering recycling services, and auto service centers specializing in oil changes and routine maintenance that are convenient and reasonably priced.

***Worker Safety Meets Goal:*** MES continues to maintain a high level of worker safety. In fiscal 2014, the goal of having accident leave to be less than 0.25% of total hours worked was met. However, the number of accidents increased from 13 in fiscal 2013 to 39 in fiscal 2014. MES notes that field work associated with environmental projects account for the increased accidents, including tick bites, poison ivy/sumac exposure, and severe weather conditions causing slip and fall injuries on ice.

### **Recommended Actions**

1. Nonbudgeted.

### **Updates**

***Project Reserve Funds Status:*** The General Assembly was concerned about MES and the Department of Budget and Management participating in a financial agreement outside the scope of legislative oversight, allowing MES to retain excess payment for State reimbursable projects. Therefore, the General Assembly created specific project reserve funds with caps via Chapter 397 of 2011 (the Budget Reconciliation and Financing Act of 2011). The February 2015 fund balances are within the caps and are as follows: State Reimbursable Project Contingency Fund – \$569,956 (\$1,000,000 cap); Eastern Correctional Institution (ECI) Steam Turbine Contingency Fund – \$669,911 (\$1,500,000 cap); and Department of Natural Resources Project Contingency Fund – \$3,378 (\$500,000 cap).

**Anaerobic Digester Project Canceled:** On October 28, 2010, MES signed a power purchase agreement with a private company, EcoCorp, Inc., for the provision of electricity to the Department of Public Safety and Correctional Services' ECI facility located in Somerset County. The electricity was to be provided from the proposed development of a thermophilic anaerobic digestion facility of up to one megawatt capacity to be built and operated at the sole risk of EcoCorp, Inc. on land to be leased to EcoCorp, Inc. at ECI. EcoCorp, Inc. was selected through a competitive solicitation process to provide the renewable energy from poultry litter. MES notes that EcoCorp, Inc. was unable to secure financing for the project, and the proposed facility will not be implemented.

**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. 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 February 2, 2015, MES operated and maintained 762 projects, of which 261 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 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 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:

- improving the environment;
- 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 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 reflect two of MES's three goals: to improve the environment through MES's activities and to work more safely.

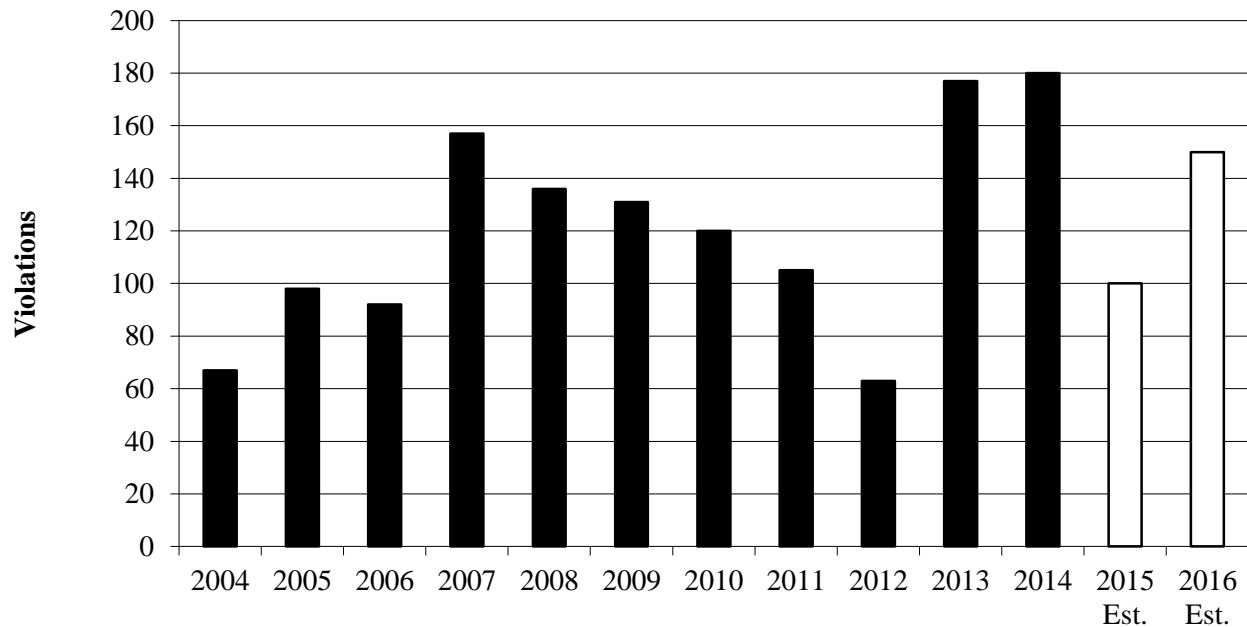
### **1. Corporate and State National Pollutant Discharge Elimination System Violations Increase Substantially**

MES's 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 decreased steadily from 157 in fiscal 2007 to 63 in fiscal 2012 but then increased substantially to 177 in fiscal 2013 and 180 in fiscal 2014. Future year estimates project a lower level of violations than in fiscal 2013 and 2014 but still elevated levels relative to the recent downward trend in violations. MES has noted in the past 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.

MES has indicated that in recent years, State facilities have accounted for an average of 16% of the total violations. The reason for this low percentage of violations at State facilities is MES's ability to use State funding to make improvements at State treatment facilities. MES has indicated in the past that there are three reasons for the decrease in NPDES violations between fiscal 2007 and 2012: new facilities have been fine-tuned and are thus no longer in violation; capital improvements have been made to treatment facilities or collection systems so that the inflow and infiltration of rainwater has been reduced; and in a couple of locations, MES has ceased contract operations where there were a substantial number of violations.

In contrast, MES is dependent upon its corporate clients, including small municipalities, to fund improvements, which they may not always have the resources to do so. For instance, the Governor's fiscal 2016 budget books reflect that violations occurred at troublesome facilities with plant design problems. **The Department of Legislative Services (DLS) recommends that MES comment on the troublesome facilities with plant design problems and on MES's role in resolving these violations.**

**Exhibit 1**  
**Corporate and State NPDES Violations**  
**Fiscal 2004-2016 Est.**



NPDES: National Pollutant Discharge Elimination System

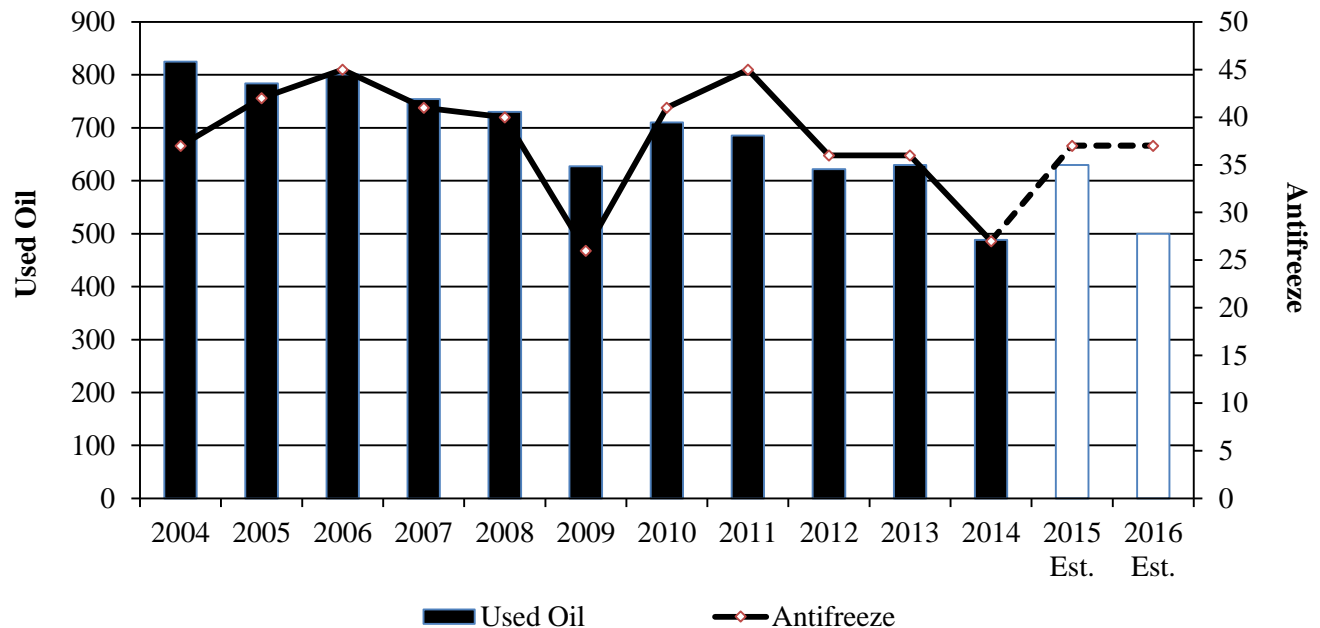
Source: Governor's Budget Books, Fiscal 2007-2016

---

## **2. Used Oil Recycling Continues to Decline**

A second output under MES's goal of improving the environment is to recycle used oil and antifreeze 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 steady decline in the amount of used oil recycled between fiscal 2004 and 2014, as shown in **Exhibit 2**. The gallons of used antifreeze recycled has fluctuated more randomly over the same time period.

**Exhibit 2**  
**Gallons of Used Oil and Antifreeze Recycled**  
**Fiscal 2004-2016 Est.**  
**(Thousands of Gallons)**



Source: Governor's Budget Books, Fiscal 2007-2016

MES has indicated that in recent years there has been a steady increase in the price of used oil; the price increased from \$0.37 per gallon in calendar 2005 to \$3.35 per gallon in January 2014, although MES's current vendor is selling waste oil at \$0.75 per gallon. Regardless, as a result of the price increase in recent years, Anne Arundel, Carroll, Charles, Howard, Montgomery, and Talbot counties have pulled out of MES's oil recycling program, usually to run their own programs. MES also notes that decreases – reflected in reductions in Anne Arundel, Cecil, Harford, and St. Mary's counties – may be attributed to the increased use of longer lasting synthetic oils, commercial establishments offering recycling services, and auto service centers specializing in oil changes and routine maintenance that are convenient and reasonably priced. MES indicated that used oil collection may increase as a result of lower gasoline prices encouraging more driving.

MES has noted in the past that it has modified its marketing program to advertise that not only does it collect used oil at no cost, but it also supplies the tanks, provides rain shelter, maintains the site, provides clean-up for spills, and provides protection for liability. This marketing campaign has been directed to other State agencies and has led to work with the State Highway Administration and the Maryland State Police. In terms of the fluctuations for used recycled antifreeze, MES indicates that antifreeze recycling is more sporadic than that of oil and that marine antifreeze products are nontoxic.

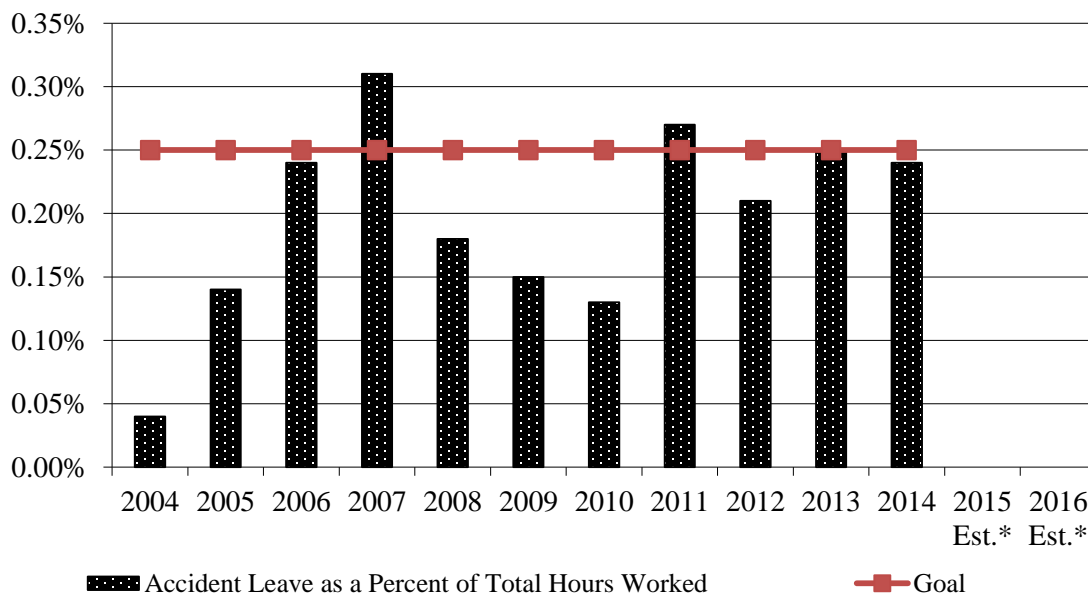


now and are generally not collected. In addition, MES notes that the decrease in antifreeze gallons recycled from 36,000 in fiscal 2013 to 27,000 in fiscal 2014 is due primarily to a reduction in collections in Worcester and Wicomico counties. **DLS recommends that MES comment on whether the recent reduction in oil prices will impact the price of used oil and thus perhaps encourage counties to return to MES’s program.**

### 3. Worker Safety Meets Goal

Another MES goal is to work more safely. One outcome related to this goal is 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 by accident leave being 0.25% and again in fiscal 2014 with 0.24% for accident leave as shown in **Exhibit 3**.

**Exhibit 3**  
**Accident Leave as a Percent of Total Hours Worked**  
**Fiscal 2004-2016 Est.**



\*Fiscal 2015 and 2016 estimates for accident leave as a percent of hours worked are for less than 0.25%.

Source: Governor’s Budget Books, Fiscal 2007-2016

However, the number of accidents resulting in lost work time increased from 13 in fiscal 2013 to 39 in fiscal 2014. MES notes that field work associated with environmental projects account for the increased accidents, including tick bites, poison ivy/sumac exposure, and severe weather conditions causing slip and fall injuries on ice. In particular, two major accidents resulted in a high number of lost work hours. In addition, the number of preventable vehicle accidents increased from 24 in fiscal 2013 to 31 in fiscal 2014. MES attributes this increase to vehicle/equipment “backing” accidents at its solid waste transfer stations – Central Acceptance Facility (formerly called the Baltimore County Resource Recovery Facility) and Midshore Regional Landfills facilities. There were two preventable accidents related to the use of Bobcat utility vehicles at the Midshore Regional Landfills, and four vehicle backing incidents at the Central Acceptance Facility. As a result of these accidents, MES has incorporated “backing” safety and training as a part of its goals.

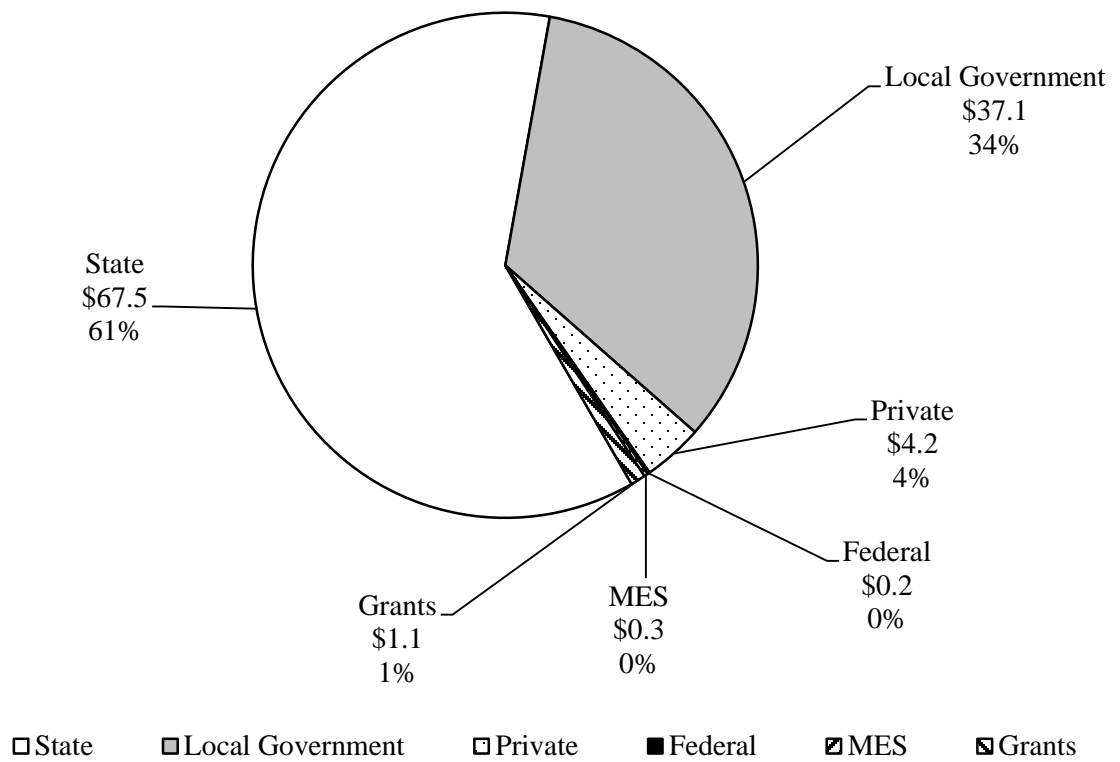
In the past, MES has noted that it tracks, investigates, and analyzes all safety incidents as well as accidents; provides monthly training at each work location on specific relevant topics; conducts quarterly safety meetings and communicates extensively to all employees about safety-related issues. MES also has a Building Excellence and Success Together (known as the BEST) Program that provides incentives to all employees if the agency’s safety goals and objectives are met for the year. **DLS recommends that MES comment on how it is addressing the increased exposure to accidents from environmental project field work.**

## **MES’s Fiscal 2014 Financial Position**

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 4** provides an overview of fiscal 2014 revenue by fund source and shows that approximately 95% 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 (BPW) 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.

MES reimbursable project spending may be viewed as (1) engineering and maintenance spending; and (2) operations and maintenance spending. MES indicates that it was under budget for fiscal 2014 by \$1,542,631 in terms of State reimbursable projects. Of this amount, \$411,139 is special funds that were returned to DNR, leaving \$1,131,492 in general fund unearned revenue. The calculation for the general fund unearned revenue, the \$1,131,492 that MES was under budget for fiscal 2014, is reflected in **Exhibit 5**. Exhibit 5 also reflects the \$642,304 general fund amount of the \$1,131,492 unearned revenue that is returned to the State after accounting for an encumbrance and allocations to two of MES’s three project reserve funds, which are discussed as an update in this analysis.

**Exhibit 4**  
**MES Revenue by Fund Source**  
**Fiscal 2014**  
**(\$ in Millions)**



MES: Maryland Environmental Service

Source: Maryland Environmental Service

---

**Exhibit 5**  
**General Fund Unearned Revenue Amount**  
**Fiscal 2014**

	<b><u>Legislative</u></b> <b><u>Approp.</u></b>	<b><u>Actual</u></b>	<b><u>Difference</u></b>
<i>Spending</i>			
Engineering and Maintenance	\$3,219,613	\$2,512,092	\$707,521
Operations and Maintenance	15,990,918	15,118,242	872,676
<b>Total</b>	<b>\$19,210,531</b>	<b>\$17,630,334</b>	<b>\$1,580,197</b>
Adjustments			-37,566
<b>Unearned Revenue</b>			<b>\$1,542,631</b>
DNR Special Funds Returned			-411,139
<b>General Fund Unearned Amount</b>			<b>\$1,131,492</b>
Encumbrance for ECI Safety Equipment			-30,450
State Reimbursable Project Contingency Fund Allocation			-158,737
ECI Steam Turbine Contingency Fund Allocation			-300,000
Miscellaneous Adjustment			-1
<b>General Fund Amount Returned to the State</b>			<b>\$642,304</b>

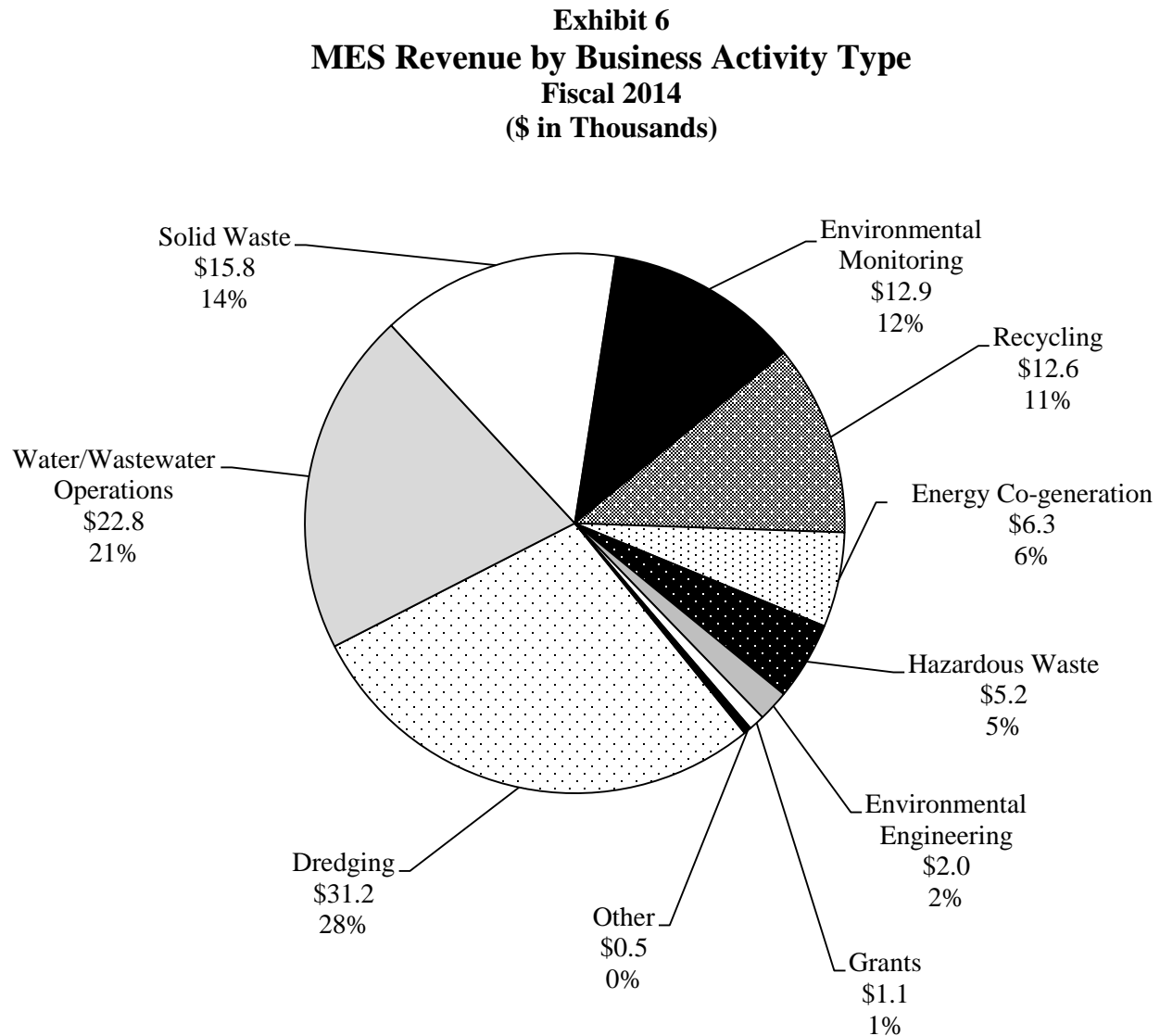
DNR: Department of Natural Resources  
ECI: Eastern Correctional Institution

Note: The fiscal 2014 actual spending is reflected as \$17,630,334 in the exhibit, whereas elsewhere in this analysis the fiscal 2014 actual is reflected as \$18,337,855. This is because the fiscal 2014 engineering and maintenance funding is allocated to statewide cost centers that are not divided up among individual agencies in the fiscal 2014 actual. Therefore, the fiscal 2014 actual still reflects the full \$3,219,613 in engineering and maintenance funding from the fiscal 2014 legislative appropriation. The fiscal 2014 actual of \$18,337,855 – reflected elsewhere in this analysis – needs to be reduced by the \$707,521 difference between the fiscal 2014 legislative appropriation and the fiscal 2014 actual for engineering and maintenance spending to match the fiscal 2014 actual spending shown in this exhibit.

Source: Maryland Environmental Service; Department of Legislative Services

**Exhibit 6** provides an overview of fiscal 2014 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 49% of MES's revenue. In recent years, MES has entered the market for energy efficiency and renewable energy.

---



MES: Maryland Environmental Service

Source: Maryland Environmental Service

---

## Financial Changes

MES's operating income increased by \$154,000 between fiscal 2013 and 2014. MES's revenues increased by \$16.4 million between fiscal 2013 and 2014, due to a \$10.4 million increase in environmental dredging and restoration projects revenue, primarily due to the Masonville Dredged Material Containment Facility construction project and a \$3.7 million increase in solid waste management due to construction completion and subsequent operation of the Single Stream Recycling Facility in Baltimore County and for temporary services for Prince George's County. Expenses increase by \$16.2 million across a number of MES's spending categories. Revenue, by business type activity, is shown in **Exhibit 7**; and expenses by object are shown in **Exhibit 8**.

**Exhibit 7**  
**Revenues by Business Type Activity**  
**Fiscal 2010-2014**  
**(\$ in Thousands)**

<b><u>Business Type Activity</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>Change 2012-13</u></b>	<b><u>Change 2013-14</u></b>
Environmental Dredging and Restoration	\$41,573	\$28,063	\$23,924	\$20,816	\$31,222	-\$3,108	\$10,406
Hazardous Waste Treatment	6,978	5,034	5,846	4,881	5,175	-965	294
Recycling	14,533	15,225	16,817	12,139	12,599	-4,678	460
Water/Wastewater Operations	25,727	21,825	21,920	21,839	22,753	-81	914
Environmental Monitoring	13,757	16,758	15,015	11,888	12,879	-3,127	991
Energy Co-generation	6,117	6,371	6,666	6,162	6,264	-504	102
Environmental Engineering	287	2,170	2,303	2,244	2,048	-59	-196
Solid Waste Management	9,495	8,379	11,363	12,118	15,831	755	3,713
Grants	581	4,717	1,666	1,215	1,050	-451	-165
Other	288	220	384	621	496	237	-125
<b>Total Revenues by Business Type Activity</b>	<b>\$119,336</b>	<b>\$108,762</b>	<b>\$105,904</b>	<b>\$93,923</b>	<b>\$110,317</b>	<b>-\$11,981</b>	<b>\$16,394</b>

Source: Maryland Environmental Service

**Exhibit 8**  
**Operating Expenses**  
**Fiscal 2010-2014**  
**(\$ in Thousands)**

<b><u>Operating Expense</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>Change 2012-13</u></b>	<b><u>Change 2013-14</u></b>
Land, Structures, and Equipment	\$22,855	\$10,387	\$4,950	\$2,918	\$5,674	-\$2,032	\$2,756
Contractual Services	17,775	19,715	22,108	14,752	17,845	-7,356	3,093
Salaries and Benefits	38,671	38,466	40,270	39,545	42,421	-725	2,876
Technical Fees	9,372	6,764	5,901	6,747	9,797	846	3,050
Other	1,041	497	502	318	248	-184	-70
General and Administrative	9,152	12,283	11,928	11,859	12,676	-69	817
Utilities	5,096	4,439	4,205	4,550	4,590	345	40
Depreciation	1,193	1,646	1,702	1,732	1,871	30	139
Materials and Supplies	5,633	6,262	6,898	5,831	9,668	-1,067	3,837
Repairs and Maintenance	3,545	6,076	4,729	4,464	4,166	-265	-298
<b>Total Operating Expenses</b>	<b>\$114,333</b>	<b>\$106,535</b>	<b>\$103,193</b>	<b>\$92,716</b>	<b>\$108,956</b>	<b>-\$10,477</b>	<b>\$16,240</b>

Source: Maryland Environmental Service

## **Types of MES Operations**

MES's business type activities can be generally viewed 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 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 main revenue generating services: yard waste grinding, waste oil collection, and geographic information system services. 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.

**Exhibit 9** reflects MES's revenue generating services. As can be seen, revenues have exceeded expenditures for all but geographic information system services in fiscal 2013. In terms of the changes, used oil collection revenues increased moderately between fiscal 2013 and 2014, perhaps due to used oil prices exceeding the reduction in used oil volume sold. MES operated geographic information system services at a loss in fiscal 2013 but there was a \$569,000 increase in revenues between fiscal 2013 and 2014, which exceeded the \$267,000 increase in expenses. Finally, MES conducts yard waste grinding services. While revenues have exceeded expenses in both fiscal 2013 and 2014 for yard waste grinding, there was a decrease in operating income between the two years due to a revenue reduction exceeding an expenditure decrease. MES notes that there are nominal amounts collected for delivery of its Leafgro product and thus are not reflected in Exhibit 9.

---

**Exhibit 9**  
**Revenue Generating Services**  
**Fiscal 2013-2014**  
**(\$ in Thousands)**

	<u><b>2013</b></u>	<u><b>2014</b></u>	<u><b>Difference</b></u>
<i>Used Oil Collection</i>			
Revenue	\$721	\$753	\$32
Expense	-368	-338	30
<b>Total</b>	<b>\$353</b>	<b>\$415</b>	<b>\$62</b>
<i>GIS Services</i>			
Revenue	\$2,878	\$3,447	\$569
Expense	-3,137	-3,404	-\$267
<b>Total</b>	<b>-\$259</b>	<b>\$43</b>	<b>\$302</b>
<i>Yard Waste Grinding (Tubgrinding)</i>			
Revenue	\$510	\$347	-\$163
Expense	-378	-282	96
<b>Total</b>	<b>\$132</b>	<b>\$65</b>	<b>-\$67</b>

GIS: geographical information system

Source: Maryland Environmental Service

---



## **Fiscal 2015 Actions**

### **Cost Containment**

MES has transferred \$642,304 to the general fund in fulfillment of a cost containment assumption in the January 7, 2015 BPW actions. This transfer is effectuated as an adjustment to revenue for fiscal 2015.

## **Proposed Budget**

The proposed budget discussion focuses on the State reimbursable projects portion of MES's budget. As shown in **Exhibit 10**, MES's reimbursable project charges to State agencies decreases from \$21,215,587 in fiscal 2015 to \$20,383,963 in fiscal 2016, a reduction of \$831,624, or 3.9%. The largest decrease between fiscal 2015 and 2016 is for the Department of Public Safety and Correctional Services (DPSCS) – Eastern Correctional Institution (ECI) Co-generation Facility due to reduced work on the electrical control system and other repairs. **Exhibit 11** shows that the primary decrease in expenditures by object between fiscal 2015 and 2016 is \$1,250,752 for contractual services associated with the electrical control system and other repairs.

**Exhibit 10**  
**Reimbursable Projects**  
**Fiscal 2016 Allowance Data**

<u>Facilities</u>	<u>Expenditures 2014</u>	<u>Allocation 2015</u>	<u>Allowance 2016</u>	<u>Change 2014-2015</u>	<u>Change 2015-2016</u>	<u>Percent Change 2014-15</u>	<u>Percent Change 2015-16</u>
DPSCS – Eastern Correctional Institution Co-generation Facility	\$6,234,570	\$7,889,696	\$6,769,021	\$1,655,126	-\$1,120,675	26.5%	-14.2%
DNR – Public Lands	2,463,353	2,774,629	2,651,834	311,276	-122,795	12.6%	-4.4%
DPSCS – Maryland Correctional Institution – Jessup	571,397	694,668	660,800	123,271	-33,868	21.6%	-4.9%
DPSCS – Patuxent Institution	486,745	591,754	562,904	105,009	-28,850	21.6%	-4.9%
DPSCS – Maryland Correctional Institute of Women – Jessup	232,791	283,013	269,215	50,222	-13,798	21.6%	-4.9%
DHMH – Clifton T. Perkins Hospital Center	190,466	231,556	220,267	41,090	-11,289	21.6%	-4.9%
DJS – O’Farrell Center	6,582	0	0	-6,582	0	-100.0%	n/a
University of Maryland Center for Environmental Studies – Horn Point	65,531	58,549	60,021	-6,982	1,472	-10.7%	2.5%
DNR – Fisheries Service	48,333	52,363	54,754	4,030	2,391	8.3%	4.6%
DHMH – Rosewood Hospital	5,808	6,146	8,612	338	2,466	5.8%	40.1%
St. Mary’s College of Maryland	75,847	69,793	73,039	-6,054	3,246	-8.0%	4.7%
DPSCS – Western Correctional Institution	111,981	120,966	125,117	8,985	4,151	8.0%	3.4%
Maryland Aviation Administration	25,247	24,466	33,269	-781	8,803	-3.1%	36.0%
DJS – Boys’ Village of Maryland and RICA Cheltenham	446,569	434,944	449,203	-11,625	14,259	-2.6%	3.3%
Military Department	191,082	224,497	239,504	33,415	15,007	17.5%	6.7%
Maryland Veterans’ Home Commission	377,309	418,136	434,575	40,827	16,439	10.8%	3.9%

U10B00 – Maryland Environmental Service

<u>Facilities</u>	<u>Expenditures 2014</u>	<u>Allocation 2015</u>	<u>Allowance 2016</u>	<u>Change 2014-2015</u>	<u>Change 2015-2016</u>	<u>Percent Change 2014-15</u>	<u>Percent Change 2015-16</u>
DJS – Victor Cullen Center	272,818	305,186	323,035	32,368	17,849	11.9%	5.8%
DPSCS – Dorsey Run Correctional Facility	1,569,211	1,880,207	1,899,820	310,996	19,613	19.8%	1.0%
DJS – Juvenile Services Administration Youth Centers	345,165	368,197	392,165	23,032	23,968	6.7%	6.5%
DHMH – Springfield Hospital Center	513,904	720,995	745,470	207,091	24,475	40.3%	3.4%
DHMH – Crownsville Hospital Center	465,825	363,564	428,793	-102,261	65,229	-22.0%	17.9%
DPSCS – Eastern Correctional Institution	2,025,858	2,013,886	2,143,458	-11,972	129,572	-0.6%	6.4%
DPSCS – Maryland Correctional Institution – Hagerstown	1,611,463	1,688,376	1,839,087	76,913	150,711	4.8%	8.9%
<b>Total</b>	<b>\$18,337,855</b>	<b>\$21,215,587</b>	<b>\$20,383,963</b>	<b>\$2,877,732</b>	<b>-\$831,624</b>	<b>15.7%</b>	<b>-3.9%</b>

DHMH: Department of Health and Mental Hygiene  
DJS: Department of Juvenile Services  
DNR: Department of Natural Resources  
DPSCS: Department of Public Safety and Correctional Services  
RICA: Regional Institute for Children and Adolescents

Note: The fiscal 2014 actual spending is reflected as \$18,337,855 in the exhibit, whereas elsewhere in this analysis, the fiscal 2014 actual is reflected as \$17,630,334. This is because the fiscal 2014 engineering and maintenance funding is allocated to statewide cost centers that are not divided up among individual agencies in the fiscal 2014 actual. Therefore, the fiscal 2014 actual still reflects the full \$3,219,613 in engineering and maintenance funding from the fiscal 2014 legislative appropriation. The fiscal 2014 actual of \$17,630,334 reflected elsewhere in this analysis needs to be increased by the \$707,521 difference between the fiscal 2014 legislative appropriation and the fiscal 2014 actual for engineering and maintenance spending to match the fiscal 2014 actual spending shown in this exhibit.

Source: Governor's Budget Books, Fiscal 2016

**Exhibit 11**  
**Reimbursable Projects Funding Schedule**  
**Fiscal 2014-2016**

<b><u>Operating Expense</u></b>	<b><u>Expenditures</u></b> <b><u>2014</u></b>	<b><u>Legislative</u></b> <b><u>Appropriation</u></b> <b><u>2015</u></b>	<b><u>Allowance</u></b> <b><u>2016</u></b>	<b><u>Change</u></b> <b><u>2014-15</u></b>	<b><u>Change</u></b> <b><u>2015-16</u></b>
Salaries, Wages, and Fringe Benefits	\$11,177,303	\$12,331,723	\$12,702,446	\$1,154,420	\$370,723
Technical and Special Fees	452,289	445,541	453,856	-6,748	8,315
Contractual Services	1,404,551	2,772,500	1,521,748	1,367,949	-1,250,752
Equipment Operations and Maintenance	377,594	399,265	417,317	21,671	18,052
Fixed Charges	1,282	0	0	-1,282	0
Communication	88,062	93,226	94,571	5,164	1,345
Travel	13,106	3,715	8,740	-9,391	5,025
Fuel and Utilities	3,276,640	3,477,402	3,476,821	200,762	-581
Supplies and Materials	1,547,028	1,692,215	1,708,464	145,187	16,249
<b>Total Operating Expenses</b>	<b>\$18,337,855</b>	<b>\$21,215,587</b>	<b>\$20,383,963</b>	<b>\$2,877,732</b>	<b>-\$831,624</b>

Note: The Maryland Environmental Service indicates that it has consolidated the following operating expense categories: land and structures is included in salaries, wages, and fringe benefits; motor vehicle operations and maintenance is included in equipment operations and maintenance; and equipment – replacement and equipment – additional are no longer separately considered.

Source: Maryland Environmental Service

## ***Recommended Actions***

---

1. Nonbudgeted.

## *Updates*

---

### 1. Project Reserve Funds Status

The General Assembly was concerned about MES and the Department of Budget and Management (DBM) participating in a financial agreement outside the scope of legislative oversight, allowing MES to retain excess payment for State reimbursable projects. While MES had the authority to create project reserve funds by Natural Resources Article § 3-103(h), the General Assembly preferred that the amount of funding allocated to these funds from excess payment for State agency reimbursable projects be statutorily capped. Therefore, the General Assembly created specific project reserve funds with caps via Chapter 397 of 2011 (the Budget Reconciliation and Financing Act of 2011). **Exhibit 12** reflects the recent project reserve fund history. MES notes that as of January 30, 2015, DBM approved the use of approximately \$200,000 from the State Reimbursable Project Contingency Fund for a project at the Charlotte Hall Veteran's Home wastewater treatment plant.

---

#### Exhibit 12 Project Reserve Fund Status February 2015

<u>Project Reserve Fund Activity</u>	<u>Amount</u>	<u>Cap</u>	<u>Difference</u>
<b>State Reimbursable Project Contingency Fund</b>			
Beginning Balance	\$659,661		
Unearned Revenue Allocation	158,737		
Grant Funds Received	188,168		
Funds Used – ECI Co-generation Electrical System	-6,610		
ECI Electrical Distribution Control System	-230,000		
Charlotte Hall Veteran's Home Wastewater Treatment Plant	-200,000		
<b>Current Balance</b>	<b>\$569,956</b>	<b>\$1,000,000</b>	<b>-\$430,044</b>
<b>ECI Correctional Institution Steam Turbine Contingency Fund</b>			
Beginning Balance	\$874,831		
Unearned Revenue Allocation	300,000		
Funds Used – ECI Co-generation Electrical System	-14,639		
ECI Safety Equipment	30,450		
ECI Electrical Distribution Control System	-520,731		
<b>Current Balance</b>	<b>\$669,911</b>	<b>\$1,500,000</b>	<b>-\$830,089</b>
<b>DNR Project Contingency Fund</b>			
<b>Current Balance</b>	<b>\$3,378</b>	<b>\$500,000</b>	<b>-\$496,622</b>

DNR: Department of Natural Resources

ECI: Eastern Correctional Institution

Source: Maryland Environmental Service; Department of Legislative Services

---

## **2. Anaerobic Digester Project Canceled**

On October 28, 2010, MES signed a power purchase agreement with a private company, EcoCorp, Inc., for the provision of electricity to DPSCS' ECI facility located in Somerset County. The electricity was to be provided from the proposed development of a thermophilic anaerobic digestion facility of up to one megawatt capacity to be built and operated at the sole risk of EcoCorp, Inc. on land to be leased to EcoCorp, Inc. at ECI. EcoCorp, Inc. was selected through a competitive solicitation process to provide the renewable energy from poultry litter. MES notes that EcoCorp, Inc. was unable to secure financing for the project, and the proposed facility will not be implemented.

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

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	700.40	709.40	715.40	6.00	0.8%
<b>Total Positions</b>	<b>700.40</b>	<b>709.40</b>	<b>715.40</b>	<b>6.00</b>	<b>0.8%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 62,513,703	\$ 60,000,000	\$ 69,500,000	\$ 9,500,000	15.8%
02 Technical and Spec. Fees	10,932,101	10,000,000	10,000,000	0	0%
03 Communication	491,420	478,800	500,000	21,200	4.4%
04 Travel	279,966	255,000	255,000	0	0%
06 Fuel and Utilities	5,829,931	4,850,000	6,000,000	1,150,000	23.7%
07 Motor Vehicles	3,286,365	5,200,000	5,000,000	-200,000	-3.8%
08 Contractual Services	23,400,147	24,832,000	25,200,000	368,000	1.5%
09 Supplies and Materials	10,565,952	6,600,000	7,300,000	700,000	10.6%
10 Equipment – Replacement	3,251,644	940,000	2,500,000	1,560,000	166.0%
13 Fixed Charges	3,040,819	2,200,000	3,700,000	1,500,000	68.2%
<b>Total Objects</b>	<b>\$ 123,592,048</b>	<b>\$ 115,355,800</b>	<b>\$ 129,955,000</b>	<b>\$ 14,599,200</b>	<b>12.7%</b>
<b>Funds</b>					
07 Nonbudgeted Fund	\$ 123,592,048	\$ 115,355,800	\$ 129,955,000	\$ 14,599,200	12.7%
<b>Total Funds</b>	<b>\$ 123,592,048</b>	<b>\$ 115,355,800</b>	<b>\$ 129,955,000</b>	<b>\$ 14,599,200</b>	<b>12.7%</b>

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.